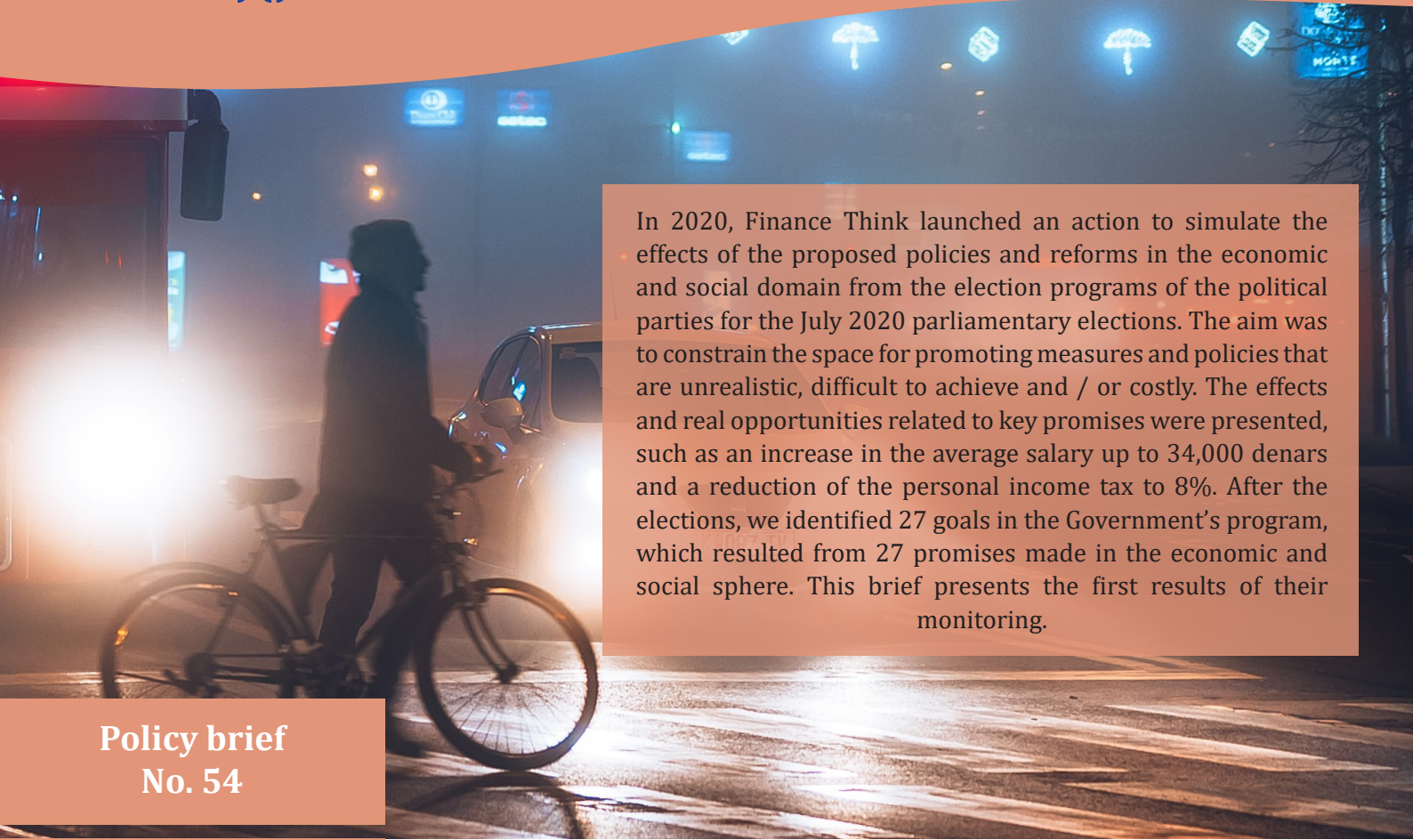


Big economic promises, big failures?



In 2020, Finance Think launched an action to simulate the effects of the proposed policies and reforms in the economic and social domain from the election programs of the political parties for the July 2020 parliamentary elections. The aim was to constrain the space for promoting measures and policies that are unrealistic, difficult to achieve and / or costly. The effects and real opportunities related to key promises were presented, such as an increase in the average salary up to 34,000 denars and a reduction of the personal income tax to 8%. After the elections, we identified 27 goals in the Government's program, which resulted from 27 promises made in the economic and social sphere. This brief presents the first results of their monitoring.

Policy brief No. 54

Finance Think recommends that setting goals in the programs of political parties and, consequently, of the Government be realistic and take into account feasibility and cost. Aligning political promises in the economic domain with the foundations of the economy, the current stage of development, as well as with the mentality of citizens and companies, will contribute to better and more effective economic policies.

PROBLEM

Every election cycle in North Macedonia is associated with political promises from the political parties. One political party was the first in 2006-2007 to promote an economic election program that included numerical goals and desired outcomes, such as economic growth; investments; employment; higher budget revenues amid tax cuts; state capital expenditures; reduction of social contribution rates and the like. Since then, political parties - especially the bigger ones - have sought to quantify their economic promises. In the last parliamentary elections of July 2020, the political party that then formed the government turned its focus to economic promises in the field of wages, as a topic that touches the individual more.

However, the public awareness related to the pre-election promises is not at a high level. On the one hand, promises are taken for granted, without thinking about their feasibility and cost. Promises, on the

other hand, are largely quickly forgotten because there is no awareness and / or mechanism to hold politicians in power accountable for their promises to their voters. Namely, politicians calculate with a general (but still scientifically insufficiently supported) paradigm that the collective memory lasts from 6 months to a year, after which these promises are mostly forgotten.

The bigger problem is that politicians, as policy makers, often resort to steps to deliver on promises that (may) cost dearly. An illustrative example is forcing growth through government support of one sector - construction, in the period 2007-2016, which contributed to the rapid increase in public debt. Another example is the current ambitious wage subsidy, amid declining labor productivity (a market mechanism that should increase wages), again at the expense of the state budget, which

narrows the fiscal space for other costs that will affect long-term competitiveness of the economy or which will absorb some future shock like the pandemic.

PURPOSE

The purpose of this policy brief is to present the first measurements for the realization of the political promises in the economic and social domain, translated into the Work Program of the Government of the Republic of North Macedonia for the period 2020-2024¹.

METHODOLOGY

The methodology behind the measurement of the fulfillment of the promises in the economic-social domain consists of several steps:

First, from the Government Program 2020-2024, we identified all the promises defined in the form of program or policy goals, which were divided into three groups:

- *Quantified promises* – that is, promises or goals for which an indicator has been defined and for which a quantitative target has been set in the Program itself (e.g., the average salary (net) will increase by 20% -30% by 2024);
- *Promises that can be quantified* - that is, promises or goals for which an indicator(s) has been defined but for which no quantitative target has been set (e.g., reducing women's inactivity in the labor market); and
- *Promises that cannot be quantified* - that is, promises or goals that are qualitative in nature and for which a quantitative target cannot be, or is very

arbitrarily to be, established (e.g., a significant increase in the quality of products and services).

Second, 27 goals belonging to the first two categories - already quantified promises and promises that can be quantified - were set in a measurement framework, which can be visually seen here: www.financethink.mk/ekonomski-kompas/. Of these 27 targets, 18 promises / indicators were already quantified and 9 were not but could be quantified.

Third, we collected data on the 27 goals / promises for the period 2016-2019, recorded the government target for 2024 (or another year to which it relates) for the quantified promises, and interpolated the values for the period from 2020 to the target.

Fourth, we conducted a Delphi survey with economic experts to define the target value of the 9 indicators of the promises that could be quantified. The Delphi survey was conducted in two rounds with 11 experts in the economic, social and development fields, as follows:

- In the first round, the experts were offered the values for each indicator for 2018 and 2019 and they were asked about a quantitative target, in their opinion, for 2024;
- The results of the first round were processed in the form of an average value for each indicator and the associated degree of consensus, approximated through the standard deviation, as follows: low, medium and high;
- In the second round, experts were offered the information from

the first round, plus information about the average value of the targets from the expert answers in the first round and the degree of consensus regarding that average value. Experts were then invited to confirm or revise their first-round response;

- The results of the second round were considered final and the average value for each of the 9 indicators was set as a quantitative target for the government promise for 2024;

- The values for the period 2020-2024 were interpolated.

Fifth, at the beginning of 2022, we collected data on the performance of the 27 indicators for 2020 or 2021 (depending on the periodicity in which they are published by the referent institutions) and compared them with the set target values. Based on that, the promises were rated as:

- *Fulfilled*, if the target value was set for 2021 and it has been achieved, or if the target value has been achieved in 2021 regardless of the year for which it was set;
- *In direction of fulfillment*, if the target value was set for 2024, but the fulfillment in 2021 has been in line with, or exceeded, the interpolated value for that year;
- *Unfulfilled*, if the target value was set for 2021 and it was not achieved;
- *In opposite direction of fulfillment*, if the target value was set for 2024, but the fulfillment in 2021 has been lower than the interpolated value for that year.

¹ Government work program for the period 2020-2024: [link](#)

RESULTS

Five promises from the Government Program 2020-2024, or 18.5%, have been fulfilled. At first glance, this figure is not high, but it must be borne in mind that most of the promises / goals refer to 2024, so the results in the groups “in direction of fulfillment” and “opposite to the direction of fulfillment” are more relevant.

In the group of fulfilled promises are mainly the promises for the so-called operating targets in the tax sphere, i.e. reducing the VAT rate for restaurant services to 10%, for craft services to 5%, raising the VAT registration threshold to 3 million denars, and not increasing the profit tax rate. From the so-called policy targets, the promise to reduce the grey economy has been fulfilled, which we quantify here

through the share of workers working without an employment contract, up to 14% in 2024, but this figure was reached in 2020 (13.6%), due to the formalization that took place in order for workers to take advantage of government measures during the corona-crisis². Hence, the last indicator may deteriorate in 2021/22, if in the meantime no measures have been taken to maintain the benefits of the formalization in a time of pandemic.

Two promises, or 7.4%, have not been fulfilled, namely: the reduction of the personal income tax in the IT industry to 0% in 2023, and with the projected reduction of 5% in 2021 and 3% in 2022, and the increase of the minimum pension of 10,700 denars in 2021. The reasons for not fulfilling these promises are not known.

КОЛКУ ВЛАДАТА ГИ ИСПОЛНИ СВОИТЕ ЕКОНОМСКИ ВЕТУВАЊА?



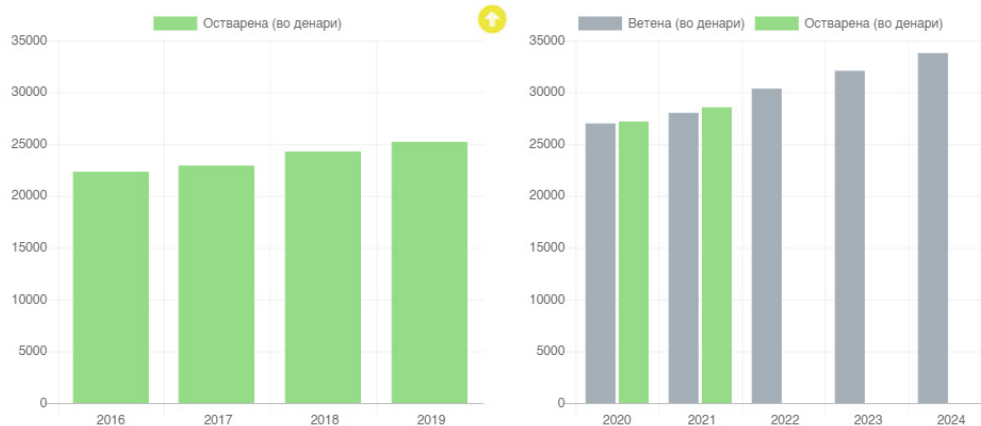
Извор: „Економски комјас“ врз база на податоци од релевантните институции и Делфи истражување. Визуелизација: Finance Think.

² On the formalization during pandemic, see our Policy Study 36: [link](#)

Four promises, or 14.8%, are in the direction of fulfillment. These include: sustainable and inclusive growth of 4%, volume of FDI up to a total of one billion euros by 2024, increase in exports to 8 billion euros in 2024, increase in the average wage by 20-30% by 2024. The reasons for meeting these targets are mainly on the side of their realism, such as the fact that the 4% growth corresponds to the estimated potential growth rate of the economy, or the fact that the target total amount of FDI is equal to an annual average of EUR 250 million, which is in line with the achieved averages in the last decade.

It is interesting that the promise of an average salary that will reach around 34,000 denars in 2024 is towards realization, mainly driven by the relatively high nominal growth of the average net salary in the crises years of 2020 and 2021, which was made possible by: a) the subsidy of social contributions to wage growth in the range of 600-6,000 denars from November 2019 with a duration of 3 years; b) the increase of the minimum wage from 12,508 to 14,500 denars in December 2019, then to 14,932 denars in June 2020, and to 15,194 denars in March 2021; c) jobs lost during the pandemic which were mainly low-pay and contributed to a statistical increase in the average; and d) wage growth driven by the favorable (global) conjuncture in certain sectors during the pandemic (such as IT and finance).

The average salary (net) will increase by 20% - 30% by 2024



Извор: Закон за минимална плата и одлуки на Владата за нејзино усогласување.

Забелешка: Остварувањето за 2021 се однесува на периодот јануари-октомври 2021.

Twelve (12) promises, or 44.4%, are in the opposite direction of fulfillment. This group includes a wide range of promises, the failure of which classifies them into several subgroups. The first subgroup is promises / goals that are set unrealistically, and mainly include investment-related promises, i.e.: increase in the volume of capital investments to a total of 2.2 billion euros in 2024, increase in the volume of road investments to a total of 2 billion euros in 2024 and an increase in private domestic investment of 1.2 billion a year. Despite the significantly lower (but, in itself, not necessarily low) achievements in the period 2016-2019, the targets have been set unrealistically high.

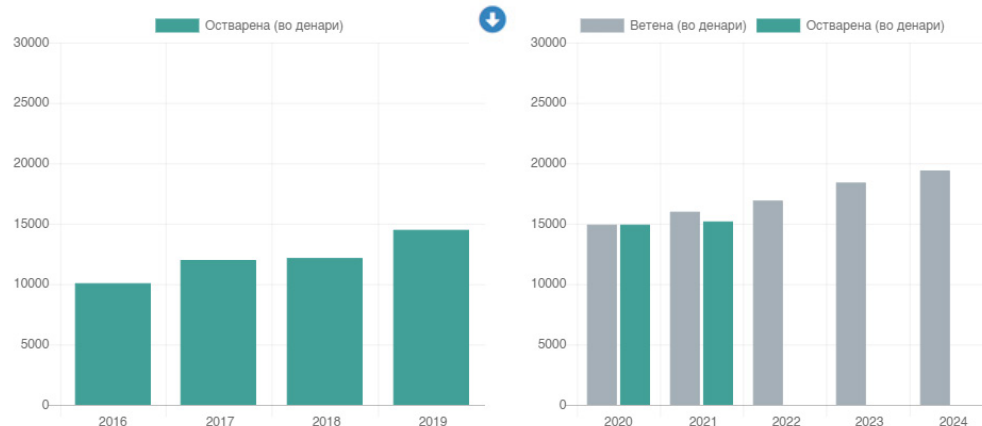
The second subgroup includes indicators that were potentially affected by the corona-crisis, i.e. that would have entered the “fulfilled” or “in direction of fulfillment” groups if the pandemic had not occurred. However, given that promises were made in July 2020, i.e. four months after its inception, their non-fulfillment cannot be justified by the pandemic. Such indicators include

increased productivity, higher number of firms, declining unemployment to single digits in 2024, higher youth employment, declining inactivity and increasing employment of women.

The third subgroup is the indicators whose realization may be realistic, but which may cause significant distortions in the market or, if supported by state aid, may be costly. The most glaring example is the promise of growth of the minimum wage in the range from 20% to 40%, i.e. up to about 20,000 denars in 2024. Namely, although the minimum wage registered a solid growth during the pandemic by adjustment with the growth of GDP, wages and prices, still its growth is insufficient to deliver the given promise.

It should be noted that for four promises there is still no relevant indicator for 2020 so that they cannot be classified. They are mainly related to data that the State Statistical Office is to publish from the Survey on Income and Living Conditions, the publication of which in December 2021 was postponed without explanation.

The minimum wage will increase by 20-40% by 2024



Извор: Закон за минимална плата и одлуки на Владата за нејзино усогласување.

CONCLUSION

The political promises from the economic and social domain translated into the Government Work Program 2020-2024 are being realized with varying dynamics, but the overall conclusion is that **the realization is not sufficient to declare that they are being fulfilled**. Almost half, i.e. 44.4% of the given promises in the economic and social domain, currently move in the opposite direction from the given promise. The reasons for this situation include unrealistic targeting given previous achievements, unrealistic setting given that the economy is in crisis caused by the pandemic, as well as setting targets that could disrupt the market or that could seize an unreasonably large contingent of budget funds for them to be realized.

Hence, Finance Think recommends setting goals in the programs of political parties and, consequently, of the Government to be realistic and to take into account feasibility and cost. Aligning political promises in the economic domain with the foundations of the economy, the current stage of development, as well as with the mentality of citizens and companies, will contribute to better and more effective economic policies.

FINANCE THINK
OUT OF THE BOX



HR EXCELLENCE IN RESEARCH

Finance Think is an independent Institute for economic research and policy in Skopje.

Our Vision

To steer economic thinking for increased wellbeing tomorrow.

Our Mission

To enhance the impact of economic and social trends and policies on citizens in North Macedonia and the Western Balkans, through economic research, evidence-based and data-driven advocacy, and steering critical debate on economic processes. The research of Finance Think helps policymakers, policy advocates, opinion makers, journalists, and the public understand the issues affecting ordinary citizens.

St. Frederik Shopen 1/2
1000 Skopje
North Macedonia
www.financethink.mk
info@financethink.mk



„The project is supported by
Civica Mobilitas“

This policy study is the sole responsibility of Finance Think and in no way can be counted reflects the views of Civica Mobilitas, Swiss Agency for Development and Cooperation (SDC) or the organizations that implement it.