

**EFFECTS OF
MACROECONOMIC
POLICIES ON
AVAILABILITY OF
FUNDS
TO FINANCE THE
PUBLIC
HEALTHCARE
SECTOR IN THE
PERIOD 2011–2018**



September 2019

INTRODUCTION

Assessment of macroeconomic policies' effects on the public healthcare sector is deemed necessary due to the series of reforms implemented in the past period and aimed to expand the fiscal basis that should ensure greater influx of funds in the state budget, fiscal consolidation, series of populist measures resulting in changed availability of funds for the public system, with a focus on the public healthcare system, and public expenditure reforms. In addition, such approach is particularly important at times when the government takes steps aimed at economy liberalization, attracting foreign direct investments and stimulating domestic companies to increase salaries for their employees, all of which imply direct burden on the state budget for provision of state-sponsored subsidies, and exemption of companies from payment of public fees which is expected to contribute to greater and sustainable economic growth and development in the state. On the other hand, the multitude of on-going economic reforms have resulted in evidently slowed growth of expenditure for public health services, high disparity in allocation of state budget funds between the public healthcare sector and other state functions, increased private costs for healthcare paid by citizens and insufficient delivery of health services on the part of public healthcare facilities in the state.

Therefore, this analysis provides an overview of relations between public expenditure in the healthcare sector and macroeconomic indicators in the Republic of North Macedonia (RNM) over the period 2011-2018. In particular, it assesses effects of economic growth and development, public revenue collected at national level, public revenue collected by means of borrowing on domestic and international capital markets, fiscal balance and state budget transfers to the public healthcare sector.

Health indicators used as benchmarks to measure development in any country^[1] show that at least 100,000 citizens in RNM^[2] do not have access to one or more basic health services, and that at least 40,000 citizens^[3] have significant financial difficulties due to personal expenses incurred for access to health services. In particular, the health of citizens depends on a number of factors that are beyond their direct control. In the past period, both in our country and across the world this situation is often justified as being a result of individual, instead of collective irresponsibility.

[1] Why Public Health Care is Better, Viva Salud.

[1] Due to lack of national statistics, the number of persons at national level is calculated on the basis of the total number of people at global level.

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[1] PEFA Assessment of the FYROM, December 2015-<http://www.pefa.org/node/921>; FYROM, Public Expenditures Review, 2015 -

The argument that there is no space to increase the public share of funds to finance citizens' health rights, which is often used by decision makers in RNM, is unfounded. International financial organizations, including the United Nations, and parameters on economy's vitality in RNM[1], show that the space to increase funds to finance citizens' health rights does exist, but is not utilized due to poor management of the public sector.

The comment on poor management, in particular, refers to:

- reduced unemployment rate and expanded basis for collection of social contributions, including health insurance payments, do not contribute to significant increase of funds collected on this basis, especially due to the fact that the health insurance payment rate was reduced from 9.2% in 2006 to 6% in 2011 and due to implementation of projects on exempting foreign and domestic companies from payment of social insurance contributions (such as "Macedonia Employs 1 and 2" in the period 2015-2017, newly adopted law on exemption from payment of social contributions to increase salaries for employees, etc.);
- anticorruption measures taken in the public sector have not yielded results in terms of preventing state funds being spent for personal economic progress, meaning that the business sector influences creation of economic policies and provision of public services;
- low capacity for realistic projection of economic parameters which, in turn, results in perpetual change of economic policies;
- continuous concentration of public funds for sectors and purposes that do not contribute towards promotion of citizens' wellbeing remains unchanged practice of the budgeting policy pursued in the country;
- funds collected from the business sector are insignificant compared to funds collected as public charges levied on citizens;
- increased budget deficit is primarily used to finance projects that do not bring real benefits for citizens, whereby the continuously expanded credit portfolio leads to more liabilities for citizens and downsizing of already inefficient public economic service;
- increased import of capital and investments in RNM negatively affects national economy's development and contributes to shedding of funds at lower prices; and
- enhanced influence on the part of financial institutions over creation of public policies has a particularly negative effect on the exercise of health rights.

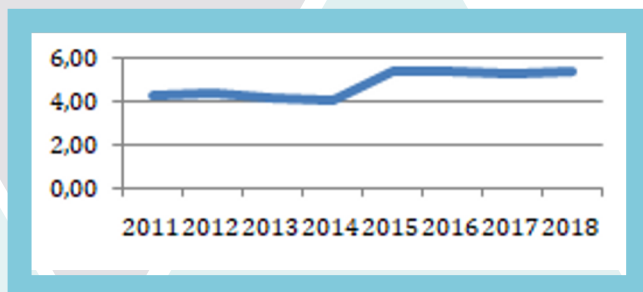
It is important to stress that possibilities for collection of funds used by the state and purposes for which these funds are spend are multiple and diverse, but the decision about methods for their collection and spending is primarily based on the political choice of those in power. Investment in promotion of health rights should not depend on decisions of political parties, but each political option should guarantee that management of public resources will give primacy to guaranteeing citizens' fundamental economic and social rights, including health rights, by securing all possible and available resources to guarantee adherent implementation of the principles of availability, efficiency, continuity, equity, comprehensiveness and provision of quality and safe health treatment (Law on Health Protection, Article 5: Principles of Health Care).

Provision of sufficient funds to finance the public healthcare system is one of the biggest challenges faced by developing and moderately developed countries, including RNM, in securing full coverage of citizens with health services and universal access thereto. The healthcare sector in RNM is characterized by slow growth of public expenditure and high dependence from private expenses paid by citizens to obtain basic health services. According to the 2001 Abuja Declaration,[1] the states should allocate at least 15% of their annual public expenditure and at least 5% of their Gross Domestic Product (GDP) for provision of public health services in order to guarantee basic health services to citizens.

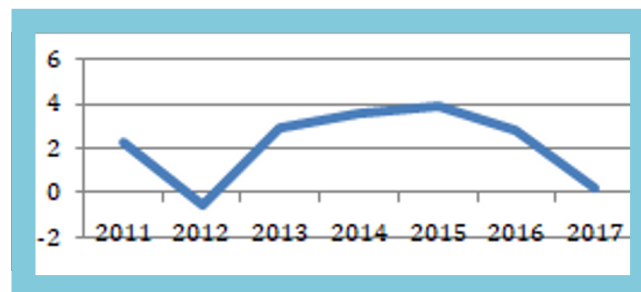
In RNM, public expenditure for the healthcare sector accounts in average for 4.79% of GDP and is by nearly 3% less compared to EU member-states. Comparison against countries in the region with same level of development shows that public expenditure for the healthcare sector as share of GDP is by 1% lower compared to the average amount of public expenditure in upper-medium income countries. On average, total public expenditure for the healthcare sector represents 55% of total expenses for healthcare, and is by 22% lower compared to the average amount of public funds secured by EU member-states and by 13% lower compared to the average amount of funds secured by upper-medium income countries in the region. Moreover, on average, 34% of total expenses for healthcare in RNM concern private expenses of citizens for health services, which is 0.7% higher compared to the amount of personal expenses paid by citizens for this purpose in other upper-medium income countries, but significantly more compared to private expenses for healthcare in Bosnia and Herzegovina (28%) and Turkey (16%).

2. Public expenditure for healthcare does not reflect the changes under key macroeconomic indicators

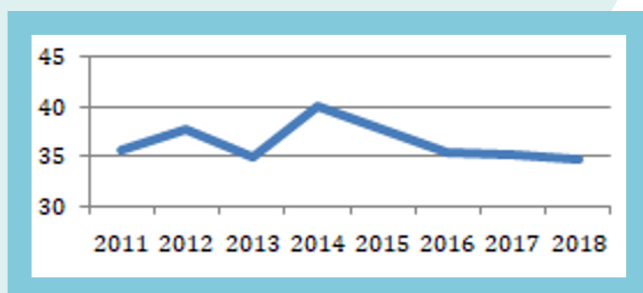
Public expenditure for healthcare, as share of GDP



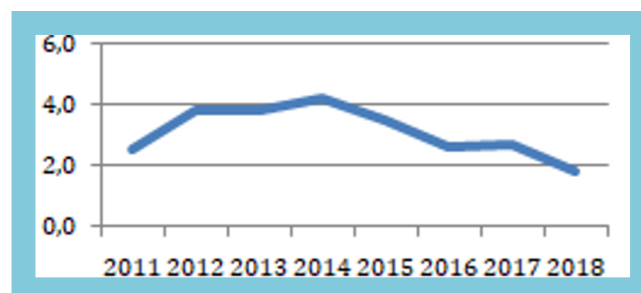
Real GDP growth rate (%)



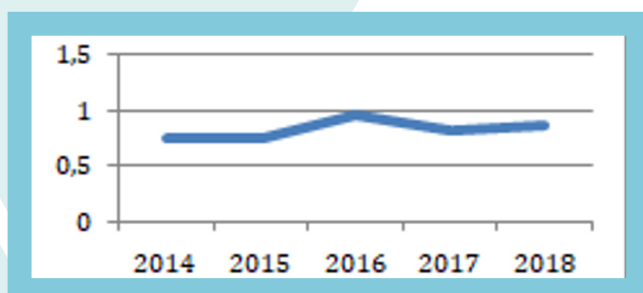
Public revenue as share of GDP



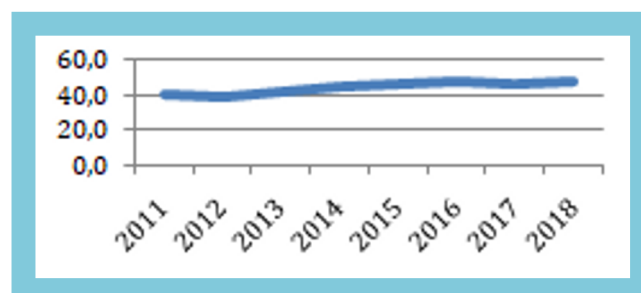
Budget deficit as share of GDP



Transfers for healthcare as share of GDP



Real GDP growth rate (%)



Tax-based revenue as share of GDP

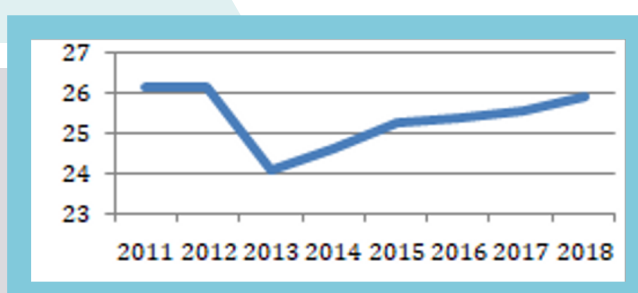


Chart no. 1: Overview of key macroeconomic indicators compared to funds spent for the public healthcare sector

Chart no.1 provides an overview of fluctuations under public expenditure for the public healthcare sector over the period 2011-2018 in relation to changes under key macroeconomic indicators, such as: economic growth presented as real GDP growth rate, public debt-to-GDP ratio, fiscal balance presented as budget deficit-to-GDP ratio, increased share of total public expenditure in GDP, increased share of tax-based revenue and budget transfers for healthcare in GDP. The first diagram provides the conclusion that, in continuity, public expenditure for healthcare remains at almost the same level, without dramatic changes. The single decrease under this parameter was recorded in 2014, when public expenditure was reduced from 4.3% in 2011 to 4.1% in 2014. The trend of public expenditure for healthcare does not follow the trend of actual revenue collected in the Budget of RNM. More specifically, the movement of variables shown on both diagrams allows the conclusion that the public revenue's share in GDP oscillates through the analysed period and overlaps with fluctuations of public revenue for healthcare in the period 2011-2013, but in 2014, when the public revenue's share in the Budget of RNM is increased, funds spent for healthcare are decreasing, which is indicative of the change under expenditure priorities of the state and reallocation of funds from healthcare to other public sectors. According to the Annual Reports on Public Debt Management in the analysed period, the state generated a higher level of public debt, but achieved lower budget deficit, which resulted in increase of funds allocated for repayment of matured public debt liabilities and decrease of funds allocated for the public healthcare sector. Tax-based revenue is marked by continuous increase throughout the analysed period, but this increase is not used to finance the public healthcare. In continuity, the lack of funds in the health budget is compensated with direct transfers for the public healthcare sector from the Budget of RNM. Fluctuations in terms of public revenue do not overlap with the GDP growth rate.

3. Funds spent for provision of healthcare are decreasing in spite of GDP growth

Funds spent for provisions of healthcare to citizens are particularly dependent on increase of tax-based revenue (0.94) and public debt (0.84). More specifically, tax-based revenue and public debt increase significantly contributes to increase of expenditure for healthcare. Increased state borrowing on domestic capital markets (0.34), grants and donations (0.56), and increased budget deficit (0.49) have medium effect on increase of funds for healthcare. In addition, increase of non-tax revenue (0.10) and state borrowing on foreign capital markets (0.15) have insignificant effect on increase of funds for healthcare. Negative effect on total amount of funds for healthcare is observed with real GDP growth rate (-0.04), i.e. GDP's increase does not contribute to increase of available funds for healthcare (see Table no.1)

Variables	Median	Maximum	Minimum	Correlation
Public health budget	29,519,316,818	35,186,707,139	23,615,578,556	1
Public revenue	199,578,165,713	230,298,434,618	165,068,032,808	0.90
Tax-based revenue	138,843,205,152	170,988,987,975	119,679,945,188	0.94
Non-tax revenue	11,143,569,332	12,281,046,218	10,063,677,598	0.10
In-country borrowing	13,996,527,985	27,471,962,508	960,396,293	0.34
Foreign borrowing	22,411,905,160	36,270,176,878	5,565,905,913	0.15
Grants and donations	3,465,186,369	6,991,481,435	893,602,919	0.56
Budget deficit	-3.1%	-1.8%	-4.2%	0.49
Public debt	44.9%	48.5%	39.0%	0.84
Real GDP growth rate	2.2%	3.9%	-0.5%	-0.04

Table no. 1:Correlation between macroeconomic indicators and funds for provision of healthcare (in MKD)

4. Changes in the macroeconomic policy and expanded fiscal space do not contribute to increase of funds allocated for the public healthcare sector

In the period 2011-2018, RNM adopted a series of macroeconomic policies that should have contributed to promotion of economic growth, but the last period does not show particular key changes in terms of improved economic status of the state. Changes made with a view to expand the fiscal basis for collection of ore funds in the state budget, such as: increased excise for diesel fuels and heating oil by 3 or 3.45 MKD respectively, VAT included; increase of excise for cigarettes by 3 MKD annually and excise for beer by 1 MKD per litre and for other types of alcohol by 40 MKD per litre of pure alcohol; earmarked transfers from collected excise for the healthcare sector; increased threshold for payment of monthly salary contributions from 12 to 16 average salaries; continuous increase of the upper and lower threshold for payment of salary contributions; etc., actually do not contribute to increase of available funds under the Budget of RNM to promote quality of healthcare and to provide geographical, physical and economic accessibility of health services for citizens (Article 6 of the Law on Health Care). In the analysed period, the fiscal deficit was reduced from 2.5% of GDP in 2011 to 1.8% in 2018, but that was not a result of increase in collection of tax-based revenue, in particular due to the fact that tax-based revenue remained unchanged throughout this period (in 2011 they accounted for 26% of GDP, and remained on the same level in 2018).

Chart no.2 provides an overview of respective shares of public revenue, public debt and public expenditure for healthcare in GDP over the period 2011-2018 when above elaborated changes were made to macroeconomic policies. As shown, these changes have not resulted in significant differences related to availability of funds at the level of the state and the public healthcare sector. In the same period, public revenue has decreased (especially in the period 2014-2018), with insignificant increase of public expenditure for healthcare (in the period 2014-2015),and continuous increase of the public debt (in the period 2011-2018).

In 2015, public expenditure for the healthcare sector reached the maximum level (5.37% of GDP) in terms of recommended amount of funds to be spent on healthcare (at least 5% of GDP). However, over the next three years, this amount was marked by continuous decrease and reached the level of 5.33% of GDP in 2018. Although RNM manages to maintain the recommended minimum level of public expenditure for healthcare, these funds are far from sufficient to improve citizens' access to health services and do not allow progressive exercise of their health rights.

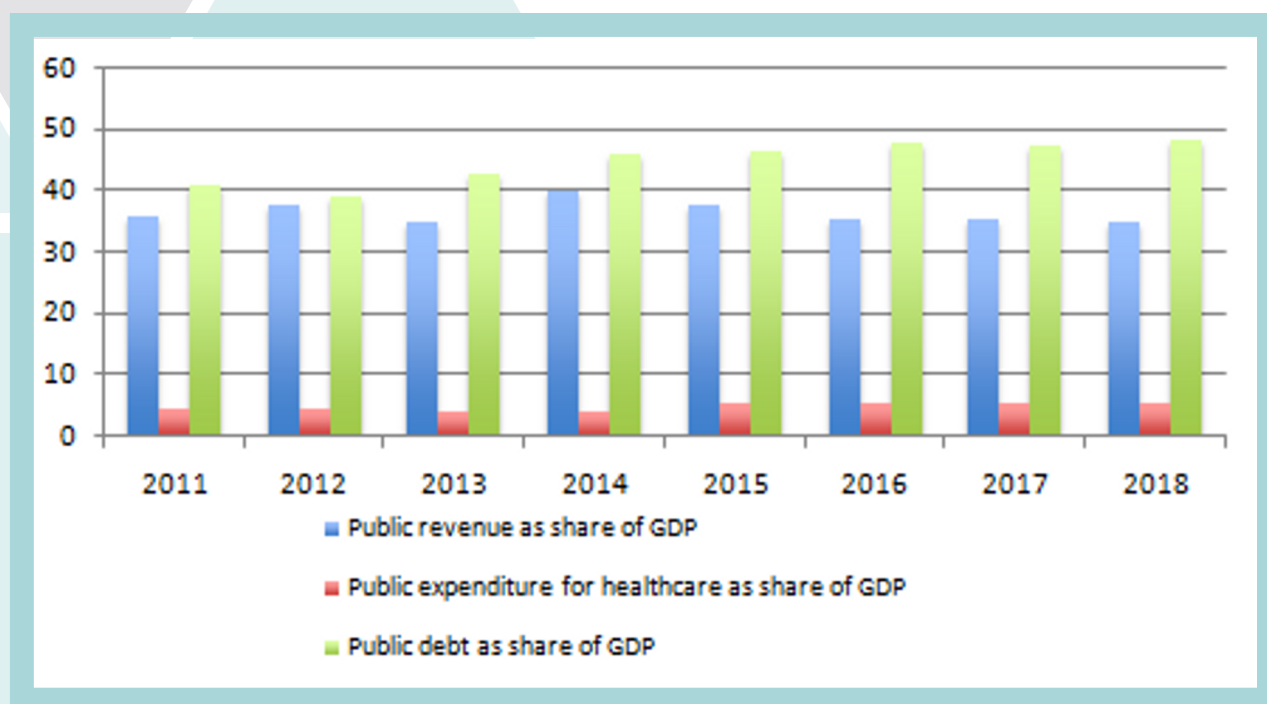


Chart no. 2.Public revenue and public expenditure as share of GDP

5. Tax reforms increase the pressure on citizens and limit their access to health services

Tax reforms implemented in the analysed period that should have contributed to greater economic development, instead of leading to increased participation of the private sector and rich individuals in financing public services have actually resulted in increased participation of citizens in financing public services. Notably, in the period 2011-2018 the amount of funds paid by citizens and representing tax-based revenue in the budget was increased by 35%, whereby citizens account for 77% of tax-based revenue in the country, while payments from private companies and rich individuals were increased by 121% in 2018 compared to 2011 figures and account for only 22% of total tax-based revenue (see Chart no.3)

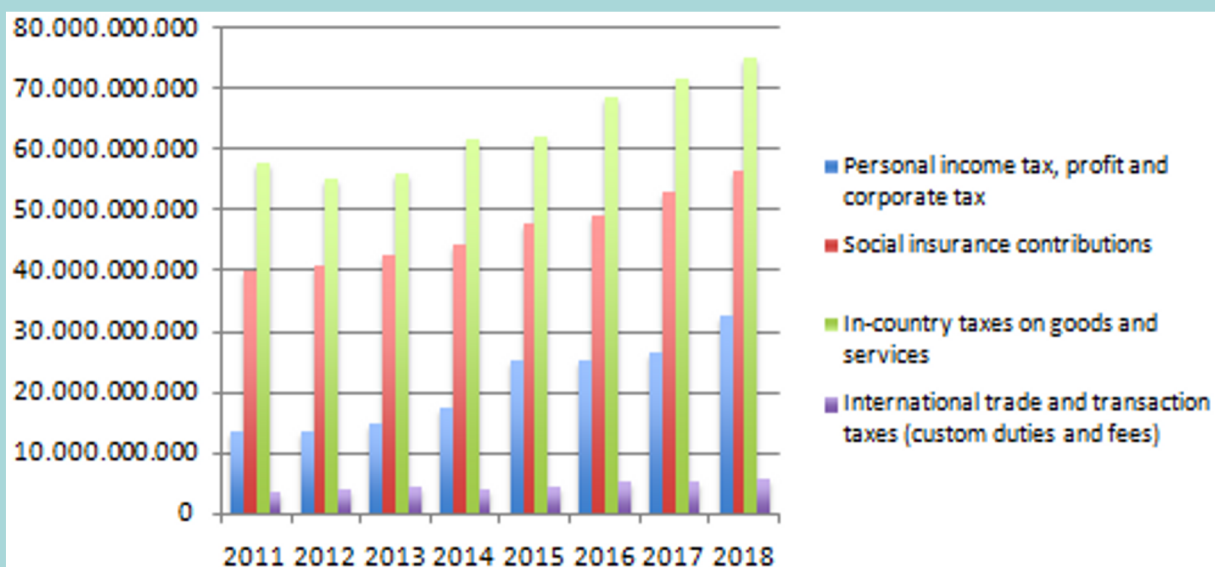


Chart no.3. Overview of fluctuations under tax-based revenue collected from citizens and companies, for the period 2011-2018 (in MKD)

Although they account for dominant share in financing state functions, citizens have limited access to basic public services, and are denied the opportunity to influence allocation of public funds. This situation results in unfavourable health outcomes for the population. Moreover, the population's health status does not always correlate to positive macroeconomic trends in the country. This can be illustrated with the fact that throughout the period marked by increased real GDP growth rate (i.e. 2012–2016, as shown on Chart no.1) the infant mortality rate in the country has increased from 7.6 per 1000 livebirths in 2011 to 11.9 in 2016, and is almost three times higher than the average for EU member-states.[1] Thereafter, the infant mortality rate has decreased and stood at 5.7 per 1000 livebirths in 2018. Nevertheless, given the perpetual fluctuations under this parameter, efforts are needed to closely monitor the situation in this regard.

In the period 2011 – 2013, the number of deaths from malignant diseases has increased from 3541 (in 2011) to 3640 (in 2013)[2], in spite of the fact that deaths from a number of malignant diseases could be prevented when diagnosed in the early stages. Hence, this situation is also indicative of insufficient funds allocated for preventive healthcare in the country.

Roma people are the most marginalized and vulnerable minority in North Macedonia. Although the state has adopted the National Strategy on Roma inclusion and accompanying National Action Plan on Roma Health, these policies remain underfunded and of poor implementation track record. As a result thereof, there are no significant improvements in terms of Roma health and wellbeing in the past years, which is best demonstrated by the fact that, in 2017, as high as 48% of Roma people died before the age of 65 years, compared to the national rate calculated at 23.6%.[3]

[1]Source: State Statistical Office of the Republic of North Macedonia.

[2]Source: WHO Databases, available at: <https://gateway.euro.who.int/en/hfa-explorer/>

[3] Source: State Statistical Office of the Republic of North Macedonia

6. Insufficient capacity of public institutions to collect projected revenue every year leads to continuous budget cuts for healthcare and decreased scope of health services

In the period 2011-2018, total public revenue under the Budget of RNM has increased by 39% in nominal terms. Public revenue increase is primarily due to payments from citizens when purchasing goods and services, which is an exclusive feature of countries with high percentage of poor population. Despite such increase over the analysed period of eight years, the average annual increase of public revenue accounts for only 5%. The highest revenue increase was observed in 2014 and is a result of the dramatic revenue increase on the basis of state borrowing on foreign capital markets (all other types of revenue are lower compared to relevant figures from the previous year, except for minor increase under tax-based revenue). Such change in public revenue amounts are primarily due to the lack of capacity at competent bodies to make realistic projections of actual revenue and the low capacity for public revenue collection. As shown on the chart below, throughout the period from 2011 to 2018, RNM has realized dramatically lower revenue compared to projected figures (shown on Chart no.5 with minus sign), especially in regard to collection of domestic revenue sources (taxes, fees and charges), and has realized higher revenue compared to projected figures in the case of state borrowing on domestic and foreign capital markets (shown on Chart no.5 with plus sign). This approach contributes to the state's inability to implement activities planned in the area of healthcare and leads to continuous budget cuts for this sector as a result of insufficient capacity to collect revenue in projected amounts.

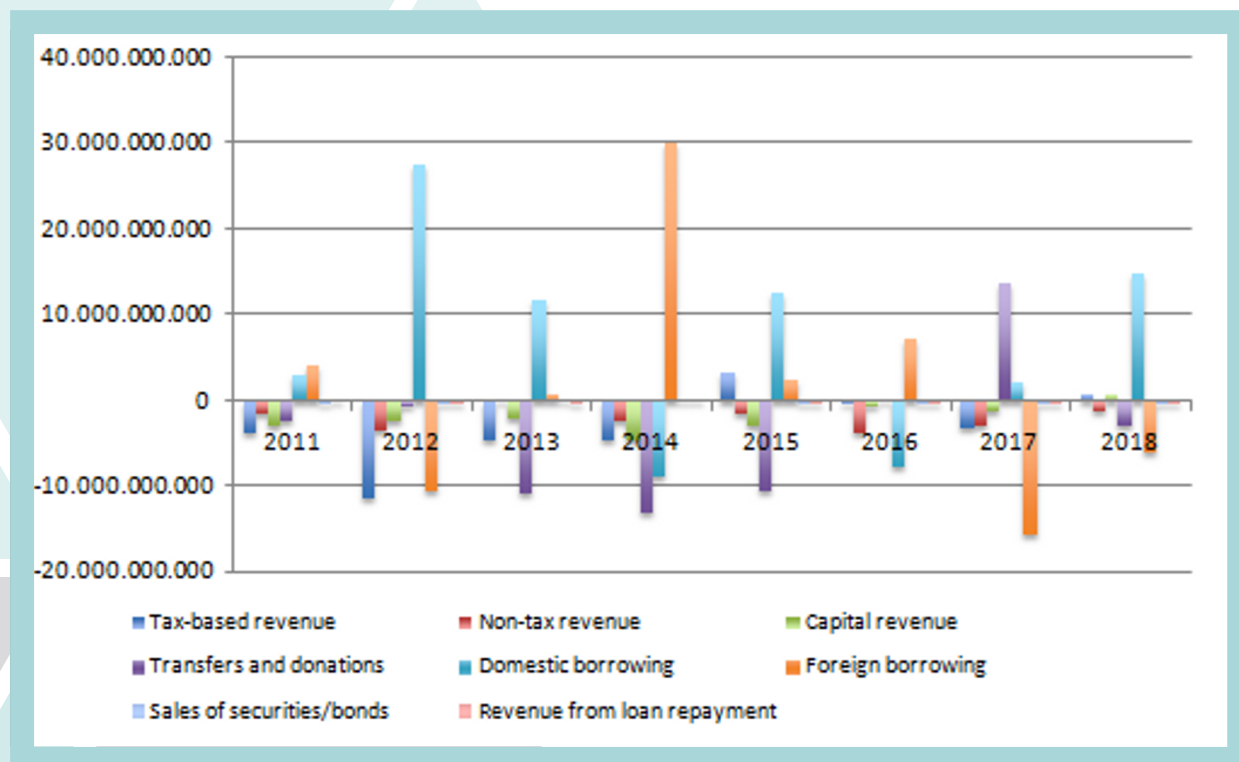


Chart no. 5: Difference between projected and realized public revenue, for the period 2011 -2018, per individual revenue category (in MKD)

7. Healthcare as state function receives significantly lower amount of funds compared to social protection and economic activities

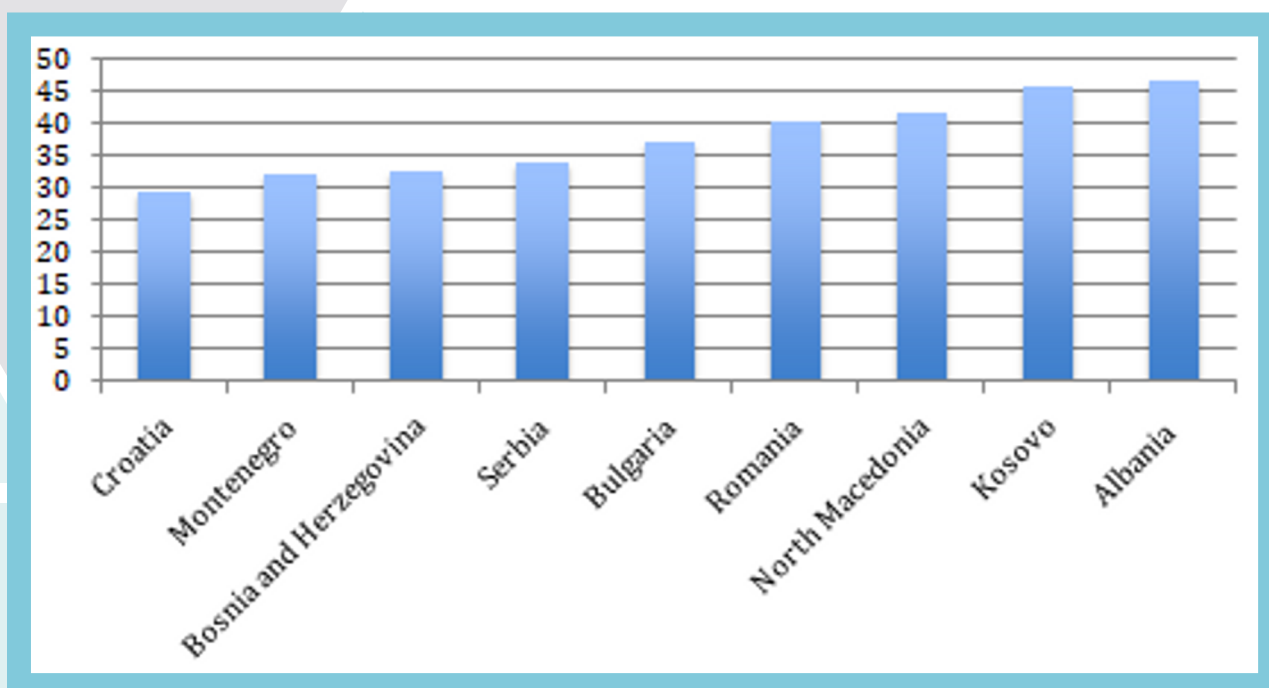


Chart no. 6: Total public expenditures in RNM compared to countries in the region, for 2019 (share of GDP)

Source: International Monetary Fund, World Economic Outlook Database, April 2019

On the account of the national economy's low capacity to produce sufficient revenue that would support overall development and growth, RNM pursues an economic policy of high public expenditure. In 2019, RNM is one of the three countries in the region, together with Kosovo and Albania, marked by the highest share of public expenditure in GDP (42%). Notably, despite the high share of public expenses in GDP and their continuous increase (in 2010, they accounted for 32%), these funds are spent for purposes that do not contribute to full exercise of social and economic rights (see Chart no.6).

Throughout the entire period 2011-2018, the highest share of funds under the Budget of RNM are used for social protection and economic affairs, while remaining state functions, including healthcare, are awarded significantly lower amounts of funds (see Chart no.7).

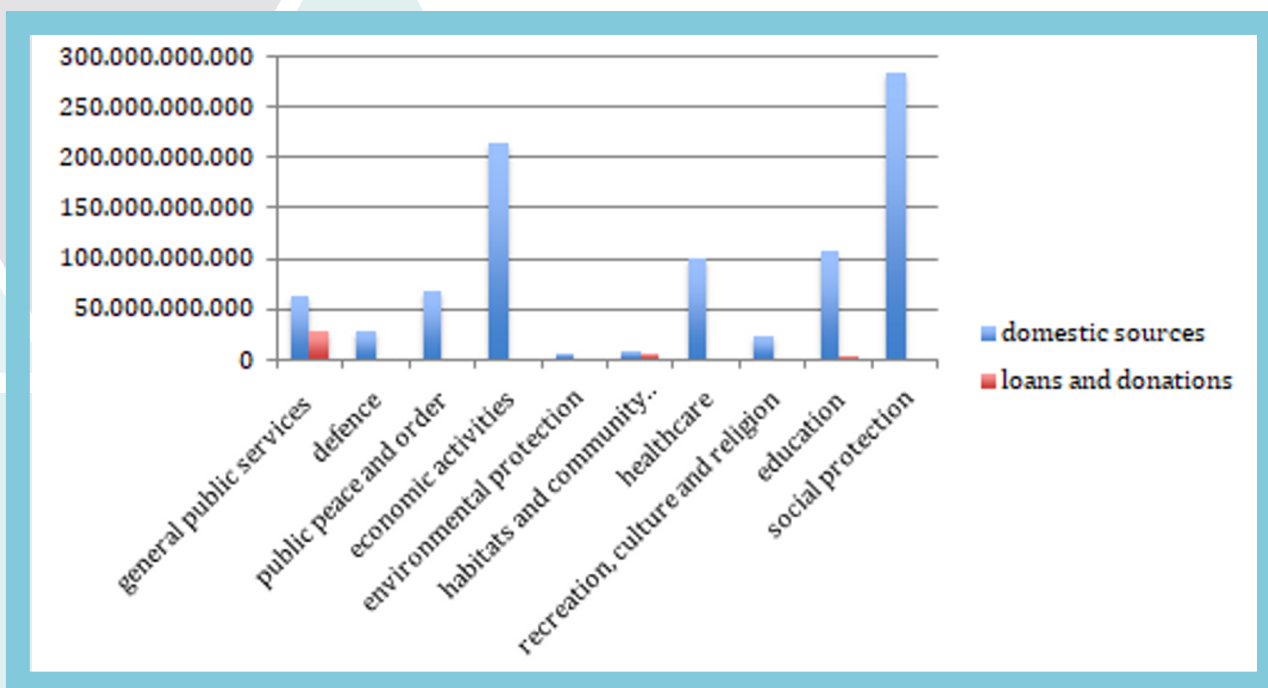


Chart no. 7.Realized public expenditure from the central budget, for the period 2011-2018, per individual budget function (in MKD)

As regards allocation of funds among different public sectors, the biggest amountsof funds are allocated for the Ministry of Labour and Social Policy, Ministry of Finance - state functions, Ministry of Education and Science, Ministry of Interior and Ministry of Defence. Ministry of Health receives a small share of funds from the central budget (see Chart no. 8).

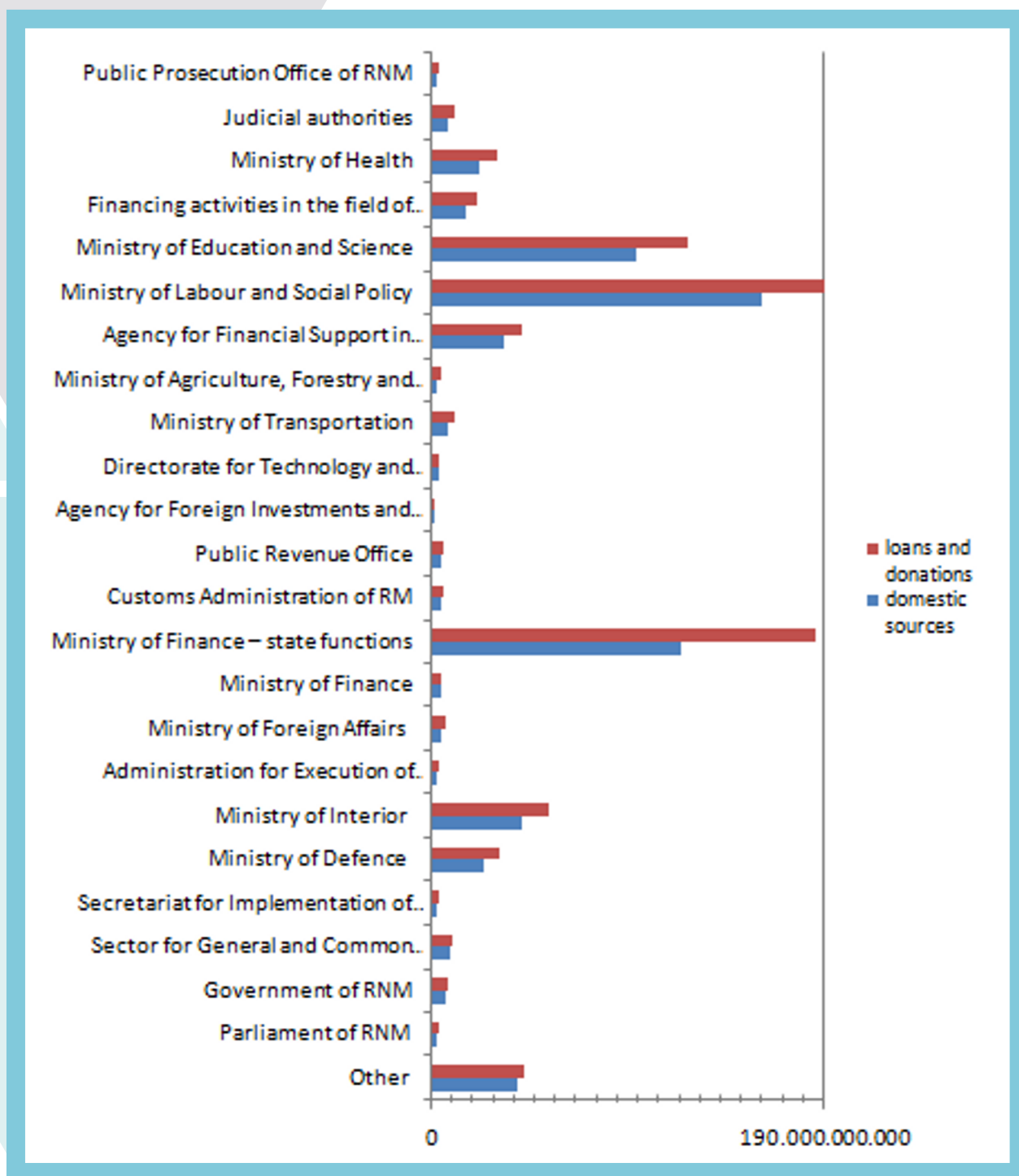


Chart no. 8: Realized public expenditure from the central budget, for the period 2011-2018, per individual budget beneficiary (in MKD)

The highest amount of state budget funds are spent for social benefit payments (social allowance, payments from the Employment Service Agency, payments from the Pension and Disability Insurance Fund and payments from the Health Insurance Fund), most of which are used for payment of pensions and social allowances. Furthermore, high amount of funds are also spent on contractual services, utilities, heating, communication and transport, as well as procurement of materials and small inventory. Another major budget item concerns payment of salaries for public administration employees, and repayment of loan base (see Chart no.9).

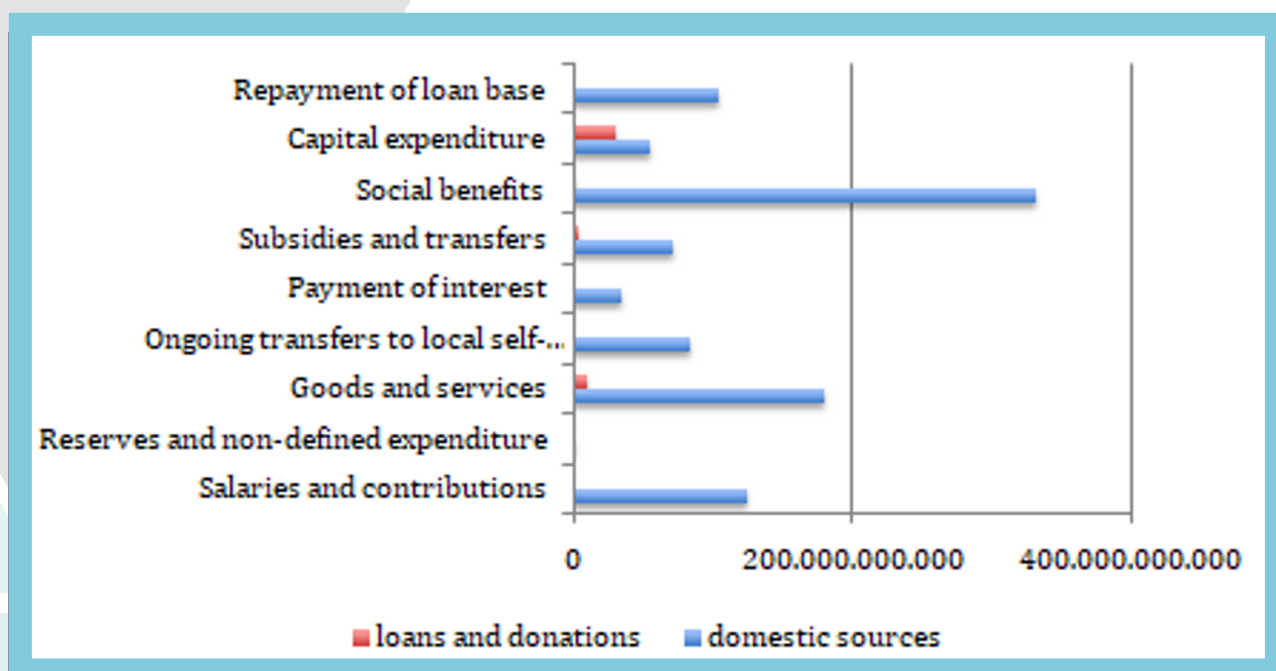


Chart no. 9:Realized public expenditure under the central budget, for the period 2011-2018, per individual expenditure category (in MKD)

8.Statistical reduction of the unemployment rate does not contribute to increased availability of funds for healthcare collected by the state on the basis of employment

Introduction of employment policies that will result in increased number of employees earning income in the amount higher than the minimum salary could significantly contribute to increased amount of available funds to finance healthcare for citizens.

In the period 2011-2018, the annual average amount of funds collected in the Budget of RNM on the basis of social contributions and revenue based on employment (contributions for pension and disability insurance, health insurance and employment) is calculated at 48,628 million MKD. The amount of revenue collected on this basis is marked by continuous annual average increase in the analysed period by 7%. Increased revenue under this budget line should reflect economic development in the state. In RNM, this increase is actually the state's reaction to lack of funds realized on the basis of social insurance contributions, reduced health insurance rate from 9.2% in 2006 to 6% in 2011 and implementation of projects on exempting foreign companies from payment of social insurance contributions ("Macedonia Employs 1 and 2" in the period 2015-2017). Notably, in addition to statistical reduction of the unemployment rate by 10.7 percentile points (from 31.4% in 2011 to 20.7% in 2018) and in order to respond to on-going challenges, the state introduced new methods for collection of public revenue on this basis that should compensate the popular measures promoted before the citizens by increasing the lowest (from 15,145 MKD in 2011 to 17,039 MKD in 2018) and the highest (from 119,316 MKD in 2011 to 545,264 MKD in 2018) basis for calculation of these contributions. This policy was reflected on revenue for health insurance that represents the basic revenue source to finance the healthcare for citizens.

In particular, due to the increased lowest and highest basis for calculation of salary contribution in the period 2011-2018 the Health Insurance Fund's budget has collected an annual average of 22,170 million MKD, marked by average annual increase rate of 7%. In the same time period, due to the lack of funds collected on this basis, and for the purpose of providing basic healthcare service for citizens, the state budget has transferred funds to the Health Insurance Fund's budget in average annual amount of 4,869 million MKD, marked by average annual increase by 17%.

9. What does the government need to do to reduce effects of its microeconomic policies on healthcare services?

Government of RNM needs to demonstrate strong political will to take specific steps aimed to improve its methods on macroeconomic policy planning and implementation, notably due to its great effect on the exercise of citizens' social and economic rights, with special focus on the right to health and healthcare. It is particularly important for the government to make serious reforms that would facilitate economic progress and improved access to healthcare in the long term, instead of planning and implementing populist and short-term solutions that have singular effect and would not bring positive changes in public system functioning. Hence, the government should focus its efforts on:

- improving the capacity of employees at public institutions tasked with macroeconomic and budget planning, with a view to ensure adequate projection of macroeconomic policies and to properly present effects of these policies in terms of budget funds for healthcare;
- improving the capacity of public institutions to increase collection of projected public revenue and realization of projected public expenditure, and thereby ensure that defined annual activities are not be changed, with special focus on healthcare;
- ensuring economic growth in the state, by securing greater share of the public sector in financing state's public functions and reducing citizens' burden for payment of public fees;
- ensuring equitable distribution of funds among different state functions, i.e. reducing funds allocated for the Sector on General and Common Matters at the Government of RNM, Government of RNM, Agency for Financial Support in Agriculture, Ministry of Finance – state functions, etc., and redirecting these funds to the healthcare sector;
- making steps to eliminate inefficient costs and high expenses of small impact in the healthcare sector, and invest these funds to improve the healthcare sector in the state; in particular, the government should reduce expenses for salaries and contributions, procurement of goods and services, and repayment of loan base and interest;
- eliminating all measures intended to "stimulate" the economy, which actually harm the economy and state budget, and consequently limit citizens' access to health service, such as: My VAT, exemption from payment of social contributions for private companies in order to increase salaries for their employees, etc.

In case the above-enlisted recommendations are not implemented, the government should not take any unnecessary steps that could further hinder citizens' access to basic health services in the public healthcare sector. In particular, the government should not resort to solutions such as private-public partnerships in the healthcare system, which has not been proved as positive practices in other countries across the world. This should be taken into account due to the continuous trend whereby the healthcare sector is perceived as profitable venture, tempting individuals and the business sector to increase their influence on creation of public health policies and engagement in provision of health services. The health of citizens depends on more factors that affect the place where they growth, life and work.

RNM's lack of financial capacity to prevent new economic shocks that could lead to deepened economic crisis in the state has forced many governments to seek opportunities for expanding the basis for increased profits earned by market economy participants, by changing the status of the healthcare sector from exclusively public to private. Such approach is primarily a result of continuous influence exerted by neoliberals who believe that the healthcare sector should be based on market logics. In the past years, this trend has led to accumulated wealth in the hands of several people and has prevented citizens to exercise their basic health rights. However, at times of high poverty rate, citizens of RNM are in great need of public health services, but are unable to pay for such services.

For example, with a view to increase efficiency of primary health services (general practitioners, gynaecologists and dentists) the state has privatized primary healthcare providers, as a result of which, instead of increased access to health service for citizens, they actually have limited access to gynaecological services on primary level.

In addition, after several years of investment to educate medical staff and procure equipment for child cardio-surgery health institutions, the Government of RNM overnight took a decision to transfer trained medical staff to a private hospital in the country including the single licenced children cardio sergeant, which was closed after only several years of operation, and the public-private partnership contract is not examined by the State Commission for Prevention of Corruption.

According to international standards, the state is responsible to take all necessary steps to guarantee equality of all citizens in access to health services, as well as improved health status of citizens by eliminating all obstacles that exist or could influence their health status (education, socio-economic position, housing conditions, employment, nutrition, etc.).

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