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STATE AUDIT OFFICE

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Negative impact of coronavirus pandemic on 2020 Budget deficit

The State Audit Office carried out audit on the **Core Budget of the Republic of North Macedonia**, which covered preparation, adoption, managing and execution of the Budget of RNM for 2020.

2020 Budget was adopted in the amount of 191 billion denars, which is an increase of 23% compared to 2019. The health and economic crisis caused by the global pandemic of COVID-19 virus had an impact on the Budget of RNM for 2020, as well as on the state deficit. It imposed the need of amending the Budget in order to provide funds for reducing consequences, which increased the Budget to 204 billion denars, i.e. by about 5% compared to the originally planned.

To mitigate crisis consequences during 2020, the Government of RNM adopted four packages of economic measures implemented through Government sub-program P1-Measures for dealing with COVID-19 crisis. The Core Budget expenditures for this sub-program amounted to 13.8 billion denars.

Due to existing risks related to the duration of the pandemic globally, in 2020 the Budget revenue decreased by 15% and expenditures increased by 1.6% from the originally projected, and thus planned deficit of 17.4 billion denars increased and amounted to 53.9 billion denars or 8.11% of GDP on 31.12.2020. The **Budget deficit** was financed with funds provided through domestic and external borrowing.

Inflows from external borrowing amounted to 58 billion denars, which is significantly higher compared to 2019 (around 8 billion denars), as a result of the inflow from Eurobond issued by RNM on the international capital market. Eurobond borrowing inflows represent 73% of the total inflow from external borrowing. In 2020, borrowing inflows from the IMF and the European Union were also realized as a support to the Budget of RNM in a state of emergency for fast financing and dealing with COVID-19 consequences.

Inflows based on domestic borrowing amounted to 36 billion denars, i.e. 91% more than in 2019, as a result of inflows from issued government bonds, as well as short-term borrowing from national banks.

Total **revenue and inflows** in the Core Budget of RNM for 2020 amounted to 215 billion denars, i.e. 34% more compared to 2019.

The largest share of the Budget revenue are tax revenues (48%), whose administration and control is under the competence of the Customs Administration and the Public Revenue Office. The authorized state auditor pointed out that these bodies need to strengthen their human and technical resources, to improve the IT systems, as well as to strengthen controls of calculation, recording and collection of tax revenues and VAT refunds, aimed at complete and timely data. The authorized state auditor also ascertained the need of further regulation of PRO procedures for withdrawal of competences from municipalities due to inconsistencies in operation concerning property taxes.

Total **expenditure and outflows** in the Core Budget of RNM for 2020 are 32% higher than in 2019. The largest share of expenditure and outflows are expenditures for repayment of the principal (21%), current transfers to extra-budgetary funds (19%), expenditures for subsidies and transfers (15%), and expenditures for salaries, rents and fees (14%).

Expenditures for repayment of the principal have significantly increased owing to the repayment of the fourth Eurobond issued in 2015, with maturity term in 2020. In addition, expenditures increased due to repayment of part of the long-term loan (second installment of the loan secured by a policy guarantee by the International Bank for Reconstruction and Development - World Bank, signed in 2013), with maturity date on 29.01.2020.

Concerning current transfers to extra-budgetary funds, the authorized state auditor found that the share of funds from the Core Budget for covering the deficit of the Pension and Disability Insurance Fund for payment of pensions in 2020 has decreased by 3% compared to 2019.

With the analysis of the public debt portfolio through the purpose of borrowing, the authorized state auditor found that out of 6.5 billion euros, 4.8 billion euros are intended for financing the Budget deficit or Budget needs, while 1.6 billion euros are intended for financing projects and investments. This structure of debt portfolio, where 75% of public debt or 88% of national debt is for Budget needs and only 25% of the public debt and 12% of the national debt is for financing projects and investments, creates a risk of inadequate impact on the economic growth and debt sustainability.

The analysis of reports on **reported liabilities** as of December 2020, showed that 1,047 entities or 76% out of 1.380 entities have submitted data in the electronic system for reporting and recording liabilities (ESPEO). According to this data, due and unpaid liabilities amount to 17.8 billion denars, which is 6.7% more compared to 2019.

The Ministry of Finance on its website publishes data on the amount of liabilities. In 2020, the largest share in the total liabilities have public healthcare institutions (41.63%) and municipalities (20.75%), while regulatory bodies have the smallest share (0, 01%). The authorized state auditor pointed out the need to intensify activities for establishing supervision over entities regarding completeness and accuracy of reported outstanding liabilities.

From the documents submitted by the Ministry of Finance, the authorized state auditor concluded that there are no significant changes of financial instability of municipalities in 2019. Namely, in December 2020, out of 81 municipalities in RNM, 11 municipalities operate with blocked bank accounts and this situation should be subject to further analysis by competent authorities concerning execution of transferred competencies.

Realized municipal revenue in 2020 was 30.37% less than the planned one. Taking into consideration the financial instability of municipalities and the continuous need of financial assistance from the Central Budget, the authorized state auditor emphasized the need of realistic planning of municipal revenue and taking on new obligations by the municipalities without disrupting their financial stability and liquidity.

Link to the Audit Report:
Core Budget of the Republic of North Macedonia for 2020

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