

INTRODUCTION

In 2020, the world is facing one of the most severe economic crises, which is a result of the health pandemic, making it completely unpredictable for the world and significantly greater than the global financial crisis a decade ago, i.e. it can not be compared to any other crisis so far. At global level, there is great uncertainty related to the duration and the intensity of this shock of non-economic nature and accordingly the implications on the global and the domestic economy are uncertain.

The global pandemic also hit the Republic of North Macedonia. The Government responded in a timely manner on 26th February by adopting the first soft measures, including certain recommendations for institutions and companies and restrictions for citizens returning from risk areas. In response to the rapid spread of the virus, the Government soon adopted measures by which the education process was temporarily halted and large public gatherings were banned, also issuing recommendations for social distancing being followed by, new, more restrictive measures such as closure of restaurants and malls. On 18th March, the President of the Republic of North Macedonia declared a 30-day state of emergency, which was additionally extended. By declaring the state of emergency in accordance with the Constitution, the Government was authorized to adopt decrees with the force of law, in order to quickly and efficiently deal with the challenges from the newly occurred situation. The Government soon adopted the first package of economic measures aimed at mitigating the economic shock caused by the pandemic, whereby a second package of economic measures was adopted in April as well. The undertaken economic measures have also been praised by renowned institutions, whereby, according to the IMF " the authorities quickly responded with targeted and temporary fiscal policy support to limit the social and economic impact of the health emergency by protecting the liquidity of companies, preserving jobs and providing social care for the jobless and vulnerable households".

Macroeconomic Trends and Projections

According to the baseline scenario of the International Monetary Fund (IMF, in 2020, global economic activity is expected to decline by 3% (being downward revision of 6.3 percentage points compared to the projections in January), under the assumption that the peak of the pandemic and the government measures of the countries for preventing the spread of the Coronavirus are in the second quarter, after which it is expected for this situation to improve.

In line with such assumption, economic activity in the USA is envisaged to decrease by 5.9%, 7.1% in the EU, under which the Germany economy would decline by 7%, while the growth in China is expected to remain within the positive zone (1.2%). Hence, the consequences on the global trade with goods and services will be significant, i.e. 11% drop in real terms has been projected.

Inflation rate in the Eurozone has been projected at 0.2% for his year, being downward revision of 1.2 percentage points compared to the IMF projection in January.

Observations for significant deterioration of the international economic environment point out to significant drop of foreign demand in the country in 2020, mostly in the second quarter, which will result in reducing the export demand of products in the respective industrial branches, as well as the services related to Manufacturing. Hence, export of goods and services is expected to decline by 16.8% in real terms.

This is coupled by the economic implications on domestic economy from the implementation of measures aimed at preventing the spread of Coronavirus in the country, which will affect the services sector, primarily transport, hospitality industry, tourism and sales, especially in the second quarter

This will affect the labor market and accordingly the disposable income of households and their consumption and investments, as well as the investment activity of business entities. Projected drop of private transfers from abroad, as well as the foreign direct investments lead to additional downward revision of consumption and investments. Thereby, fiscal antic-crisis measures are expected to contribute to mitigating the consequences on the labor market and the income of the households as a whole, thus on their consumption as well. As e result thereof, private consumption is projected to drop by 3.3%, while gross investments to decline by 9.6% in real terms.

Public consumption is expected to have positive contribution to the economic growth, mainly as a result of the increased expenditures (goods, services and wages) for the health sector, i.e. it is projected to grow by 2.7% in real terms.

Import demand, amid expected drop of export activity, investments in capital/durable consumer goods, by both business entities and households, is projected to decline, by which import of goods and services is projected to drop by 15.8% in real terms. Hence net export demand, in conditions of higher decline, in absolute terms, of import than export of goods and service partially neutralizes the negative contribution of the domestic demand on the economic activity.

Chart1. Contribution to the economic growth by components (percentage points)

In line with such projections, the economic activity is expected to decline by 3.4% in 2020.

Effects from Coronavirus crisis on the economy, in line with the baseline scenario, are expected to be felt the most in the second quarter of the year. As for the third quarter, the economic activity contraction is projected to slow down, while average recovery of the economy is expected in the fourth quarter.

Chart 2. Compared to economic growth projections (%)

The projection of the Ministry of Finance is in line with the projection of the National Bank of the Republic of North Macedonia, being close to the projections of the IMF and the European Commission, while compared to the World Bank's baseline forecast, there is bigger difference, due to the World Bank's expectations for a positive contribution of domestic demand to the economic activity. At the same time, the World Bank expects for our country to experience lower economic activity drop in 2020 when compared to the other countries in the Western Balkans.

On the other hand, if the pandemic protracts in the second half of this year, it will result in retaining the restrictive measures related to Coronavirus, as well as further negative effects caused by the international environment and the global supply chains and hence a stronger decline in export activity, consumption and investment in the country, and accordingly the overall economic activity, in relation to the baseline scenario.

Inflation rate in the country was 0.4% in the January -April 2020 period, indicating downward deviation in relation to the projected inflation. Projection for the foreign effective inflation in 2020 is revised downward. At the same time, price trends of primary commodities on the global stock markets, are expected to cause a downward pressure on the domestic prices. Taking this into account, as well as the expected negative production gap, inflation rate in the country is projected at - 0.2% for 2020.

Execution of the Budget of the Republic of North Macedonia

In the January-April 2020 period, total revenues were collection in the amount of Denar 60.7 billion, accounting for 27.3% in relation to the 2020 projections, thus being lower by 4.9% compared to the same period last year. Tax revenues and social contributions amounted to Denar 55.1 billion, accounting for 90.7% of the total revenues. Tax revenues in this period were collected in the amount of Denar 33.8 billion, i.e. they accounted for 25.9% in relation to the 2020 projection, being lower by 9.2% compared to the taxes in the same period in 2019. Revenues collected on the basis of VAT accounted for the most in the collected tax revenues, i.e. 42.9%. Revenues on the basis of social contributions, as genuine revenues of the Pension and Disability Insurance Fund, the Health Insurance Fund, and the Employment Agency, were collected in the amount of Denar 21.3 billion in the analyzed period, accounting for 31.8% in relation to the annual projected amount, i.e. by 9.2% higher than the last year's performance. Denar 14.4 billion was collected on the basis of pension insurance, while revenues collected on the basis of health insurance contributions amounted to Denar 6 billion.

During the four months in 2020, non-tax revenues amounted to Denar 4.3 billion, whereby non-tax revenues of budget users on the special revenue accounts predominated, which were collected in the amount of Denar 2.2 billion, experiencing almost the same performance as in the previous year. Capital revenues were collected in the amount of Denar 0.5 billion, whereby revenues on the basis of dividends, sale of land and flats participated in the structure thereof. Budget users generated Denar 0.9 billion on the basis of donations on the basis of international multilateral and bilateral cooperation, accounting for 16.6% in relation to the projected ones.

During the January-April 2020, total budget expenditures were executed in the amount of Denar 72.9 billion, accounting for 30.4% in relation to the annual projected amount, i.e. experiencing 7% growth compared to the same period last year. Thereby, current expenditures amounted to Denar 69.8 billion (31.8% in relation to the annual projection, i.e. 6.5% growth compared to the same period last year). During this period, Denar 9.8 billion was paid for wages and allowances to the employees in the institutions, being budget users, while expenditures related to goods and services were executed in the amount of Denar 4.6 billion.

Transfers-related expenditures accounted for the most in the current expenditures, amounting to Denar 53.2 billion in this period, accounting for 33% in relation to the annual projected amount. Government liabilities on the basis of payments related to exercising the rights to guaranteed social protection of the citizens were settled on regular basis, amounting to Denar 3.5 billion. Most of these funds are financial benefits with respect to social and permanent financial assistance, child allowance and parenting payments, as wel as other allowances for the vulnerable categories of

the citizens. Denar 19.8 billion has been intended for payment of pensions, while expenditures in the amount of Denar 0.5 billion were executed through the Employment Agency, aimed at paying unemployment benefit. Denar 10.5 billion was paid for financing health services and benefits. Denar 6.3 billion was transferred from the Budget of the Republic of North Macedonia to the municipalities as block grants for financing the transferred competences, as well as for financing the operating costs in local public institutions. In addition, Denar 0.8 billion was transferred on the basis of VAT revenues.

Denar 2.1 billion was allocated for servicing of liabilities on the basis of interest, according to the repayment schedules on domestic and foreign borrowing. Denar 1.3 billion out of this amount was intended for paying interest on foreign borrowing and Denar 0.8 billion on the basis of domestic borrowing.

Capital expenditures in the January-April 2020 period were executed in the amount of Denar 3 billion or 15.2% in relation to the annual projected budget, being higher by 21.2% or Denar 0.5 billion compared to the same period last year.

In the period January-April 2020, budget deficit was realized in the amount of Denar 12.1 billion or 1.8% of the newly projected 2020 GDP.

Inflows to the Budget provided for repayment of the loan principal, amounting to Denar 12.2 billion.

Modifications and Amendments to the 2020 Budget of the Republic of Macedonia

Budget execution during the past period of this year was under the influence of the health and the economic crisis caused by Coronavirus crisis. Government's measures aimed at preventing the spread of COVID-19 imposed significant restrictions contributing to reduction or full cessation of the economic activity reflecting the revenue collection. In order to cope with the epidemic, extensive measures were necessary during this period, being aimed not only at preserving the jobs but also protecting the Budget liquidity, servicing the most priority liabilities, as well as reducing all less productive budget expenditures to a minimum. On 9th April, the Government adopted the Decision on Reallocation of Funds among central government budget users and Funds, by which Denar 6.5 billion was reallocated, for the purpose of implementing the first and the second set of economic measures so as to cushion the blow on the economy, by preserving the companies' liquidity and preserving the jobs.

The economic activity, which was reduced due to the implementation of the health measures, as well as the still present unpredictability of the further developments and the shock on the demand side, inevitably imposed the need for downward revision of budget revenues. At the same time, there was need for increased budget expenditures intended for the health sector and the social protection, increased

support to the business sector and the citizens, also including the need for additional targeted measures to revitalize the economy during the phase of gradual easing of the measures aimed at preventing COVID-19 and re-opening the economy, stimulating the private consumption of the citizens and additional support to the business sector aimed at protecting the liquidity, protecting the jobs, but even more boosting the competitiveness, and the productivity and modernizing the equipment and processes in the post-crisis period.

According to the modifications and amendments to the 2020 Budget of the Republic of North Macedonia, total revenues are projected at Denar 196.8 billion, being higher by 11.5% or lower by Denar 25.5 billion compared to the projection, being conditioned by the revenue performance in the past period and the expectations by the end of the year. Tax revenues account for 55.4% of total revenues, being projected at Denar 109 billion, being lower by 16.2% compared to the initial 2020 projections. Social revenues as genuine revenues of the Funds, are projected at Denar 63.4 billion or by 5.4% lower compared to the 2020 projections. Other revenues (non-tax, capital and foreign donations) are projected at Denar 24.4 billion or by 2.4% lower compared to the initial projections.

Total expenditures are projected at Denar 242.9 billion or by 1.6% or Denar 3.3 billion higher compared to the projections. On the basis of such projected revenues and expenditures, deficit is projected at Denar 46.2 billion, i.e. 6.8% of GDP.

Having in mind the circumstances, significant changes have been made in relation to the initial projections on the expenditure side of the Budget of the Republic of North Macedonia.

Expenditures for payment of wages are projected at Denar 30.2 billion or by Denar 0.4 billion lower, as a result of the effect from the undertaken measures, i.e. the natural outflow of employed persons amid temporarily banned new employments, except for engagements of certain staff in the health sector, as a necessity in coping with the consequences from the Coronavirus crisis.

Expenditures related to goods and services are projected at Denar 18.8 billion or by Denar 1.8 billion lower compared to the 2020 projections, as a result of the measures aimed at reducing all less productive budget spending to a minimum, not being essentially and directly related to the process of coping with Coronavirus crisis, without thereby disrupting the regular settlement of the liabilities of budget users.

The current transfers are projected at Denar 166.1 billion or Denar 9.6 billion higher compared to the 2020 projections, pertaining to the undertaken measures aimed at providing funds for the implementation of the economic measures adopted by the Government of the Republic of North Macedonia so as to deal with the crisis caused by the coronavirus pandemic COVID -19, which will have a direct impact on the real economy, thus providing for direct support to the private consumption.

These funds have been allocated to the budgets of the respective ministries and institutions in charge of the implementation of the government measures through

a special government Subprogram - P1- MEASURES FOR COPING WITH COVID-19 CRISIS, those being the following measures:

financial support to employers from the private sector, being affected by the health and the economic crisis caused by COVID-19, for the purpose of paying wages for the months of April and May 2020 and the measure-financial support for individuals performing independent activity affected by the health and the economic crisis caused by COVID-19.

- subsidizing the mandatory social insurance contributions, for the purpose of paying mandatory social insurance contributions, accounting for 50% of the calculated mandatory social insurance contributions, but up to maximum 50% of the mandatory social insurance contributions calculated on the average gross wage per worker in the Republic of North Macedonia.
- financial support for athletes, experts in the field of sport and sports administration and independent artists for the months of April and May 2020, amounting to Denar 14,500 per month,
- support for the tourism sector, domestic tourism for persons with low incomes, domestic manufacturers and tourist and hospitality facilities,
- financial support for improving the health capacities, vulnerable households and pecuniary allowance for those who have lost their jobs, provided from the World Bank,
- financial support for students and the young population aimed at promoting digitalization and IT skills,
- financial support for unemployed persons, persons with low incomes, socially vulnerable groups, students and young people for the purpose of stimulating the private consumption, the focus being placed on the domestic supply and the affected sectors
- financial support for the private sector, the industry and the small- and medium-sized enterprises,
- national co-financing for EU donation aimed at the Development Bank of the Republic of North Macedonia.

Capital expenditures are projected at Denar 19.5 billion or lower by Denar 4.2 billion compared to the 2020 projections, being a result of the slowed down economic activities, prolonged investments due to the election-related activities, as well as measures for refraining from procurement of furniture, equipment and vehicles, not being essentially and directly related to the coping with the health and the economic crisis caused by COVID-19.

Table 1. Budget of the Republic of North Macedonia

Source: Ministry of Finance

Chart 3. Capital Expenditures

Source: Ministry of Finance

2020 projected deficit, repayment of foreign debt principal in the amount of Denar 26.8 billion and domestic debt repayment in the amount of Denar 15.2 billion, will be financed by foreign borrowing and borrowing on the domestic government securities market. Repayment of foreign debt principal includes the regular servicing of liabilities on the basis of foreign debt, also including the last PBG loan installment in the amount of EUR 155 million, as well as one portion of the Eurobond issued in 2015, amounting to EUR 178 million, while domestic debt repayment covers repayments of government bonds in the amount of Denar 6.6 billion and repayment of structural bonds in the amount of Denar 490.5 million, as well as repayment of short-term loan from domestic banks in the amount of Denar 8.17 billion.

Domestic borrowing, being projected at Denar 30.1 billion, has been realized with short-term loan from the commercial banks amounting to Denar 8.17 billion, as well as by borrowing on the domestic government securities market in the amount of Denar 21.9 billion via early repayment of government bonds in the amount of Denar 6.5 billion, whereby maximum amount of net borrowing will be realized through government securities in the amount of Denar 15.4 billion, which will be used for financing the needs throughout the current 2020. Foreign borrowing may be realized via disbursement of funds from loans under favorable terms and conditions from foreign financial institutions intended for financing certain projects also including IMF loan in the amount of EUR 176 million and EU loan for macro - financial assistance in the amount of EUR 160 million, as well as through Eurobond in the amount of up to EUR 800 million.

General government debt of the Republic of North Macedonia amounted to EUR 4,579.4 million, i.e. 41.8% of GDP on 31st March 2020, while public debt amounted to EUR 5,559.9 million, i.e. 50.7% of GDP on 31st March 2020, by which Republic of North Macedonia is moderately indebted country.