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Mayor's political party affiliation and local outcomes: evidence from SEE

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ABSTRACT

We examine how political-ideological congruence between central and municipal governments affects local governments' budgetary decisions and economic performance in Croatia and North Macedonia. We apply fixed effects models as well as a regression discontinuity methodology, using the margin of victory of the local mayor as the assignment-to-treatment variable in a local linear regression estimation context. The results show evidence of both fiscal laxity and fiscal tightening, post-election, for local authorities aligned politically with the party in government, depending on the national-institutional context. Ethnic divisions and affiliations can play a role in this.

Introduction

A broad international literature exists studying the role of the political party affiliation of city and municipality mayors in influencing the policy performance of local administrations and their socio-economic outcomes (Egner et al. 2018; Gerber and Hopkins 2011). This is linked both to normative aspects (ideology) and to political economy constraints (political competition/congruence) (Ivanovic, Lami, and Imami 2023; Pulatov and Ahmad 2021).

From a theoretical point of view, political alignment theory (Ferraresi and Gucciardi 2022) suggests that subnational governments aligned with the national executive or legislative majority experience lower fiscal restrictions in their spending decisions – either because they may receive preferential funding, transfers, and support from the central government or because politically aligned local mayors may be able to adhere less to fiscal rules (including the irregular settlement of financial obligations). In contrast, mayors from opposition parties may face less favourable conditions and thus may have to depend more on local revenue formation or face stricter budget constraints.

Other theoretical viewpoints (political budget cycles, public choice theory, etc) also offer relevant insights for this relationship, as will be discussed in more detail later.

This paper investigates the impact of the mayor's political-party alignment with the national government (henceforth, party-political congruence) on spending and debt patterns in North Macedonia and Croatia, providing new evidence on the limited literature on the topic in the Southeast European region (Andonoska 2023; Mačkić 2014). We focus in particular on these two countries because their complex political systems and decentralised structures create variations in how alignment may impact local fiscal outcomes. The two countries have different levels of economic and institutional development (e.g. Croatia as a whole EU and Eurozone member and North Macedonia as an EU candidate country), different degrees of inter-ethnic cleavages, and different systems of fiscal decentralisation and local government financing. These factors, in turn, are expected to affect how party-political congruence may influence the structure of spending in local budgets, municipalities' compliance with fiscal rules, and – importantly – their stance on overdue payment obligations (accumulation of arrears).

Our empirical analysis provides a detailed examination of the degree to which political-ideological congruence between central and municipal government affects the budget decisions of local authorities across the two countries. Our main interest is in investigating how local governments are incentivized to draw resources from the central government (e.g. through transfers or discretionary payments) and whether these incentives remain committed to existing fiscal rules or plans (related to planned expenditures and/or deficits). Our underlying assumption is that local authorities with the same party leadership as the central government have lower incentives for fiscal discipline and greater ability to draw additional resources from the centre. We remain agnostic about the additional role that ethnic cleavages and affiliations may play in this, but we allow the data to reveal any relevant patterns.

The paper is structured as follows. After the introductory section, we present the theoretical framework in Section 2 and the institutional and political context of the two countries in Sections 3 and 4. Section 5 contains a description of the data used. We present our empirical approach and discuss the findings in Sections 6 and 7. Conclusions and a discussion of possible paths for future research are presented in Section 8.

Theoretical framework

The theory of political budget cycles in democratic systems indicates that politicians have an incentive to adjust their fiscal policy over the electoral cycle, as they seek re-election (Alesina and Roubini 1992). The argument applies similarly to local government, with incumbents manipulating the scale of expenditures, investments, or debt raised before elections. Congruence here does not play a direct role, but it is easily understood that party-political alignment with the centre can influence the extent to which local budgets and fiscal positions respond to the electoral cycle.

The literatures on intergovernmental fiscal relations (especially in discussions about soft budget constraints, political family effects, and party favouritism) and on the political economy of local budgets provide further theoretical insights as to why partisan congruence (mayor and national government from the same party) may lead to either fiscal discipline or fiscal indiscipline. In the theory of intergovernmental fiscal relations, when local

governments are politically aligned with the national government, they can expect more bailouts or preferential treatment if they overspend, leading to fiscal irresponsibility (soft budget constraints) (Lindahl and Westermark 2006; Solé-Ollé and Sorribas-Navarro 2008). In this regard, alignment creates a moral hazard, with aligned mayors having lower incentives to stay fiscally disciplined if the national government is likely to rescue a party-politically friendly mayor. Political economy gives a theoretical argument in the opposite direction, offering a basis as to why political alignment may lead to better coordination, better fiscal management, and more efficient use of resources by improving cooperation between levels of government. The argument here is that, when aligned, local and national politicians share goals and may work together to maintain good fiscal standing to benefit their mutual party's reputation (Carozzi, Cipullo, and Repetto 2024). At the same time, however, fiscal priorities will differ depending on the ideology of each party. Left-leaning mayors affiliated with progressive or social-democratic parties might prioritise social welfare spending and put pressure on the expenditure side of the local budgets if revenues do not match expenditures. This could increase municipal arrears. Right-leaning mayors may prioritise austerity and/or pro-business tax relief policies, possibly at the expense of social cohesion, reducing social spending but with an ambivalent effect on the overall municipal fiscal stance or at least to the accumulation of arrears (e.g. if spending cuts prevail). To sum up, depending on the political context (e.g. clientelist vs. programmatic systems), partisan congruence can either reduce fiscal discipline (because of soft budget constraints and political favouritism) or improve fiscal discipline (because of better cooperation and common party branding incentives).

Introducing the role of ethnic diversity and possible inter-ethnic conflicts complicates this picture further. Political conflicts over public policies are often fought along ethnic lines or can accentuate ethnic tensions, especially in ethnically fragmented municipalities. In the political economy literature (Alesina, Baqir, and Easterly 1999), party-political congruence and left-right political polarisation can leave ethnic groups under-represented, with municipalities spending less on relevant public goods than they would have in the absence of such polarisation. In an equilibrium model with heterogeneity of preferences (e.g. following Tiebout 1956), citizens from different ethnic backgrounds will sort themselves into local administrations that provide public goods they believe best fit their preferences. As a result, party-political congruence with the central government will accentuate policy conflicts between the centre and specific local administrations, thus influencing also the accumulation of arrears in specific locations (e.g. ethnic minority ones).

A different mechanism for the accumulation of arrears can be predicted based on public choice theory. Here, it is within-municipality ethnic diversity that can lead to more inefficient fiscal policies (and more debt), as local politicians seeking to maximise their utility (e.g. re-election, power, personal gain) may direct public resources to ethnic groups or loyal voters with heterogeneous preferences. Coalition-building in such settings may also be more costly, resulting in more inefficiencies, underfunding, or overpromising, contributing to the accumulation of arrears.

In the intergroup relations literature, group identities (e.g. ethnic, racial) shape social behaviour and political outcomes. A mayor's political alignment might correlate with a particular ethnic identity. Policies benefiting the in-group can marginalise others, deepening perceptions of exclusion. Low trust between ethnic groups (or between citizens and

government) can reduce tax compliance and cooperation, undermining municipal revenues and increasing arrears. Political polarisation along ethnic lines can lead to gridlock or zero-sum politics, making it harder to implement cohesive fiscal policies.

In conclusion, a mayor's political affiliation influences their fiscal and governance strategies, which may result in different levels of municipal arrears depending on their economic priorities and political incentives. These strategies are often mediated by ethnic divisions, especially in diverse cities where ethnic identity overlaps with political alignment. The more politicised and segmented the electorate, the more likely it is that policy will be used strategically to reward or punish groups, which can create both fiscal inefficiencies and social fragmentation.

Empirical studies have confirmed these mechanisms, revealing how partisan leadership influences fiscal policies and intergroup dynamics. Studies suggest several mechanisms through which mayoral political affiliation may influence the accumulation of arrears: spending priorities and budget allocations (de Benedictis-Kessner and Warshaw 2016), debt issuance practices (Gerber and Hopkins 2011), and financial management policies affecting the efficiency of revenue collection and expenditure control (Alesina and Paradisi 2017).

In relation to the electoral business cycles theory, Benito, Bastida, and Vicente (2012) have analysed the impact of the electoral schedule on municipal governments' financial activities in selected Spanish municipalities, providing evidence of increased capital spending in the electoral and pre-electoral years and decreased taxes in the election year, consistent with the theory. Rakhman and Saudagaran (2023) investigated the possibility of a political budget cycle among local governments in Indonesia characterised by limited discretion in revenue generation, high financial dependency, and a low level of debt. The authors found that budget surplus and cash funds were lower before election years, confirming the relatively higher government expenditures by incumbents in the years preceding an election. A study examining political budget cycles in conjunction with the impact of political alignment in a multi-level governance setting is the study of Lee, Min, and Park (2024) for South Korea. The authors found that, prior to local elections, transfers by the central government increased significantly in non-aligned municipalities located in aligned regions, resulting in an expansion in the regional share of votes received by the ruling party. Filipiak and Kluza (2022) analysed political budget cycles for Polish municipalities, looking at local government investments. Their analysis showed that the election cycle is a significant factor explaining the behaviour of local public investments, with increases of over 20% around election years compared to their average level.

A body of literature seeks to evaluate more directly the effect of a change in local government on local public policies. Wolman, Strate, and Melchior (1996) showed that in the U.S., newly elected mayors changed spending more than those re-elected, but the differences were relatively small; while Morgan and Watson (1995) found that the political power of mayors in American cities does not influence city spending. Gerber and Hopkins (2011) found that cities that elect a Democratic mayor spend a smaller share of their budget on public safety, a policy area where local decision-making is high, than cities that elect a Republican or an Independent mayor. Contrarily, they discovered no differences in tax policy, social policy, and other areas where the city government is responsible. de Benedictis-Kessner and Warshaw (2016) investigated the influence of

the political affiliation of mayors in medium and large American cities in almost 1,000 local elections over the past 60 years. Their results indicate that the mayor's political affiliation has a significant impact on budget spending, with Democratic mayors spending significantly more than Republican mayors and taking on more debt. Finally, Jimenez, Ke, and Hong (2024) explored the relationship between mayoral partisanship and municipal fiscal health, finding that cities with Democratic mayors bring improvements in budgetary solvency, which could be linked to better management of arrears (governments can simply postpone payments for certain obligations to make it appear that the fund is balanced).

To examine which mayors are more fiscally responsible (candidates for mayor on the independent list of citizens or party-affiliated mayors) in Italian municipalities, Gamalerio (2020a) adopted a regression discontinuity design analysis (RDD). Their results indicated that party-affiliated mayors are more fiscally responsible, which means they run lower deficits, accumulate less debt, and reduce expenditures. Lind (2020) tested an instrumental variable approach using rainfall as an instrument and showed that, in Norwegian local elections, potential left-wing voters almost certainly will not vote when it rains on election day, while this is not true for right-wing voters. Due to rainfall, the strengthening of right-wing political parties shifts city budget expenditure towards education but reduces overall public spending in cities. Pettersson-Lidbom (2008) found that Swedish local governments from left-wing political parties spent and taxed 2-3% more than right-wing local governments. A similar result was obtained more recently for Norway (Fiva, Folke, and Sørensen 2018); while for the USA, Levine Einstein and Glick (2018) have confirmed that political party affiliation explains much of the variation in the mayor's tendency for redistribution. For a developing country context, Gouvêa and Girardi (2021) have shown a similar pattern, indicating, however, that in that context, the ability of local governments for distribution is strictly limited by institutional constraints and re-election fears.

A special area of research refers to differences in public spending, level of borrowing, and debt repayment between mayors from different political parties (de Benedictis-Kessner and Warshaw 2016). Studies on the role of local-level political partisanship in influencing fiscal policy (with specific attention to local government debt, accumulation of arrears, and spending patterns) have been conducted for several countries. Research conducted in Italy has shown that party-politically congruent mayors tend to experience better financial outcomes, including higher credit access and less accumulation of arrears (Gamalerio 2020a; 2020b). Similar conclusions were reached for France by Pérignon and Vallée (2017), while Gouvêa and Girardi (2021) found for the case of Brazil that party-political congruence can lead to more efficient fiscal policies, including lower arrears, especially during periods of fiscal stress.

Other studies indicate that political congruence results in higher local public expenditure (Gerber and Hopkins 2011). This is typically seen through increases in fiscal transfers from the central government to municipalities, especially in areas like public infrastructure, social programmes, and economic development. Gouvêa and Girardi (2021) showed that Brazilian municipal governments ideologically aligned with the national government were more likely to receive increased financial support, leading to higher public spending. Portuguese municipalities aligned with the central government receive 19% more targetable transfers than unaligned municipalities (Migueis 2013).

The evidence for the particular case of cities in Southeast Europe also shows that mayoral alignment with the national government positively impacts local public expenditure. Politically congruent local leaders are often better positioned to realise more resources from the central government, leading to higher levels of local spending on public services, infrastructure, and development projects. However, the exact nature of this effect can vary depending on national political contexts, local fiscal autonomy, and specific institutional arrangements. Empirical studies suggest that mayors aligned with the nationally dominant or ruling political party may receive more funds from the central government in many countries. Coman (2018) has shown this to be the case in Romania, indicating also that mayors aligned with the national government are more likely to be favoured in budget distribution. Andonoska (2023) tested the relationship between local elections and local government budgets in North Macedonia. Her analyses showed that spending during the pre-election period shifts towards employment, capital projects, individual transfers, and subsidies. The SIGMA and OECD (2023) study offers a comparative analysis of local government systems in the Western Balkans. It highlights the role of partisan alignment between local and national governments in shaping local policy and spending decisions. While the study does not directly address the question of mayoral alignment, it suggests that local governments, particularly those in opposition to the national government, often face challenges in securing adequate financial resources, which can hinder their ability to allocate funds for key projects. Bartlett, Kmezić, and Đulić (2018) analysed several Balkan countries, including Serbia, Montenegro and North Macedonia, and found that although political alignment can affect the distribution of national transfers, the degree of centralisation and the specific political environment often overshadow the effect of alignment, making resource allocation highly discretionary based on central political priorities. In their research, Kmezić et al. (2016) focus on how political alignment affects fiscal decentralisation in the Balkan context, especially in Montenegro. They find that local governments aligned with the national government tend to receive more in grants and national transfers, which helps them increase public spending in key areas like social services, infrastructure, and development. According to research conducted by Radovanović (2016), political alignment between local authorities and the national government affects the distribution of financial resources to local municipalities in Serbia. The study found that aligned local governments are more likely to receive larger transfers for public projects, especially infrastructure, than those controlled by opposition parties, confirming the hypothesis that party alignment leads to higher local public spending. For Croatia, Mačkić (2014) showed that a political-budget cycle exists at the municipal level, and that party-political congruence affects public spending (with public spending increasing when municipal and national executives share the same party ideology). A paper by Bojičić-Dželilović (2011) explores the impact of political structures in Bosnia and Herzegovina, marked by ethnic political divisions and a complex power-sharing arrangement. Her study indicates that political alignment between local and national governments (along ethnic or party lines) significantly impacts local public expenditure, with aligned governments having access to more resources for local projects.

For the two specific empirical cases that are of interest to this study (Croatia and North Macedonia), there is also relevant evidence suggesting a high degree of indebtedness for

local municipalities and cities, which affects the quality and extent of local service provision. This has been argued for Croatia in a study by Bajo and Bronić (2007), while Ott and Bronić (2016) provided further evidence about the level of indebtedness of Croatian cities. In turn, research on the indebtedness of municipalities in North Macedonia (Moneva and Trenovski 2021) has shown that debts consist of three main categories: debts that must be repaid by the local self-government, debts guaranteed by the local self-government, and debts from which the local self-government can be freed. Media reports also warn that municipalities in North Macedonia borrow without criteria and mayors have no control over spending money (CIJ-Macedonia 2019).

It is frequently pointed out in the media that the criteria for planning grants to cities and municipalities from the state budget often change, which affects the realisation of total revenues in city budgets and the provision of local public services (Gavranović 2023; Gruevski and Gaber 2023; Korda 2024). A special challenge is the unpaid obligations of utility companies whose founders are cities and municipalities, which are continuously growing at the level of local self-government units in the analysed countries. Total gross local government debt consists of all accumulated liabilities for loans and issued guarantees (for utility companies' borrowings) and arrears. Due to the expanded scope of local government liabilities, which include direct loans, potential liabilities (guarantees), and arrears, local government debt significantly increased due to increased guarantees and arrears (Bajo and Primorac 2010). As a result, research and strategic documents highlight the importance of taking care of debt, fiscal risks, and fiscal rules for local self-government units in Croatia and North Macedonia (Bajo and Primorac 2014; Government of the Republic of North Macedonia 2020).

This literature, as well as official budget data, shows that the growth of arrears is a significant challenge for cities and municipalities in Croatia and North Macedonia. In our research, we wanted to investigate to what extent the mayor's political affiliation affects this, as well as the overall compliance with fiscal discipline and fiscal rules. For this reason, in our analysis, we considered election cycles at the local and parliamentary levels. We wanted to investigate to what extent our hypothesis can be confirmed or rejected by analysing two situations: (i) when the elected mayor is from the same political party as the majority in the national parliament, and (ii) when the elected mayor and the majority in the national parliament do not belong to the same political party.

Therefore, the main hypotheses this study aims to test are as follows:

H1: Local governments with the same party leadership as the central government have less incentive to take care of debt and fiscal rules.

H2: Higher levels of ethnic fragmentation in a municipality are associated with lower levels of fiscal discipline, measured by larger budget deficits or higher arrears and a greater ability to attract additional funds from the state government budget due to economic inefficiencies coming from heterogeneity of preferences.

The rationale for these hypotheses is in the available scientific literature and case studies that present that the choice and implementation of local public policies, especially those related to local finances, the level of taxation, the structure of revenue and expenditure in the city budget, as well as borrowing, is influenced by the political party affiliation and the political orientation of the city mayor.

In our research, we started from the assumption that ethnic fragmentation in municipalities leads to more difficult coordination of public policies, including fiscal ones. Local fiscal results are not satisfactory because they result in zero-sum games among ethnic groups, inefficient provision of public services, and thus, the creation of larger unpaid obligations in the municipality. Political outcomes often result in greater dependence of municipalities on state transfers to stabilise the municipal budget.

Therefore, we tested the above hypotheses in our research based on theoretical mechanisms linking the political affiliation of mayors in ethnically fragmented municipalities to how party leadership shapes fiscal policy and intergroup relations. Empirical studies confirm that mayoral preferences affect municipal spending, debt accumulation, and resource allocation among ethnic groups. Ethnic diversity within municipalities can influence fiscal policies and the distribution of resources. Politicised ethnic leaders may tailor policies to appeal to specific ethnic groups as per the specific ethnic preferences, thus exacerbating divisions across ethnic lines. In such a set-up, ethnic fragmentation opens up for zero-sum games between the politicised ethnic groups, reduces the efficiency of public goods provision, and potentially leads to inefficient provision of public services, lowering fiscal discipline and leading to potential fiscal stress (Alesina, Baqir, and Easterly 1999). On the other hand, ethnically divided or politically fragmented localities depend more on state-level patrons for resources. State governments often exploit this dependence for political control, allocating extra funds to troubled or divided cities (Gibson 2005). Dahlberg and Johansson (2005) showed that ethnically divided municipalities can often attract more transfers from governments as politicians "buy" loyalty by promising financial help.

Ethnic fragmentation, fiscal stress (arrears), and political behaviour around external funding (government transfers) are central themes in other studies illustrating how mayoral partisanship influences municipal fiscal policies and intergroup relations, particularly in ethnically diverse contexts. Tranchant (2008) analysed the relationship between budgetary decentralisation, institutional quality, and ethnic conflict. The study found that fiscal decentralisation could help accommodate ethnic minorities by granting them considerable policy-making authority, potentially influencing fiscal discipline and the allocation of resources. Reingewertz (2015) analysed Israeli municipalities and found that political fragmentation affects fiscal outcomes differently across ethnic groups. In Arab municipalities, where residents vote based on clan affiliation, low levels of political fragmentation were associated with large debts. Conversely, in Jewish municipalities, low levels of political fragmentation were linked to small debts, as coalition formation required less spending and was easier to sustain. Tanaka (2025) found that municipalities in Bosnia with ethnic party dominance often increased employment as a form of patronage, rewarding electoral support. This practice was more pronounced when the same party controlled the municipality and the canton. Nikolov (2018) examined the efficiency of North Macedonian municipalities in service delivery and found that ethnic fragmentation negatively impacted cost efficiency. Municipalities with higher ethnic fragmentation tended to be less efficient in providing services, which could indicate challenges in fiscal discipline.

In the following two sections, we elaborate further on the institutional and political context of local-level fiscal governance in the two countries.

Institutional context

Croatia has a moderate level of decentralisation compared to other European countries, while North Macedonia has a low level of decentralisation compared to many Western and Northern European countries (Swianiewicz 2022). Croatia has a unitary system. Since the early 2000s (especially after the 2001 reform), Croatia has decentralised some powers to counties, cities, and municipalities. However, the central government controls finances and important policy areas (education, health, and social welfare). Local governments mostly rely on central transfers rather than generating their revenue, limiting absolute autonomy. Compared to Europe, Croatia is less decentralised than EU countries like Germany or Spain, but more decentralised than highly centralised states like Greece. North Macedonia is also a unitary country. Major decentralisation reforms happened with the Ohrid Framework Agreement (Organization for Security and Co-operation in Europe 2001), after ethnic conflicts. Municipalities were given powers over education, urban planning, local economic development, and cultural affairs. Ethnic representation and local autonomy were significant drivers for this decentralisation. However, fiscal decentralisation is limited: municipalities often lack strong financial resources and remain dependent on the central government. Compared to Europe, North Macedonia is one of the less decentralised countries, more centralised than Croatia.

Based on Stafa and Prorok (2025), the basic indicators of decentralisation for 2023 were as follows: local government revenue as a percent of public revenue was 16.4% in Croatia and 15.9% in North Macedonia (23.8% in the EU); local government revenue as a percent of GDP was 7.6% in Croatia and 5.6% in North Macedonia (10.8% in the EU). In the structure of local government revenues for 2023, the share of own revenues was 24% in Croatia and 27% in North Macedonia (the share of own revenues in the EU was 32.4%); the share of shared taxes was 46% in Croatia and 10% in North Macedonia, the share of general grants was 8% and 4% respectively and the share of sectoral block grants was 0% and 58% (the share of all types of grants in the EU was 67%). The share of investment grants was 21% in Croatia and 2% in North Macedonia.

In both countries, electoral cycles are deeply intertwined with political and institutional dynamics shaped by their transitional democracies, patterns of political patronage, Europeanization pressures, and relatively volatile party systems. Electoral incentives and political patronage exist in both countries. Both countries have experienced persistent patterns of clientelism and state resource politicisation. Politicians may have strong incentives to increase distributive spending, public sector hiring, or clientelist benefits before elections to consolidate electoral support. Thus, before elections, one might expect heightened political manipulation of institutions, more populist rhetoric, and increased public expenditures. After elections, there may be more space for technocratic governance or policy retrenchment.

Volatile party systems and strategic behaviour are similar in Croatia and North Macedonia. Both countries have relatively fragmented and dynamic party systems. In such contexts, elections are often high-stakes events with high uncertainty. This volatility can amplify the tendency of parties to act opportunistically before elections and to negotiate coalitions or shift policy positions after elections. Thus, electoral cycles could moderate political behaviour in ways that differ from more stable party systems.

Respecting EU conditions and international pressures in both analysed countries is crucial during election cycles. Both countries (especially during periods of active EU accession processes) face external pressures to maintain democratic standards, combat corruption, and strengthen the rule of law. Political actors might strategically comply with these norms after elections, when they are less concerned about short-term voter backlash. In contrast, leaders may prioritise domestic political considerations over expectations before elections, leading to weaker institutional performance or norm evasion. Thus, the electoral cycle interacts with domestic dynamics and international pressures in complex ways.

Public expectations and democratic consolidation are important for transitional democracies like Croatia and North Macedonia because public trust in institutions remains fragile. Politicians may respond to shifting public expectations around elections by engaging in populist measures or symbolic reforms before elections to boost legitimacy, while neglecting deeper reforms afterwards. Thus, the electoral cycle can moderate political behaviour through elite strategies and public demand dynamics.

North Macedonia

North Macedonia is a parliamentary democracy with a one-tier local self-government. There are 80 municipalities, and the city of Skopje is a special local self-government unit comprising 10 of these 80 municipalities. Mayors and local councils are elected in local elections, and regular local elections are organised every four years. The latest local elections in our sample were organised in 2021. Before 2021, local elections were organised in 2017 and 2013.

In North Macedonia, local and national politics are fragmented along both political and ethnic lines. Ethnicity in North Macedonia is politicised, and there are Macedonian, Albanian, Serbian, and Turkish political parties, as well as political parties of Roma people participating in the local elections. Ethnicity is politicised when political coalitions are organised along ethnic lines, or when access to political or economic benefits depends on ethnicity (Fearon 2008), as in North Macedonia.

Nikolov and Brosio (2015) and Nikolov and Hrovatin (2013) find that ethnic fragmentation harms municipal efficiency in North Macedonia. Nikolov and Brosio (2015) also find that in North Macedonia, the same political affiliation of the mayor with that of the central government coalition positively impacts municipal efficiency. This does not come as a surprise because in North Macedonia, it is common for mayors with a political affiliation opposite to the central government to delay projects in their municipalities because of the likely adverse influence of the central government's decisions on local matters. This finding confirms that a positive effect on municipal efficiency might occur simply because the same political affiliation of a mayor with that of the central government leads to cooperative solutions instead of fighting zero-sum games. Mayors and municipalities affiliated with the ruling national coalition may be rewarded by the centre's collaborative attitude towards their loyalty in local elections. Namely, in these municipalities, the "partisan and nationalised" approach in local elections prevails over the "personalised and localist" approach, where assessment of local affairs is crucial (Martínez Fuentes and Ortega Villodres 2010).[1]

Evidence also suggests (CEA 2022) that during the campaigns of the Macedonian local election, mayors talk more about national-level problems than local problems (the local

preferences are hence not revealed). Most importantly, central-level politicians are more active in local elections than local politicians because local elections are seen as nothing more than a rehearsal for the parliamentary election. Thus, the power rests in the centre and will likely lead to lobbying, continuous bargaining, uncertainty, conflict, and economic fluctuations in the central and local governments' relations (given the high fiscal dependency on the central government transfers). Fiscal transparency, although improving in recent years, is still at the level of informing citizens about the decisions already made rather than consulting/participating and/or delegating decision-making power to citizens (CEA 2023a; Murray Svidronova et al. 2024). All this arguably encourages clientistic behaviour and preferences in municipalities where the mayors have the same political affiliation as the central government (CEA 2023b).

Croatia

Croatia is a unitary state, a parliamentary, representative democratic republic, with three levels of government: national, regional (20 counties), and local level (428 municipalities and 127 cities, 24 of them have the status of large cities). The Croatian capital, the City of Zagreb, has a special status, having the competencies of the city and the county. The total number of sub-national governments is 576.

The Law on local and regional self-government (adopted 1992), with many amendments to date, regulates the responsibilities of the executive (city mayor) and representative bodies (city council). Cities perform tasks of local importance that directly meet the needs of citizens. The insufficient fiscal, human, and organisational capacity of local self-government units and the affiliation of most municipalities and cities to groups of assisted (underdeveloped) areas, measured by the development index (IRMO 2010), are topics that gain more and more importance as the parliamentary and local elections approach.

Although the parliamentary majority was changed after the parliamentary elections held in 2011 and 2015 and mainly remained stable after the 2016 and 2020 elections, the existing local self-government units and their scope of activities did not change. There were, however, some changes in the financing of local self-government, for example, changes in the share of personal income tax that belonged to local self-government and changes in the method of calculating fiscal equalisation funds intended for local self-government.

In July 2022, the Croatian Government introduced financial grants (incentives) for the voluntary functional (joint provision of public services) or actual merger of local units. During the last two years, no single actual merger of municipalities or cities took place. However, municipalities have a certain interest in using incentive funds from the state budget to provide public services by establishing a joint public institution (e.g. a kindergarten or a utility company).

Political context

North Macedonia

In 2016, the political wiretapping scandal resulted in North Macedonia being qualified as a partially free country by Freedom House (2016), which stated: "VMRO-DPMNE (a right-

wing political party on power) broadly undermined democracy and rule of law in 2016, leading the European Commission to dub the ruling party's style of governance 'state capture' in the EC progress report for Macedonia".

After the massive scandal with the wiretapping, opposition protests, and the European Commission's view on electoral transparency and the level of state capture in Macedonia (European Union 2015), early parliamentary elections took place in 2016. However, on April 27th, 2017, around 300 people from the nationalist Association for a Common Macedonia stormed the Assembly to prevent the election of the new President of the Assembly. Ultimately, a new government was established in 2017 led by the SDSM (a left-wing political party) and building a coalition with the Albanian political party DUI, which has been in power since 2002 (except for a short period between 2006 and 2008). With the 2016 elections, the regime led by VMRO-DPMNE was replaced with a new government led by SDSM. It is within this context that the 2017 local elections were organised. In these 2017 local elections, the ruling coalition won 64 out of 80 municipalities. Thus, the local elections turned around the lead at the local level, mainly from VMRO-DPMNE to SDSM, e.g. mirroring the political context and sentiment at the central political dynamics.

After the failures in the economic sphere, reversed transparency and accountability erosion, growing corruption scandals and the unpopular change of the name in the Constitution due to the dispute with Greece, the government started to lose the support from the public, thus losing the majority of municipalities in the local elections of 2021 and winning only 26 local governments with congruent mayors.

Croatia

In the period analysed from 2010 to 2020, political parties in power changed twice, which caused frequent modifications in the funding of cities. The first modification relates to the change in the share distribution of the personal income tax (PIT) revenue, which is a shared revenue between municipalities, cities, and counties. PIT revenue is the most crucial source in city budgets, accounting for 53% of total revenue (2023). Cities do not have fiscal autonomy to determine their participation in PIT revenues because the Tax Administration of the Ministry of Finance determines the share of their participation. The second modification concerned the change in the methodology for calculating grants from the state budget (equalisation funds) determined by the Minister of Finance by decision for each budget year. Finally, local government units are evaluated and ranked according to the development index every three years. Based on the ranking, municipalities and cities whose development index is below the national average are classified as supported (underdeveloped) areas and thereby achieve tax benefits and special treatment in obtaining grants from the state budget. The methodology for calculating the development index was changed in 2018.

Data

North Macedonia

We collected political, financial, and demographic data for all 80 municipalities in North Macedonia. Political data are from the Macedonian State Election Commission for the

2013, 2017, and 2021 local elections. They comprise a share of voters per political party, including those of the independent candidates. We worked with data from the second round of the elections to pick up the winners in the final voting rounds (if the winner is not selected in the first round). We distinguish among mayors who have the same political affiliation as most of the central government with a dummy variable. The demographic data covers the ethnic affiliation of the mayor elected per municipality. The source for financial data is the Treasury of the Ministry of Finance. They include municipal current expenditures (measured as a share of total expenditures) and the level and annual percentage change of arrears (i.e. unpaid bills and contracts). While our data on arrears contain some missing values (due to the fact that the Ministry of Finance collects arrears information on a self-declaration principle), they still are important to consider because they form a large part of "discretionary" expenditure for municipalities, as municipal authorities often choose to be late in payment to service providers when the face financial pressures.

Croatia

In this analysis, we used demographic, financial, and political data for 127 cities in Croatia. The demographic data cover population size by city based on Censuses conducted in ten-year intervals (2011, 2021) and analysed by the Croatian Bureau of Statistics. For other years, estimates of the number of inhabitants by city are provided by the Croatian Bureau of Statistics.

Financial data on revenues and expenditures by city come from the financial reports of local self-government units from 2010 to 2020, administered by the Ministry of Finance. Revenue data contains data on city operating revenues by source (own, personal income tax, grants) and nonfinancial assets (capital revenues), as well as borrowing and total revenue. Expenditure data includes operating expenditures by source (compensation for employees, use of goods and services, financial expenditures, subsidies, grants, allowances to households, other expenditures) and consumption of fixed capital (capital expenditures), as well as loan repayments and total expenditures. We also use data on arrears (i.e. unpaid bills to creditors), administered by the Ministry of Finance.

Political data concern the local elections held in 2013, 2017, and 2021 and come from the State Election Commission of the Republic of Croatia. They comprise the share of votes per political party, including those of the independent candidates. We work with data from the second round of the elections to select the winners of local elections (if the winner is not selected in the first round).

Empirical approach

As stated earlier, we want to examine the role of municipal government party affiliation on a series of local-level outcomes. Our main dependent variable is the accruance of arrears by local administrations. Given the sparsity of other data concerning public finances (e.g. share of municipal spending on education, total discretionary borrowing, discretionary tax rates, etc), the size of local government (e.g. number of employees) and local socio-economic outcomes (e.g. local area employment growth, local crime rates, business birth/death rates, etc), this variable represents a good measure of the laxity or tightness of local public finances and the ability of municipal administrations

to run a debt. It thus links directly to our central question, concerning the role of political party affiliation (congruence) on the policy performance of local administrations. We examine the influence of political party affiliation on municipal authorities' arrears both in their levels (in logs) and as a rate of change (year-on-year). We also experiment with an alternative dependent variable, namely the share of municipal expenditures that concern operational costs (consumption).

Our empirical investigation uses a mixed research design. We start our analysis with a simple model that includes two-way fixed effects for the election year and for each municipality in each country. This allows us to estimate the effect of congruence on municipal finances net of influences that have to do (a) with the political orientation of the party in government at the national parliament (e.g. whether the central government is at the left or right of the political spectrum – election fixed effects) or (b) with the particular specificities of the municipalities (e.g. whether municipalities of different types and fixed characteristics – rurality, mountainous, agricultural, etc – have a natural tendency to accumulate more arrears – municipal effects). To some degree, this design softens concerns about possible endogeneity in our obtained results.

To strengthen further our investigation, towards ensuring a causal interpretation, we borrow from Ferreira and Gyourko (2009) and Gamalerio (2020a), who have examined similar questions for the USA and Italy, and apply a regression discontinuity methodology (RDD), using the margin of victory of the local mayor as the assignment-to-treatment variable in a local linear regression estimation context. Thus, our extended regression model takes the following form:

$$Y_{it} = b_0 + b_1 C_{it} + b_2 M_{it} + b_3 M_{it}^2 + b_4 M_{it}^3 + b_5 C_{it} M_{it} + b_6 C_{it} M_{it}^2 + b_7 C_{it} M_{it}^3 + G_i + E_t + e_{it}$$

where Y is the dependent variable of our choice, C is a dummy variable taking the value of 1 if the local government belongs to the same political party (or part of the political spectrum) as the national government and zero otherwise; M stands for the margin of victory by the winning party in the local elections and G and E are a set of fixed effects for municipalities and election years. To this model we also add controls for incumbency (whether the local party in power was also in power in the previous election year) and, in the case of North Macedonia, also for the ethnic affiliation of the ethnicity of the mayor. The description of the explanatory variables used is shown in Table 1.

Table 1. Description of the explanatory variables.

Variable	Name	Description
Ethnicity of mayor	ethnic_maj	North Macedonia only: dummy variable taking the value of 1 if the mayor comes from the ethnic majority (Macedonian) and the value of zero otherwise (non-Macedonian and independent candidates that won)
Margin of victory (definition 1)	margin_win	Margin calculated as the difference between the vote share of the winning party and the vote share of the second party (voteshare_firstparty minus voteshare_secondparty)
Margin of victory (definition 2)	margin_win	Margin calculated as the vote-share of the winning party in excess of the 50% (voteshare_firstparty minus 0.50)
Congruence	Congruence	Dummy variable taking the value of 1 if the political affiliation of the party/coalition elected locally is the same as that of the party/coalition in government nationally; and zero otherwise
Incumbency	incumbent	Dummy variable taking the value of 1 if the party/coalition elected locally was also in power in the previous period; and zero otherwise

Source: Authors' systematization.

Results

Our empirical investigation covered the two countries of Croatia and North Macedonia. Given the institutional differences of municipal administration in the two countries and the small temporal coverage of our data, we have decided not to pool the sample but rather to estimate our models separately for the two countries. Our full set of results is presented in Tables 2 and 3 for North Macedonia and Croatia, respectively.

The first panel of each of the two tables presents the results from the analysis of the role of congruence for the composition of municipal expenditures, specifically for the share of expenditures covered by operational costs/current consumption. As can be seen, congruence appears to have no systematic influence on this variable. In the case of North Macedonia (Table 2), the effect is always statistically not different from zero. In the election year, politically congruent municipalities seem to have a higher share of current expenditures than municipalities led by parties that belong to the opposition in the national parliament (column 1), but this effect is not statistically significant. Importantly, the result reverses (while remaining not statistically significant) when we consider the composition of expenditures in one and three years past the election year (columns 2 and 3) or in the year before the elections (column 4). Notably, the same point about statistical non-significance also applies to the interaction between congruence and the margin of victory of the party winning the national election.

The results for Croatia are not hugely different (mostly non-significant statistically), with one important exception: in this case, congruence appears to be associated with a positive increase in current expenditures in year three of the elections. In contrast, in the same year, the share of current expenditures is negatively associated with the winning party's margin of victory in the local elections.

Overall, the results concerning the composition of expenditures (share of current expenditures to total) do not suggest a powerful relationship with party congruence. This is not particularly surprising, as current spending is influenced by many other factors, including cyclical ones that have to do with the on-the-ground economic conditions in local areas. That said, it is worth noting that the estimated intercepts show clearly that current expenditures are higher in election years and the year before elections (compare the intercepts in columns 1 and 4 relative to those in columns 2 and 3, in both Tables 2 and 3). This suggests that, at least in the two-country cases considered here, in those years municipal authorities shift their spending towards current consumption and against capital investments, as one would expect if they were to seek to influence the election result through spending. This be as it may, it is clear from our results that this happens irrespectively of party affiliation, i.e. irrespective of whether the local municipal authority is politically congruent to the party in power in central government. In other words, political congruence with the central government does not afford, or incentivise, municipal authorities to spend more on current consumption in (pre-)election years, over and beyond what they are inclined to do anyway.

Turning to the main variable of interest (arrears), we see that the situation is rather different from the one above, and drastically different between the two countries. As before, congruence does not seem to play a role for the *level* of arrears accrued in the election year (and, from results not shown, also for later years) in either of the two countries (see column 8 in Tables 2 and 3), returning in both cases a slightly negative and

Table 2. North Macedonia.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Policy variable	Congruence								Incumbency	
Dependent variable	Share of current to total expenditures (non-capital expenditures)				Change in arrears (growth rate)			Arrears per capita		Change in arrears
	Current (t = election year)	One year ahead (one year post-election)	Three years ahead (three years post-election)	One year previously (one year pre-election)	One year ahead (one year post-election)	One year ahead (one year post-election), 3rd order polynomial	One year ahead (post-election), margin as distance from 50% of vote	One year ahead (one year post-election)	One year ahead (one year post-election)	One year ahead (one year post-election)
2017.election	−0.0643*** (0.0132)	0.0264* (0.0133)	0.0189 (0.0134)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)
2021.election	−0.0520*** (0.0160)			0.000206 (0.0163)	−9.778 (6.457)	−8.355 (6.790)	−10.57 (6.471)	−0.503 (0.469)	−0.606 (0.459)	−5.895 (6.338)
ethnic_maj	−0.0415 (0.0336)	−0.0119 (0.0511)	0.0252 (0.0515)	−0.102** (0.0470)	−35.19* (18.63)	−24.28 (20.89)	−40.32** (18.04)	1.721 (1.391)	0.731 (1.403)	−46.96** (18.90)
margin_win	0.00452 (0.0650)	−0.00674 (0.0924)	0.134 (0.0933)	−0.0676 (0.0734)	−23.52 (27.14)	191.1 (182.2)	−26.15 (58.27)	−2.161 (2.004)	−0.953 (1.415)	−35.54* (19.37)
margin_win2						743.3 (535.5)				
margin_win3						559.7 (374.0)				
1.congruence#c.margin_win	−0.0779 (0.0772)	0.0389 (0.108)	−0.113 (0.109)	−0.0273 (0.112)	37.95 (41.13)	27.48 (250.5)	55.84 (88.24)	5.357* (3.063)		
1.congruence#c.margin_win2						−1,228 (852.2)				
1.congruence#c.margin_win3						−275.6 (532.0)				
1.congruence	0.0285 (0.0212)	−0.00425 (0.0327)	−0.00899 (0.0330)	−0.00511 (0.0290)	−19.79* (11.09)	−48.03** (22.78)	−25.38** (11.04)	−0.555 (0.815)		
1.incumbent									0.900 (0.836)	11.27 (11.27)
1.incumbent#c.margin_win									−0.335 (1.705)	−6.546 (23.06)
Constant	1.020*** (0.0554)	0.930*** (0.0686)	0.901*** (0.0692)	1.050*** (0.0856)	31.85 (31.61)	46.17 (36.06)	40.07 (31.23)	5.915** (2.360)	8.884*** (1.892)	52.92** (25.51)
Observations	240	160	160	160	143	143	143	150	150	143
R-squared	0.690	0.736	0.763	0.786	0.598	0.626	0.594	0.719	0.710	0.581

Standard errors in parentheses. ***$p < 0.01$, **$p < 0.05$, *$p < 0.1$.
Source: Authors' calculations.

Table 3. Croatia.

Policy variable	(1)	(2)	(3)	(4)	(5) Congruence	(6)	(7)	(8)
	Share of current to total expenditures (non-capital expenditures)					Change in arrears (growth rate)		Arrears per capita
Dependent variable	Current (t = election year)	One year ahead (one year post-election)	Three years ahead (three years post-election)	One year previously (one year pre-election)	One year ahead (one year post-election)	One year ahead (one year post-election), 3rd order polynomial	One year ahead (post-election), margin as distance from 50% of vote	One year ahead (one year post-election)
2013b.election	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)
2017.election	−3.027*** (1.058)	−5.530*** (1.103)	−10.79*** (1.500)	−3.876*** (1.478)	0.101 (0.219)	0.109 (0.241)	0.0528 (0.219)	−1.027*** (0.299)
2021.election								
margin_win	1.943 (3.162)	1.566 (3.296)	−10.30** (4.481)	0.848 (3.205)	0.515 (0.657)	−2.693 (2.560)		0.673 (0.894)
margin_win2						−10.23 (8.718)		
margin_win3						−6.836 (6.672)		
1.congruence#c.margin_win	−3.416 (5.554)	−2.303 (5.788)	1.202 (7.870)	−3.157 (5.208)	−3.857*** (1.130)	4.459 (9.252)		−2.204 (1.569)
1.congruence#c.margin_win2						−0.495 (22.65)		
1.congruence#c.margin_win3						12.82 (15.75)		
1.congruence	−0.410 (2.363)	−0.599 (2.462)	5.984* (3.348)	1.194 (2.550)	1.036** (0.491)	0.508 (1.100)	0.930** (0.456)	−0.0880 (0.668)
Constant	88.07*** (5.918)	84.16*** (6.168)	82.69*** (8.386)	89.36*** (6.824)	0.253 (1.634)	−0.0292 (1.665)	0.217 (1.640)	5.158*** (1.672)
Observations	254	254	254	381	240	240	240	254
R-squared	0.681	0.716	0.665	0.554	0.573	0.581	0.569	0.712

Standard errors in parentheses. ***$p < 0.01$, **$p < 0.05$, *$p < 0.1$.
Source: Authors' calculations.

statistically non-significant estimate.[2] The estimated intercepts in this model are positive, statistically significant, and of comparable size in the two countries. This suggests that local municipal authorities face challenges in keeping up with payments across the board, irrespective of their party-political relation to the central government. In contrast, congruence plays a clear role in the *rate of change of arrears* over time. In North Macedonia (Table 2, columns 5–7), political congruence seems to be associated with a *deceleration* in the accumulation of arrears one year past the election year, irrespective of model specification (column 7, where we use a different measure of the margin of victory of the winning party in the local elections) or of estimation method (column 6, where we use the RDD design). In contrast, in Croatia, political congruence is associated with an *acceleration* of accumulated arrears in the year following the election year, with statistically significant estimates, even at the 5% level, in the two-way fixed effects model (columns 5 and 7) and a positive but statistically non-significant coefficient in the RDD model (column 6). This suggests a notable difference between the two countries: in North Macedonia, where local politics have been perhaps influenced more by national-level (as well as ethnic) cleavages, local authorities aligned politically with the party in government have been able to reduce their financial exposures, or pressures, following election years; in contrast, in Croatia political competition has operated differently, incentivising perhaps – or indeed enabling – local administrations that are affiliated politically with the party in power nationally to deviate temporarily from their financial obligations once elected in office. Our evidence does not allow us to offer a definitive answer as to the validity of this explanation. Still, we note here that the explanation remains plausible, especially considering our earlier discussion concerning the institutional and political context of the two countries.

Concluding the discussion of our results, we note that the margin of victory of the winning party in the local elections does not seem to play a notable (or, statistically significant) role in any of the cases examined thus far, except for the adverse effect on the share of current expenditures found for Croatia in year 3 past the election year, as we mentioned earlier. The margin of victory of the winning party in the local elections, however, is found to play an important role in parts of a further investigation we were able to do for the case of North Macedonia, where we were able to examine the role of incumbency, in addition to that of congruence (columns 9 and 10 in Table 2). As can be seen, whereas incumbency does not appear to play a role, in a statistical sense, for either the level or the rate of change of arrears, when we control for incumbency, we find the margin of victory of the winning party in the local elections has a particularly dampening effect on the accumulation (rate of change) of arrears. This seems to suggest that newly elected administrations accumulate more arrears than their incumbent counterparts, irrespective of political congruence with the central government. Thus, our hypothesis H1 is not fully confirmed. Another important feature of our investigation for the case of North Macedonia concerns the role of the ethnicity of the elected mayor: our results show that municipalities electing ethnic majority mayors (Macedonians/non-Macedonian and independent candidates that won) tend to have decelerating accumulation of arrears one year past the election year (columns 5, 7 and 10) and lower current expenditures in the year prior to the election year (column 4). Seen inversely, this suggests a higher degree of fiscal profligacy for local administrations run by

ethnically non-Macedonian and independent candidates that won, ethnicity mayors, ceteris paribus, in line with our hypothesis H2.[3]

Overall, our results reveal only a limited role played by political congruence in determining fiscal outcomes in the municipalities of the two countries. Congruence is associated with accumulated arrears in Croatia and a deceleration in North Macedonia. Still, it does not play a particular role in determining the *level* of arrears or the composition of expenditures. It is thus difficult to assert whether a clear pattern of fiscal laxity associated with political congruence emerges confidently from our results. Evidence of budgetary laxity can be found in the pattern observed for the share of current expenditures in pre- and post-election years, and perhaps also for Croatian local administrations with a weak mandate three years post-election. But, other than that, we believe that, on balance, our results show that political congruence plays a much lower role in the two Southeast European countries of our sample than has been found elsewhere, particularly in the case of the USA and other developed economies. We discuss the possible reasons for, and implications of, this in the concluding section.

Conclusions and paths for future research

Political alignment between local and national governments is often associated with higher local government spending, which can result from better access to resources or favourable policies. Municipalities with politically aligned mayors and national governments tend to have better access to credit, better debt management, and less accumulation of arrears. On the other hand, political congruence can also lead to fiscal laxity if party-politically aligned local administrations expect that they can be bailed out by the central government. Empirical studies on the topic suggest that partisan alignment is an essential factor influencing fiscal policies at the municipal level, especially in terms of public debt and arrears growth, as well as fiscal discipline. The literature unveils a number of mechanisms driving the effects of municipal-national government congruence, as well as their interaction with other factors such as ethnic diversity, ethnic competition, political ideology (left-right), incumbency, and political polarisation.

In this paper, we presented original evidence on the question of how political-ideological congruence between central and municipal governments impacts local governments' budgetary decisions and their fiscal outcomes in the political context of two Southeast European countries, North Macedonia and Croatia. Our results show that political congruence has limited direct effects in the two countries. Congruence is associated with an acceleration of accumulated arrears in Croatia and a deceleration in North Macedonia, but it does not appear to play a particular role in determining the level of arrears or the composition of expenditures.

This finding is consistent with the political and institutional context of the two countries. In North Macedonia, where our evidence shows a deceleration in the accumulation of arrears post-election for politically congruent local governments, it is a common practice for mayors with a political affiliation opposite to the central government to have projects in their municipalities delayed because of the likely adverse influence of the central government's decisions on local matters in these municipalities. Thus, arrears start accumulating in the non-congruent localities and decelerate elsewhere. Funding inefficiencies instead emerge more generally in the ethnic minority localities, irrespective

of the degree of congruence. In Croatia, instead, it is common for mayors of all political affiliations to plan new capital projects in pre-election years (as mayors seek re-election). As these plans require formal approval by the Ministry of Finance and the Government, municipalities led by mayors who belong to the same political party leading at the national level tend to receive more approvals for larger projects (for media reports to this effect, see Brkulj 2022 and Poslovni dnevnik 2023). As approved contracts begin post-election, implementation delays often result in delayed payments and thus in an observed acceleration in the accumulation of arrears, especially in politically congruent municipalities (which have benefited from the approval of larger capital projects).

Overall, our evidence shows that the political-institutional context matters for the fiscal effects of party-political congruence. In North Macedonia, where local politics are arguably more influenced by divisions at the national level (as well as ethnic ones), local authorities that are politically connected to the party in government have managed to reduce their financial exposure or pressures after election years. In contrast, in Croatia, political competition acts differently. Political congruence seems to encourage or even enable mayors who belong to the same political group as the party in power at the national level to temporarily postpone their financial obligations after being elected.

While our research was not designed to offer an in-depth examination of the reasons behind these phenomena, our conjecture is that this is not unrelated to the absence of a legal provision that the local self-government can earn revenue from grants from the state budget only on condition that it fulfils all its obligations. Likewise, the central government does not limit the local self-government units regarding public spending from local budgets. In the legislative framework of Croatia, the Law on Fiscal Responsibility was introduced (2018), which determines the fiscal rules that limit expenditures and deficits of the general budget and public debt, strengthens responsibility for the legal, dedicated, and purposeful use of budget funds, and strengthens the system of controls and supervision to ensure fiscal responsibility. The results of our research for the case of Croatia clearly show that the fiscal rules can be easily sidestepped (failure to pay due obligations) when they conflict with political goals (e.g. excessive investment activity before local elections), and that fiscal discipline is often left for tomorrow. The fiscal rules can always be manipulated, and budgetary discipline rarely determines election results (even locally) (Wyplosz 2012). In the periods before and during the election, mayors start numerous projects, as a motivating tool for voters to vote for a mayor as a person who takes care of the public needs of their citizens/voters, irrespective of whether this creates financial obligations for their realisation. Payment is postponed to after the election.

We note that these results are not directly in line with evidence found on the issue for other European and developed-economy cases. As we mentioned in our literature review, for example, evidence from Italy shows that politically congruent party mayors are more fiscally responsible, have a smaller deficit, accumulate less debt, and reduce expenditures (Gamalerio 2020b). This is one of the main contributions of the present study, as it shows the role played by the different political-institutional context in shaping the effects of party-political congruence on local-level fiscal outcomes. For the particular cases at hand, there is another important contribution. Our study adds to the very scarce empirical literature on the topic in the two countries. More importantly, as it adopts a comparative research framework (with the same research design applied in the two cases), it offers a clear setting for drawing comparisons between the two countries, observing similarities

and differences in the influence of the political dimension of executive power in cities and municipalities, as well as comparison with the results of similar research conducted in Europe. In this sense, our findings could be of interest to public policy makers in these two countries as well as at the level of the European Union, in assessing the effects of political parties' decision-making on outcomes in local communities and highlighting areas of action that could improve future outcomes with the aim of achieving greater policy efficiency and satisfaction among local voters.

Notes

1. In our research, we go one step further to this, checking to what extent the mayor's political party affiliation affects fiscal discipline in municipalities and whether it affects a greater ability to attract additional funds from the centre in municipalities in the two countries.
2. We find a statistically significant (at the 10% level) positive effect for the interaction between congruence and the victory margin variable in the case of North Macedonia (column 8, Table 2), but we note that this result is not particularly stable, and, in any case, it is not directly interpretable given that the "base" variables are both negative and statistically non-significant.
3. We note that our models include municipal fixed effects, so this result is not reflecting the ethnic composition of the electorate in these municipalities. Rather, the result is obtained from "mover" municipalities, i.e., those who move from a Macedonian to non-Macedonian mayor.

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