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Analysis of Public Debt in Selected Western Balkan Countries †

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Abstract: The increase in public debt represents one of the most important problems faced by almost all economies in the world. Among them are the countries of the Western Balkans. Certain countries of the Western Balkans managed their public debt relatively well until the start of the COVID 19 pandemic. After that, all countries face a significant increase in public debt and a drastic drop in GDP. For most of the countries of the Western Balkans, which are countries in transition, one of the big problems is also a significant drop in the inflow of foreign direct investments.

Keywords: public debt; indebtedness; economic system; economic growth

1. Objectives

As one of the most important ways of financing state activities, public debt represents one of the most important problems faced by almost all of the countries in the world. The global financial crisis and the crisis caused by the coronavirus pandemic have influenced the increase in indebtedness of almost all of the countries in the world. Many countries are faced with the problem of public debt sustainability and fiscal imbalances. Due to the drastic increase in health care costs and aid to the national economy, many countries are forced to take on additional debt in order to mitigate the negative effects of the COVID-19 pandemic on the entire economic system. The aim of this paper is to analyze the public debt of selected countries of the Western Balkans, as well as to consider the possibility of maintaining public debt at the optimal level in relation to GDP [1].

2. Methodology

The selected countries included in this analysis are the Republic of Serbia, the Republic of Montenegro, Bosnia, and Herzegovina, the Republic of North Macedonia, and the Republic of Albania in the period from 2010 to 2020, which are countries aspiring to be members of the European Union, and the Republic of Croatia, which is a country that is already a member of the European Union. The research and projections of the World Bank, the International Monetary Fund, and data from the websites of the Ministries, Agencies, and Central Banks of the mentioned countries were used for the aforementioned analysis. The research method used is a qualitative analysis of quantitative data, where the quantitative data are presented in tabular and graphical forms [2–6].

3. Results

By analyzing the public debt in the mentioned countries, it can be seen that the constant increase in public debt is a reflection of the modern functioning of the economy of many countries. All of the countries that were the subject of the analysis before the outbreak of the crisis caused by the coronavirus had moderate indebtedness, but a growing tendency toward it. During the crisis, many countries faced a sharp increase in public debt. At the same time, during the last year, all of the observed economies faced a large

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drop in economic activity, primarily in countries whose GDP is significantly represented by tourism. Additionally, one of the key problems faced by all of the countries is the decline in the inflow of foreign direct investments, which will significantly slow down the already low economic growth [7–11].

4. Implications

The implemented fiscal consolidation and achieved economic growth in the last few years before the outbreak of the coronavirus crisis contributed to the improvement of the fiscal position of these countries. This influenced the creation of space for fiscal action and financing significant public assistance programs. However, all of these countries "welcomed" the coronavirus crisis with significantly higher amounts of public debt than that which they had before the outbreak of the great global financial crisis in 2009. A large number of fiscal and monetary measures taken by all of the countries in order to mitigate the consequences of the coronavirus had a significant impact on the increase in the budget deficits of all of the countries. All of the above events led to the need for additional borrowing, whereby future repayments based on interest will increase in a situation where the fiscal deficit and public debt are increasing. It will be of great importance to review and modify the medium-term fiscal strategy, with the aim of establishing an adequate balance between the fiscal incentives and fiscal consolidation [12–15].

5. Originality Value

The obtained research results are significant both from the aspect of science and from the aspect of practical results that can indicate the problems of increasing the public debt of the selected countries. The contribution of the work is reflected in concrete conclusions that indicate the necessity of increasing foreign direct investments in the mentioned countries that were the subject of the analysis. Additionally, due to the threatened economic growth, it is necessary to implement adequate programs of fiscal consolidation in all of these countries. One of the key prerequisites is the adequate coordination of monetary and fiscal policies, where the relationship between the two policies is often conflictual rather than cooperative. The countries that are the subject of this analysis will have to direct their fiscal policy and instruments for its implementation with the aim of stabilization, the reduction of expenditures, and the establishment of a budget balance [16–19].

6. Contribution

It is characteristic of all these countries that there has been an increase in public debt. The increase in public debt was largely influenced by the coronavirus pandemic, which caused an increase in the costs of combating the pandemic and helping the economies and populations of the countries that are mentioned. All of the countries that were the subject of the analysis before the outbreak of the crisis caused by the coronavirus had moderate indebtedness, but with a growing tendency toward it. During the crisis, many countries faced a sharp increase in public debt, especially Montenegro. Of all of the countries that were the subject of the analysis, Serbia best "controls" the amount of its public debt. Additionally, one of the key problems faced by all of the countries is the decline in the inflow of foreign direct investments, which will significantly slow down the already low economic growth. The implemented fiscal consolidation and achieved economic growth in the last few years before the outbreak of the coronavirus crisis contributed to the improvement of the fiscal position of these countries. Regarding the forecasts of certain international institutions for the coming period, there will be a modest improvement in primary activity, but the problems of large public debt will be present in many countries. In the conditions of high-level indebtedness, one of the key challenges for all of the countries will be to stimulate the growth of economic activity with limited resources.

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