

BUDGET SPENDING ANALYSIS IN PRIORITY SECTORS IN ALBANIA 2008 – 2013

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Abstract

The financial crisis of 2008, which shocked most of the countries of the world, was transmitted in Albania as an economic crisis. Although our country was not affected by the financial crisis, due to a limited movement of capital and less integration on international financial markets, it had considerable negative consequences. In this context, the Albanian government should take measures in order that the situation not to precipitate. Even though, the government began to manifest problems itself being involved in a debt crisis. The conditions were such that the tax revenues declining year after year, could not finance government spending causing a deepening debt.

The purpose of this paper is to show how the budgetary policies have affected the economy during the crisis, even though the crisis has not yet passed. In this analysis we will deal sectors such as education, health and infrastructure considered as priority sectors by every Albanian government. For each sector we will see the importance that it gets from the government evaluated by weight which makes the budget. Also there will be some comparisons of the government performance on these sectors, with other countries in the region or best practices of European countries. We will finally draw some conclusions and recommendations.

Key Words: Budget priorities, strategic sectors, government spending

JEL Classification: H5, H6

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1. Introduction

Albania as a country, who come from a system of centralized economy was faced with many challenges at the beginning of the transition period. It didn't inherit a genuine system of drafting and implementing the budget so on the first decade of transition there were foreign technical assistance on the issue. After the year 2000 and onwards, our country has significantly improved the budgeting process. Budgetary policies are important because affect directly at the allocation of resources in an economy. Prudent spending and tax policies positively affect indicators such as economic growth, unemployment, inflation, etc.

It is important for these policies to be realistic and to be seen as part of economic development, because in this way they will make a positive contribution. This paper will focus on the budgetary policy of spending as well as on their allocation on the priority sectors. The purpose of this paper is to show how the allocation of government spending in the period 2008 – 2013 was. How is government spending policies adapted to crisis? Is the crisis felt in the priority sectors in terms of spending cuts? Also to have a better idea of the budget allocation on priority sectors, I will refer also to other countries for a comparison.

2. Development of budgetary policies 2008 – 2013

Budgetary policies in Albania have always been focused towards keeping the budget deficit under control. At the beginning of transition since 1991 Albania was suffering from high levels of deficit, which was due to high demand for state spending, inflationist period, the lack of a reliable tax system and a very low percentage of the private sector. During the first decade of transition, Albania has moved back from the problems that led to the growth of the deficit and distortion of other indicators. However, in the mid-2000s, the policy of keeping the deficit under control proved successful, as in 2003 deficit caught at the lowest level since the transition began¹.

One of the main steps towards budgeting process has been the adoption of the Organic Budget Law². This law establishes the principles that will guide the preparation, proposal and approval of the state budget and responsibilities for its implementation. Also includes the placing of a limit on the annual growth of total state existing debt, including any draft agreements, and debts to third parties, taken over by the state. Another innovation in the budgeting process was the application of the Medium Term Budget Program. The process of preparation of this program is governed by the Ministry of Finance, which occurs within a certain spending ceiling for achieving

¹ Relacioni i projektbuxhetit 2012, http://www.minfin.gov.al/minfin/Projekt_Buxheti_2012_2771_1.php

² Ministria e Financave, ligji_organik_i_buxhetit_204_1, www.minfin.gov.al

political objectives in the program as an intermediate step towards achieving the goals and objectives of NSDI³ and sectoral and cross-sectoral strategies. The aim is to ensure a clear link between budget allocations and political objectives in the program, achieving predictability and higher efficiency in resource allocation.

Let's go back to the period that is taken in analyze. Budget spending has fluctuated from 369,034 million lek⁴ or 3,354 million \$ in 2008 to 409,594 million lek or 3,938 million \$ in 2013. The budget spending in 2008 was 34 percent of GDP and in 2013 was 29 Percent of GDP.

One of the main problems during this period was that the government didn't take in consideration the crisis element and this made the budget unrealistic. Predictions of the budget were optimistic compared to the capacity that had the economy. Two were the factors which negatively impacted in the budget. First in 2008 the government undertook a high expense as a result of a significant investment both economically and politically in infrastructure. Public spending increased by 23 percent compared to a year ago. This increase continued even in 2009, while the tax revenues didn't have a significant increase. Second, the crisis was not taken into account by budget policy makers, especially until 2011. Although our country was not affected by the financial crisis, he was affected by the economy crisis. The reduction of income and increase of unemployment in the countries of Europe and especially in Italy and Greece was accompanied by declining remittances and the return of emigrants to our country back. The decline of remittances contributed significantly to the reduction of consumption and investments. Even the banking system suffered the lack of liquidity, while many of banks in Albania are branches or parts of European banks. This constrained loans to the economy. In these conditions, the government revenues that would be collected form taxes felled, which was not reflected in the budget. This resulted in the revision of the budget during the fiscal year because fiscal indicators realized were fleeing more and more from the predictions made for them. This revision of budgets during the time contradicted the law.

Table 1. Government spending on approved budget, revised budget and the percentage change for the period 2008 – 2013 (million lek)

2008			2009			2010		
Approved budget	Revised budget	% change	Approved budget	Revised budget	% change	Approved budget	Revised budget	% change
369.034	360.207	-2.3	384.834	401.512	4.3	410.721	371.767	-9.4
2011			2012			2013		

³ National Strategy of Development and Integration

⁴ Lek – is Albanian currency

Approved budget	Revised budget	% change	Approved budget	Revised budget	% change	Approved budget	Revised budget	% change
409.035	390.654	-4.5	396.922	382.298	-3.6	409.594	405.408	-1.1

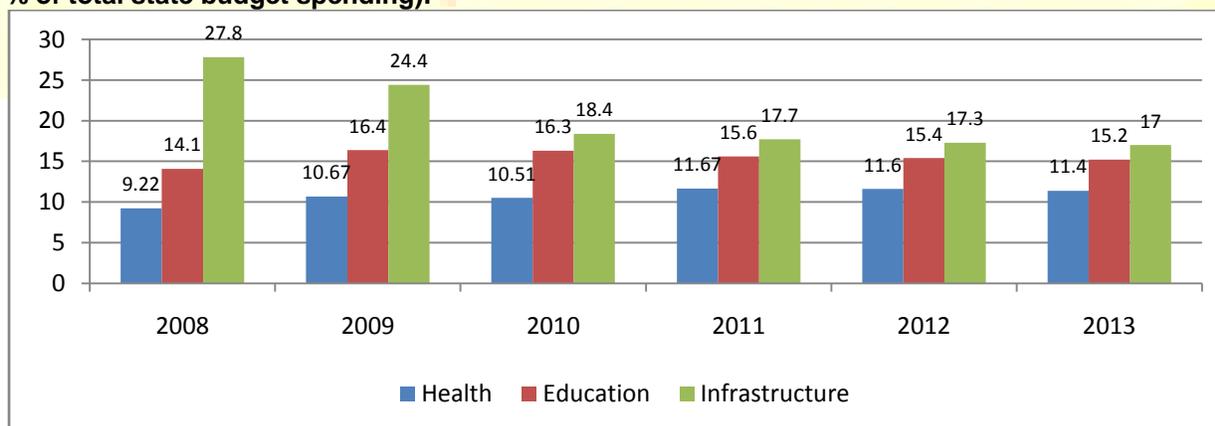
Source: Ministry of Finances, own calculation

As it can be seen from the table, during this period forecasted budget expenditures were outside the context of economic development. The only year in which we had a supplementary budget has been in 2009, during which there has been an influx of capital investment in infrastructure. Increasing budget expenditure during 2009 of 4.3 percent compared to the approved budget will be followed by a policy of spending cuts in the coming years. The year 2010 is the year in which the first symptoms of the economic crisis and the public finances crisis appeared that government spending was reduced by approximately 10 percent during the year due to the inability to obtain sufficient income to finance them. Even during the following years the same budgetary policy occurred.

2.1 Budget allocation on strategic sectors in Albania

Education, health, infrastructure sectors are considered as strategic sectors by any government came to power. One of the main reasons is that these sectors contribute positively to economic growth. Public investment in infrastructure serves as an input for the private sector to generate a higher product. Also spending in education improves the quality of human capital by reducing costs, increasing productivity, increasing output, etc. Education also has positive effects on the development of society, which are regulated through state intervention by increasing access for every citizen. None of the spending in these sectors will give the desired effect, without a healthy society, and therefore the health care is also a strategic sector. Figure below shows the progress of expenditure in these three sectors for the period 2008-2013.

Figure 1. The progress of government spending in strategic sectors for the period 2008 – 2013. (in % of total state budget spending).



Source: Ministry of Finance, own calculation

From the figure is noted that the sector that has the greatest weight in the state budget is the transport sector, whose investments are focused on road infrastructure. During 2008 - 2009, these investments have averaged 30 to 25 percent of the budget and related to the construction of a very important road axis linking Albania and Kosovo. Despite the value and benefits that will bring to the economy and also in the budget, this road was very expensive to Albanian citizens, because it coincides with the beginning of the crisis period. One of the reasons for greater investment in infrastructure compared to the education sector is that the perception of citizens in this sector has a short-term return on investment and a direct impact on their lives for increasing access to important goods including education and health. While the effects of education, that are equally closely related to the quality of life of individuals, have a more distant return and not always very direct.

That after 2009 the share of the education sector spending in the state budget has declined. This decline was stressed in 2011 where spending in the sector were 15.6 percent compared to 16.3 percent of the budget share that it was in 2010. For 2013 the share of this sector has decreased compared to the previous year reaching 15.4 percent of the state budget value. While the spending in infrastructure have been fluctuating depending on road construction, spending on two other sectors were relatively constant with a trend to slightly increasing ranging 2.8 - 3.2 % of GDP for education and 2.4 - 2.8 percent of GDP for health. Although this percentage is not very high, it has decreased beyond these values since the year 2010. This shows that the government has reduced spending even in priority sectors not only because of the crisis, but mainly due to public finance crisis peaked during 2013. This can be seen from the graph above.

Since about 80 percent of transportation spending are directed towards road infrastructure, below there is an analysis of how the government spending are allocated in the two other sectors.

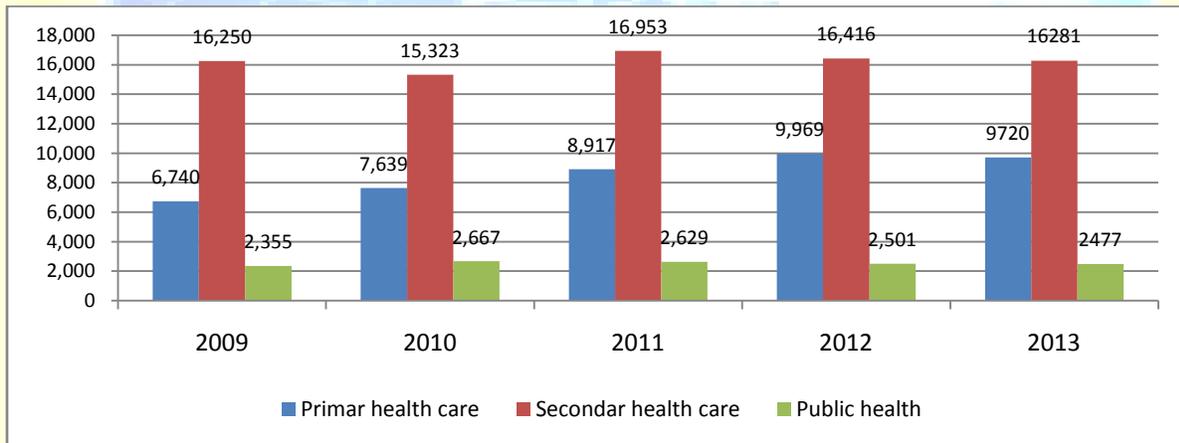
Health Care

Government spending on Health Care sector on the budget of 2013 remains in the amount of about 29 billion lek. Even in terms of GDP this budget remains 2.1 percent the same as last year. Among the main objectives to be realized in this sector are: improving the delivery of primary health services by extending the scheme to 435 of 430 pharmaceuticals in 2012, reduction of maternal mortality by 1/100000 100000 compared with 19 in 2012. Also increase the number of visits / patient contacts in primary care from 10 visits per day / doctor in 2012 to

11 visits / day for doctor. Even coverage of hospital service needs thought to reach 85 percent compared to 84 percent it has been last year and the coverage by vaccines reach 95 percent. No increase in the budget of this sector would make difficult to obtain these objectives.

The budget on health sector is distributed mainly between two major programs that are primary health care services and secondary health care services that use respectively 34 and 56 percent of the budget for 2013. The program of public health services occupies 8.6 percent of the total expenses of this sector. In this, distribution the main weight is held by current spending (93.3 percent), while capital expenditure accounted for only 6.7 percent of the total. This figure is about 3 percentage points lower than last year. About 70 percent of capital expenditures go to secondary health care services and about 25 percent to primary health care. Allocation of government spending under this sector programs in recent years is presented on the chart below.

Figure 2. The progress of government spending according to the programs on the Health care sector (mln lek)



Source: Ministry of Finance

It can be seen that there is no differences on the allocation of spending between the programs through this period..

Education

The budget for the education sector for 2013 is expected to be about 38.4 billion lek. This budget is projected to be as much as 2.7 percent of GDP, compared with 2.8 percent last year has been

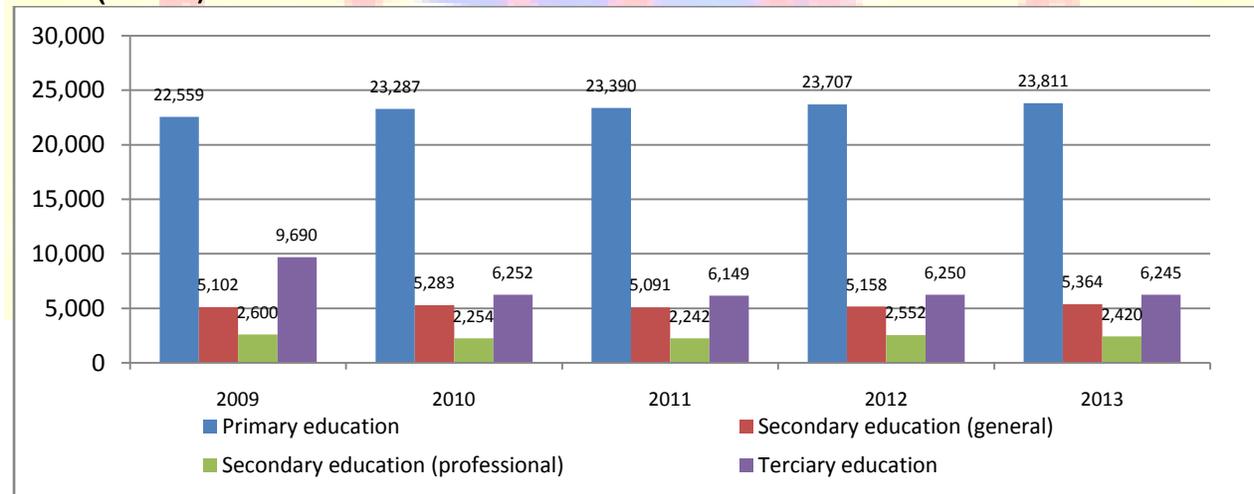
Some of innovation objectives that must implement this budget compared to last year are⁵:

- ♣ Increase the access to 5-year children with 5% in the preparatory classes with 1,600 more children.
- ♣ Improve the standards of infrastructure on general secondary education, through rehabilitation 5-7% of classes and 5% of classes will be built new.
- ♣ Increase the number of students in secondary vocational education even from rural areas of the country supporting by favorable policies and social policies.
- ♣ Professional secondary education aims to enroll 21% of the total enrollment in secondary education.

The sector's budget is divided among four main programs, where the largest share of fund s goes to basic education, which gets about 60 percent of them. 90 percent of these funds will go to current expenditure and only 10 percent for capital expenditures. About 20 percent of expenditures go to secondary school, where the majority, about 70 percent of them goes to the general secondary education and rest of it to vocational education. Higher education receives only 16 percent of the funds to this sector. These funds were cut by one third in 2010 and still stay on the same figures.

The following graph shows how the distribution of spending has changed by programs in the education sector during the period 2009-2013

Figure 3. The progress of government spending according to the programs on the Education sector (mln lek)



Source: Ministry of Finance

⁵ Relacioni I projektbuxhetit 2013, fq 35 http://www.minfin.gov.al/minfin/Projektbuxheti_per_vitin_2013_2358_1.php

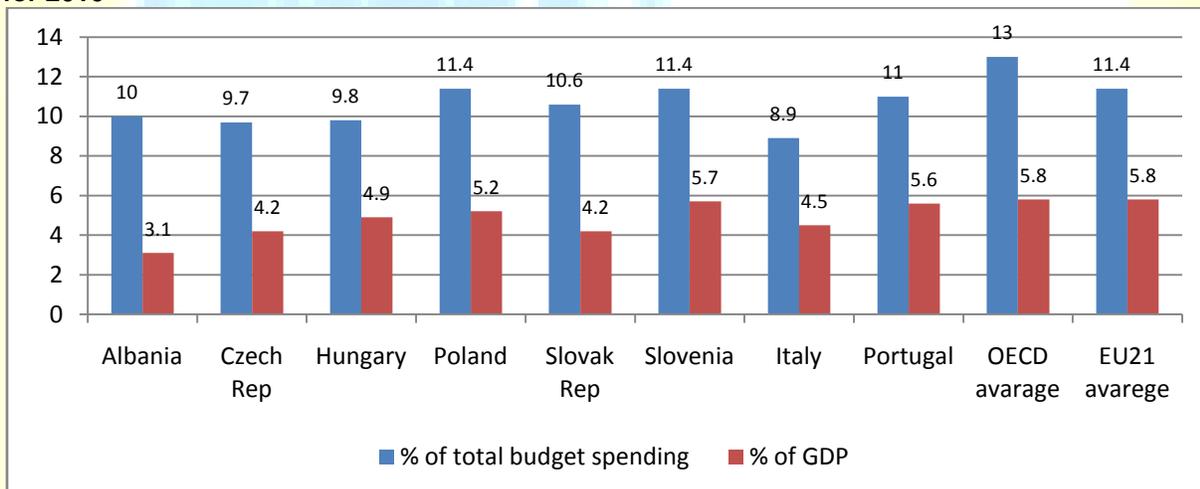
Although two of the objectives of this draft are oriented towards vocational secondary education, the budget allocation to the education sector under the programs noted that this program has taken 5 percent less funding than last year.

3. Budget allocation on strategic sectors on different countries

Decisions about the allocation of spending in priority sectors, is not only related with governments determination of their priorities, but also with the ability of the private sector to invest and to ensure these good for citizens. As mentioned just above, state can provide publicly education by increasing access to the citizens and extending benefits throughout the society.

The graph below presents the expenditure for education as percentage of GDP and the budget for 2010.

Figure.4. **Government spending as a percentage of budget spending and as a percentage of GDP for 2010**



Source: OECD (2013) Education at a Glance, pg 220

If we refer to the value of expenditure spent in education as a percentage of total budgets spending Albania can be compared to the countries of Central Europe. Even this value is higher than that of Italy. But if we refer to the percentage that education spending holds on PBB, Albania is the last classified. This can happen because of the relative sizes of budgets. For example Mexico spent nearly 20 percent of the budget on education in 2010, but only 5 percent of GDP⁶. Also the average of European countries is at 11.4 percent of the budget and nearly 6

⁶ OECD (2013), *Education at a Glance 2013: OECD Indicators*, OECD Publishing. <http://dx.doi.org/10.1787/eag-2013-en>, pg 215

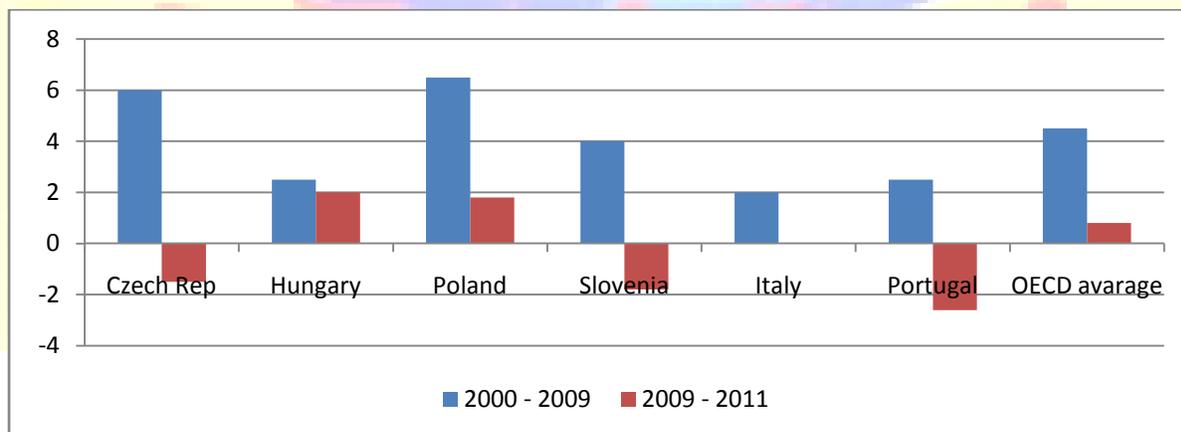
percent of GDP. The country that spends more on education is Denmark. In 2010 the weight of education spending on budget was 15.3 percent or 8.8 percent of GDP.

According to the OECD study the spending in education as a percentage of the budget spending increased by 0.8 point percent in most of the OECD countries for the period 1995 – 2005. But as a percentage of GDP spending on education had a slight decrease by nearly 0.1 point percent. After 2007 the situation changed reflecting the financial crisis. Most of the countries have significant decreases of the share that education spending hold on budget. This situation was different regarding the percentage of GDP which was more stable, because that GDP itself declined due to the financial crisis.

Most of the education spending go for primary and secondary education which are compulsory, but the division of the funds between them and tertiary education is more equilibrated than in Albania. If we refer to the countries on the graph they divide the budget 65 – 75 percent on primary and secondary education and 35 – 25 percent on tertiary education⁷.

Health care spending is another sector which had a good performance during the first half of the 2000 – 2010. While health spending grew on average by close to 5% year-on-year from 2000 to 2009, this has since been followed by a sluggish growth of around 0.5% in 2010 and 2011. Current expenditure on health (i.e., excluding capital expenditure) grew by 0.7% in both years. The drop has been primarily driven by a collapse in the growth of government health spending since 2009 – recording close to zero growth in both years on average⁸.

Figure 5. Average annual growth of public spending in health care 2000 - 2011



Source: OECD (2011), Health Policies and Data, pg 158

⁷ OECD (2013), *Education at a Glance 2013: OECD Indicators*, OECD Publishing. <http://dx.doi.org/10.1787/eag-2013-en>

⁸ OECD (2011), *Health at a Glance 2011: OECD Indicators*, OECD Publishing. http://dx.doi.org/10.1787/health_glance-2011-en

On the other hand Infrastructure systems play a vital role in economic and social development. Increasingly interdependent, they are a means towards ensuring the delivery of goods and services that promote economic prosperity and growth, and contribute to quality of life.

Demand for infrastructure is set to continue to expand significantly in the decades ahead, driven by major factors of change such as global economic growth, technological progress, climate change, urbanization and growing congestion. However challenges on infrastructure increase budget possibilities stay tightened. As a result, a gap is opening up in countries between the infrastructure investments required for the future, and the capacity of the public sector to meet those requirements from traditional sources. This can lead to the involvement of the private sector in this area.

Conclusions

The budgeting process has made positive steps in these two decades. It is oriented in such sectors as infrastructure, education, health that have a positive impact on the economy, although the level of spending is significantly lower compared to other countries in Central and Eastern Europe. This indicates that improvements need to be made regarding the allocation of spending, increasing capacity to provide more funds towards these sectors. Also an indicator that should be improved is the big difference between current and capital expenditure. Besides the transport sector where over 80 percent of expenditures are capital ones, in two other sectors are in a ratio capital/current expenditure is inverted. The current expenditures dominate. Improvement of this ratio will create more opportunities for investment in these sectors. Another problem that has accompanied these six years of budgeting was unrealistic prediction of the situation which has led to a second revision, even third, in some cases, during the budget year. This proves also that there was not a reflection of the economic crisis, because the budget was based on a higher level of real economic growth. To this situation was added the public finance crisis that began in 2009 reaching the peak during 2013. From the above analysis and graphs is noted that the government did not take necessary measures to ease the crisis situation, but we can say that economic policies were outside the context of economic development, even though strategic sectors were affected by public spending cuts because of the crisis.

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