



on the draft Budget Law  
27 October 2020

The Ministry of Finance prepared a [draft Budget Law](#). Finance Think welcomes this step, taking into account the fact that it was long-awaited piece of legislation, which is why there were important questions penetrating the public debate as well. In the [FT Opinion no. 47 on the challenges for the policymaker in the field of finance](#) as of 31 August 2020, Finance Think emphasised the need of adopting this Law aimed at **further strengthening of public finance management** by implementing the announced structural reforms.

Finance Think considers that the draft Budget Law is a significant step forward to improving public finance management. Nevertheless, with the exception of the procedures for planning and executing of the budget, the Law can be assessed as general, without specific steps, and requiring amendments. We would like to single out the following **important comments and recommendations**, whose consideration will contribute towards further improvement of the draft text of the Law.

- The draft Budget Law recognises the need for precisely assessing the **fiscal implications when**

**proposing other laws.** However, the experience so far showed that very often the assessment of the fiscal implications is carried out only by assigning the tag “there are implications” or “there are no implications”, without any respective elaboration or concrete calculations. The draft Budget Law should contribute towards overcoming this practice, which partially has been done with the requirements for assessing the effects from the proposals on the budget inflows and outflows during a time period of four years. However, it is necessary that the draft Law should require sufficient elaboration of the fiscal implications, as well as providing a certain format of a background analysis. Since such analysis of the fiscal implications cannot be done by following a pattern, the draft Law should envisage the possibility for the Ministry of Finance to assist by providing expertise to the proposers of laws in the process of assessing budget implications, especially when

these are **long-term implications** and particularly when they involve **gender-sensitive issues**.

- The practice of assessing the fiscal implications should also be extended to include the project proposals of budget beneficiaries. In this sense, the robustness of the framework of public finance management must also rely on a **Public Investment Programme** where the long-term fiscal implications of the investment activities undertaken by the state shall be properly assessed. Therefore, it is recommended that the fiscal strategy, as a document envisaged in the draft Budget Law, should be supplemented by a Public Investment Programme.
- Considering the fact that the draft Budget Law **does not impose fiscal rules**, although such imposition was expected, Article 10 is redundant.
- **The medium-term budget planning** should be raised at a higher level in terms of its precision and amount of detail. At the moment, when developing the Fiscal strategy, the budget is planned in its aggregate form for the next three years, including the current year (the year when the Fiscal strategy is being developed). This practice is appropriate and it should be reflected in the draft Budget Law as a legal obligation, along with mandatory indication of the basic trends and policies justifying the proposed medium-term budget plan. The strategic planning should include allocation of the costs per year and per activity, as well as the targets to be achieved and justification of deviations.
- In this sense, **fiscal rules** may be set in terms of the medium-term

budget frame, i.e. to envisage that the deviation from the frame would not exceed certain pre-defined limits. This also resolves the issue of imposing fiscal rules according to the Maastricht criteria, which lost relevance in the current Covid-19 crisis.

- The medium-term budget planning should, in an unambiguous and transparent manner, reflect all **investment projects** whose implementation takes place over a period of several years. For this purpose, the assessment of long-term fiscal implications when such projects are being proposed is essential and it should be specifically reflected in the draft Budget Law.
- The proposed establishment of a **Fiscal Council** is a positive and expected step. However, the proposed process of establishing the Fiscal Council leaves room for doubt that the most appropriate profiles would have the opportunity to be considered for members of the Fiscal Council. This is made impossible due to the fact that the process is oligopolized by three institutions and the role of the civil sector is entirely excluded. In addition, it is unclear how the indicated institutions would nominate the candidates for members, i.e. whether they will come from among the employees, and if not, whether the external candidates will be selected through open calls. An open and transparent procedure that will take into consideration all profiles that are deemed relevant to the respective area should be an imperative in the Macedonian society. In this regard, we appeal for the draft Budget Law to envisage a process

of appointment of the Fiscal Council members:

- o that will enable **open nomination** of candidates by institutions/organisations (such as universities, research centres, economic chambers, etc.) and self-nomination;
- o that will **define clear criteria** that the candidates are required to meet in order to become members of the Fiscal Council in terms of professional and research track record, active participation in monitoring of the fiscal policies in a sufficiently long time period, recommendations from relevant international institutions, international publications in the wider sphere of the macro-economy, command of a foreign language and appropriate record of absence of conflict of interest;
- o that a **Commission for Appointment of Members of the Fiscal Council** is set up in which a member will be nominated by the Ministry of Finance, the Macedonian Academy of Science and Arts, the Interuniversity Conference, the National Bank of North Macedonia and the Council for Cooperation with and Development of the Civil Sector, while the Parliament shall appoint Fiscal Council members upon a proposal of the Commission;
- o shall assign a **mandate** to the Commission, apart from the fulfilment of the prescribed criteria, to

evaluate the candidates also in terms of their professional and personal integrity.

Any other setup of the Fiscal Council introduces a **fire-swept space for politicisation and makes it impossible to utilize the most appropriate expertise in the country.**

- In terms of strengthening the medium-term budget planning, the **Fiscal Strategy** should be approved by the Fiscal Council as well.
- The Fiscal Strategy should mandatorily include quantitative assessment of the effects of possible **risks** that have low probability of occurrence, accompanied by a stress test.
- Improving the **fiscal transparency** in the past years should become a legal norm. In this regard, the draft Budget Law should aim at establishing a unified system - *based on the principle of MAKSTAT within the State Statistical Office* - from which all the data can be obtained in a simple and unified manner.