



## Twinning project “Strengthening the medium term budgeting for effective public financial management”

### Preparing and defining a coherent program budget structure for the state budget

During autumn 2016 active work took place to continue defining new program budget structure for Macedonian state budget.

In the period 22 – 26 September 2016 Mr. Franci Kluzer from Slovenia was in the country and the main purpose of the mission was to continue with program budget classification including objectives and indicators. Expert worked within the sector of social care and labour market policy. Also meeting was organized with Ministry of Labour and Social Policy, Employment Service Agency and Pension Fund where the proposal for program budget classification in social care and labour market policy was discussed. It was concluded that on program level the structure is well designed and comprehensive, whereas further work should be done on the level of subprograms.



*Meeting held with Ministry of Labour and Social Policy, Employment Service Agency and Pension Fund*

The work with social care and labour market policy continued in the period 04 – 06 October 2016. During this mission Mr. Kluzer had separate meetings with representatives from different departments of the Ministry of Labour according to the program areas. Detailed discussion took place. Some open questions related to program structures, objectives and indicators that will be (or could be) used, were finalized and final draft developed.

In the period 04 – 09 October 2016 also Ms. Katja Lautar from Slovenia was also in Macedonia. The main purpose of her mission was to continue with the program budget classification within the sector of justice and within the sector of internal & external safety.

Ms. Lautar continued the work with the budget analysts of Budget and Funds Department. Latest feedback and questions were reviewed and final program budget classification for policy area of justice was defined. –As comes to policy area of internal and external safety, existing strategies and documents (defense, internal affairs, crisis management...) were used to develop, together with Budget and Funds Department budget analyst, the structure and the objectives and indicators for all levels (policy, program and subprogram). Meeting was organized with representatives from Ministry of Defense during which the draft structure and classification made were checked, and feedback was received

One expert mission was implemented in the period 30 October – 01 November 2016 by Ms. Irena Rostan from Slovenia. This mission focused into the health sector. Existing strategies and general guidelines for reform were used to develop, together with budget analysts from Budget and Funds Department, the draft classification including objectives and indicators for the policy area of health.

By the end of November 2016, the sectors for transport, social care and labour market policy, justice, agriculture, environment, health, internal and external safety have been started / are finalized. During winter time activities related to finalizing the program budget structure will continue.



*Working meeting in health sector*



### **Manual for program budget reform**

It can easily happen that within the performance based program budgeting, the structure, objectives and indicators get too expanded and diversified, if there are no strict rules and criteria to keep the system uniform and simple. During September mission Mr. Kluzer started work to define the criteria for all program budget objectives and indicators.

This work was continued and further developed later during the autumn with the help of Ms. Lautar and especially during the period 03 – 08 October 2016, when expert mission by Ms. Monika Geppl from Austria took place. During this mission the first draft of the Program Budget Manual for budget users were produced. The idea is that this manual gives detailed instructions and examples for the budget users, for example, on how the structure, objectives and indicators must be defined, how minor changes can be made if needed and how reporting will be done.

Working meetings took place to discuss the approach that should be used in program budgeting, the draft of the manual, legislation changes needed, timetables, and future trainings The experts from the Ministry of Finance will still review the manual draft and discuss some open issues before next mission takes place in January.

### **MTBF (medium term budget framework) and MTEF (medium term expenditure framework)**

During year 2016 as Activity Report 2.1 was developed to estimate the current situation for fiscal rules and medium term budget planning and to draft step by step recommendations for reform. Summary of the report has been published on the Ministry of Finance web-site:

<http://finance.gov.mk/files/u6/Summary%20of%20the%20report%202.1%20MK.pdf>

During October-November the report was discussed in details with the Ministry of Finance. At the end of October 2016 there was a mission by, Mr. Sami Yläoutinen from Finland and Mr. Benedikt Gamillscheg from Austria. This mission focused into deciding what will be the approach for MTBF and MTEF based on recommendations of Activity Report 2.1. During the mission working meetings were organized with key people from the Budget and Funds Department and the Activity Report 2.1 with all the recommendations provided by the experts were presented, discussed and reviewed. It was very important that this discussion took place and preliminary decisions were made on the approach for MTBF and MTEF before writing the manual and drafting the legislation amendments started.

In the period 14 – 18 November 2016, Mr. Benedikt Gamillscheg and Ms. Karin Vorauer-Mischer from Austria were in Macedonia to write Guidelines / Manual for medium term budgeting (there will be two manuals with a lot of overlapping contents – one for MoF and one for budget users). The first manual that the experts started to draft will serve as a guideline for the budget users. The focus is to give an introduction to the fiscal rules framework, explain the medium term expenditure framework, and to give detailed instructions for the procedures, the process and the timetable. It provides e.g. practical guidance on how to build up an expenditure baseline scenario. The manual will be used during the trainings for the budget users.

### **Previous work to improve macroeconomic and tax revenue forecasting continued**

Mr. Mikko Sariola from Finland implemented expert mission in the period 27 – 29 September 2016. The mission focused in developing the macroeconomic forecasting and forecast model in order to support better medium term budgeting. Intensive work of coding the model with R-software was done together with key personnel from Macroeconomics Department at the Ministry of Finance. Discussion and work took place with the core equations of the model, with some re-estimations using the latest data and updating parameters. Some homework is still on table but soon it should be possible to test the model by making forecasting for real economy and deflators with it.



In the period 16 – 23 October 2016, Mr. Veli Auvinen from Finland was in Macedonia to review the Tax and Customs Policy Department tax revenue prediction model for excise duties, especially the model for tobacco tax. During the mission the latest developments in the field of excise duties in Finland and Macedonia were shared and discussed. The Finnish tobacco tax revenue forecast model was used as starting point with some modifications, updated coefficients and with data as an example on how to calculate the gross budget revenue from tobacco taxation in Macedonia for the coming years. During the mission it was also discussed, how to re-organize the making of revenue projections. Expert presented in short the Finnish way to work in revenue working group and its subgroups.



*Working meeting*

### **Trainings for ESA2010 GFS methodology**

In the period 25 – 29 September 2016, Mr. Matti Okko and Mr. Mika Sainio from Finland implemented expert mission to Macedonia to continue with ESA2010 training series. During the mission the focus point was on sectoral categorization in ESA2010 Government Finance Statistics – many borderline cases were discussed in workshops. In addition, EDP debt calculations were discussed, and first insight into categorization of different revenues and expenditures in ESA2010 GFS was presented.

In total 4 training sessions were organized for representatives from Ministry of Finance - Budget and Funds, Macroeconomics, Treasury and Public Debt Management Departments; State Statistical Office and National Bank of R. Macedonia. At the end, homework was given to training participants.

Another expert mission was implemented in the period 15 – 19 November 2016 by Mr. Veljarvo Tamminen and Ms. Marja Paavonen from Finland. During the mission 4 training sessions were organized for representatives from Ministry of Finance, and for representatives from State Statistical Office, Public Revenue Office and National Bank of R. Macedonia.



*Training session*

During 1<sup>st</sup> training session the reporting obligations of a member state country in accordance with EU standards and requirements were presented through presenting the responsibilities of the Finnish Ministry of Finance in public finance. Methods, models and data to prepare general government ESA2010 compatible forecast based on example of Finland was presented on the 2<sup>nd</sup> training session.

After this practical training sessions were organized with focus into categorization of different revenues and expenditures in ESA2010 methodology. The first session covered the topic of (tax) revenue estimation and the second focused more into the expenditure side. In both sessions the starting point was the existing Macedonian data. The aim was to create practical training for the preparation of Economic Reform Program / Convergence Program table 2. Because of the lack of ESA2010 national accounts statistical data, the workshop concentrated on recognizing differences between the existing budget / final accounts data and ESA2010 and on identifying data needed for filling the required reporting tables.

### **Steering Committee meeting**

On 14 September 2016, 3<sup>rd</sup> Steering Committee (SC) meeting was held. Steering Committee members had the chance to discuss the activities implemented in the summer period and the activities planned for the next 6 months of project implementation. Steering Committee concluded that there is good day-to-day cooperation, activities are implemented in accordance to the work plan and progress took place in all the areas of the project.



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