

MONITORING OF THE BUDGET EXPENDITURES IN THE PRE-ELECTION AND ELECTION PERIOD

Monitoring Period: 01.01.2015 to 31.05.2016

Executive Summary of the reporting period findings

Central Government

Monitoring indicators of the central budget level expenditures

- ✓ The **Budget Deficit** trend in the preceding election cycles confirmed the theory of political business cycles for increasing deficit and debt prior the election period, followed by a mild consolidation after the elections. The data shows that the budget expenditures and the consequent budget deficits increase considerably prior elections. A significant portion of the budget deficit in 2015 is executed/incurred in the first and the second quarter of the year. The dynamics of the cumulative implementation of the budget deficit for 2016 by the month of March is 30% (5 pp higher than the expected balanced execution rate for the concerning period), followed by a slight consolidation in April 2016.
- ✓ Larger amounts of funds are raised through issuance of **Treasury bills** prior each election cycle (especially in 2009, 2013 and in 2014). A substantial increase in the issuance of Treasury bills over the usual seasonal/expected trend in 2015 compared with previous years, is noted in the first three quarters of the year, followed by a decrease in the fourth quarter. The cumulative execution rate of the budget line treasury bills in March 2016 is almost 4 pp above the expected cumulative balanced monthly execution rate, while during the month of April the growth trend is contained (with a decline by 1 pp).
- ✓ There is an increase in **Foreign loans**/borrowing in the period/years when there are elections in each of the election years: 2009, 2011, 2013 and 2014, while in the non-election years, the amounts are lower. Expecting the 2016 elections, the data for 2015 indicates a faster pace of foreign borrowing in the third and fourth quarter of 2015.
- ✓ The **Capital expenditures** are significantly intensifying prior and during each election cycle, followed by a stabilization and a slight decrease. Monitoring the balanced execution of the capital expenditures, the monthly and quarterly trends indicate significant increase compared with the usual seasonal trends, starting from the third quarter in 2015. However, in 2016 (until and including the month of April)

the situation is contrasting, when the cumulative execution rate of the capital expenditure is modest 16.4%, which is by 1/2 (almost 16 pp) lower than the expected balanced execution of the period of 33.3%.

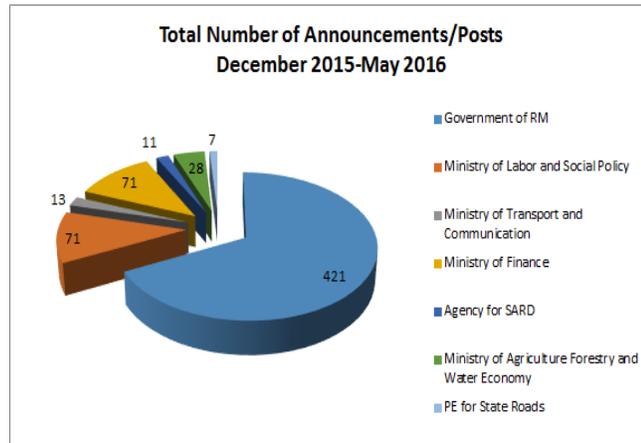
- ✓ The **Social aid** expenditures increased significantly prior and during the elections in 2014, 2013 and 2011, however this is not the case in 2016. The data for 2015 indicate an increase in social aid budget expenditures during the months of May and September. Whereas in 2016, the cumulative execution rate until the end of the month of April, amounted to 30.5% and it is almost 3 pp below the expected balanced monthly (cumulative) execution.
- ✓ There is a substantial increase of the expenditure budget item **Other transfers** (which includes earmarked grants to the municipalities and agriculture subsidies among other) prior each election process starting from 2008 to 2014. During 2015 the budget line Other transfers, indicates a significant increase over the usual seasonal pattern in the first half of the year. During 2016 the cumulative monthly rate of execution until the end of April is 38%, which is almost 4.7 pp over the expected balances monthly cumulative execution rate of 33.3%.
- ✓ The budget line **Salaries and allowances** expenditures, has only increased prior the 2009 and 2014 elections. The increase of the Salaries and allowances expenditures is especially noticeable in the 3rd quarter of 2015 when there is a largest increase throughout the overall period starting from 2008, while the increasing trend starts in the middle of 2013.
- ✓ The expenditures for **Goods and services** increased significantly prior each election cycle. The quarterly trend of the expenditures for Goods and services in 2015 indicate that starting from the third quarter of the year, these expenses increase significantly over their seasonal trend. This is not the case in 2016 when the cumulative monthly execution rate of the budget line Goods and services up until the end of April is 24.2% and is 9 pp below the expected balanced monthly cumulative execution of 33.3%.
- ✓ Transfers to the **Agency for Employment**, used for implementation of numerous programs and policies related to employment (a portion of the unemployment cash benefits and expenditures for active employment measures), are increasing starting from the second quarter of 2015. In 2016 the cumulative monthly execution rate of this budget line until the end of April, amounts to only 27.8% and is almost 5.5 pp below the expected balanced monthly cumulative execution rate of 33.3%. When considered throughout the prior election cycles (in the past years) a significant increase of the budget line Transfers to the Agency for employment is noted prior and during the elections in 2014, 2011 and 2009.

- ✓ The value of the **Overall tax revenues** are lower prior each election cycle, as is the lower execution rate prior the elections (while the execution rates is higher in the period after the elections). There is an increase of the budget line Overall tax revenues from August to October in 2015, and in accordance with the seasonally adjusted data, while the execution rate of the budget line in the fourth quarter, is relatively higher. The Overall tax revenue by the end of April 2016 mainly follows the expected monthly dynamics and the cumulative execution rate is almost equal to the balanced 33%
- ✓ The amount of the **Value Added Tax (VAT) Revenue** (in the election cycles in 2014, 2013, 2011, 2009 and 2008) indicates that the execution rate is significantly higher immediately after to the elections and the effect lasts for two quarters (varies from election to election). The positive economic/political cycle in 2015 started slightly earlier, and the VAT revenues start increasing in the second quarter as a result of the accelerated economic activity (the trend of the VAT revenue budget line is affected by the share of VAT reimbursed, however there is no specific information regarding the reimbursement amounts and the specific time). The cumulative execution rate of VAT revenues, after the slight decrease in February, returns to the normally expected seasonal pattern.
- ✓ The execution of the **Administrative taxes and charges** revenues budget line in 2015, starting from the quarter 2 and 3 is reduced, or have considerable decline in the execution compared to the expected balanced execution. The cumulative execution rate of the budget line Administrative taxes and charges revenues by the end of April 2016 amounted 27.6%, which represents 5.7 pp below the expected balanced rate. Similar trends were observed both in 2014 and 2013 when there is a trend for reduction of the administrative taxes and charges and a downward deviation from the normal seasonal movement.

Public announcements on the websites of the Government and the selected budget users

- ✓ The frequency of announcements in the last month of the monitoring is significantly decreased, compared with the preceding monthly periods, with an overall decrease by 60%.
- ✓ Despite the low number of web announcements on the budget users' web sites, the announcements content is with modest qualitative and quantitative information – i.e. the percentage of announced information among all monitored institutions (when there are web announcements/posts) is low.

- ✓ 27% of the Government website's announcements/posts and the other monitored budget users (total of 622 posts) contain financial information concerning the executed/planned investments within the web posts regarding new investments. (The largest number of announcements are of the Government of Macedonia).



- ✓ 5% of the total number of announcements/posts contain analytical elaboration of the planned/implemented activities.
- ✓ A modest portion of the announcements (approximately 13%) of all monitored budget users, contain information regarding the financial sources and the programs/strategies/plans containing the announced or implemented project/activity.
- ✓ The budget users publish limited activities information on the official web sites. Namely the Ministry of Economy publishes announcements solely in the last period of monitoring, with total of 4 announcement, while the Ministry for transport and communication, for the overall monitoring period published total of 15 announcements.
- ✓ Total of 16 announcements/posts on the Government's website, and 8 of the announcements on the Ministry of Finance contain analytical information, while the other budget users' web announcements/posts do not contain essential data on the announced subject.
- ✓ Most of the announcements/post of all monitored websites are focused on the: youth and unemployed, retirees (the remainder, which is the largest portion of announcements, is focused on the general public with general notes related to visits, meetings and conferences of the Governmental officials).
- ✓ There has been an increase of the web site announcements concerning same or similar contents/topics in consecutive announcements, which is noted in the last monitoring period.

Local government expenditure monitoring

The current monitoring report records the cumulative expenditures from the beginning of the monitoring process from 1.1.2016 until 31.5.2016.

- ✓ In the overall monitoring period, starting from 01.01.2016 to 31.05.2016, a total of 363 both capital and operating budget expenditures have been noted/recorded, in the 24 municipalities monitored, and for each there has been an additional information requested.
- ✓ Out of the total expenditures recorded in the monitoring period (363), for 57% of them or total of 207 expenditures there are submitted RAPI (Request for access to public information), while for the other expenditures, the information has been obtained with a direct contact with the LSGUs or the information have been publicly available through their web sites.
- ✓ Based on the field data form the local monitoring group, a largest number of expenditures (both operating and capital) on a local level have been recorded in the LSGUs of Ohrid, Strumica and Shtip while significantly lower number of expenditures have been identified in the predominantly rural and/or smaller municipalities of Kratovo, Karbinici and Chashka.
- ✓ Based on the nature of the expenditures: operating or capital, almost three quarters of the identified expenditures are capital expenditures/investments.
- ✓ The major areas of municipal investments, generating capital expenditures, are concerning renovation/reconstruction of kindergartens and schools, followed by road reconstruction and renovation expenditures and reconstruction of water and sewage network systems
- ✓ Out of the 363 expenditures in the overall monitoring period, 53 are concerning construction of water and sewage network systems, 128 are for road reconstruction, 37 for renovation/reconstruction of kindergartens, schools and 145 in other various categories.
- ✓ Out of the total number of 363 recorded expenditures, for 240 expenditures there are overall or partial information.
- ✓ 8% of the recorded expenditures, with minimum information, are contained/planned within a certain municipal Strategy, 63% of the expenditures are planned/contained in a Municipal program, 58% of the expenditures are planned in an adequate Budget program, 43% are contained/approved by a Municipal Council Decision, and 34% are planned/contained within an annual plan

- ✓ 2% of the recorded expenditures contained/planned within all five documents i.e. Municipal strategy, municipal program, budget program, Municipal council decision, and plan. 13% are contained/planned in 4 of these documents, 30% are contained/planned in any of the three documents, 17% in any two documents and 22% in one document. For 13% of the expenditures there are no clear and thorough information.
- ✓ For 41% of the RAPI there have been replies obtained within the legally set deadline, for 33% of requests there is still a reply awaited (the legal deadline for response has not been breached) while for 26% of the total number of RAPI there has been no reply within legally set deadline.