

Structure of public debt in the Western Balkan Countries

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Abstract

The main purpose of this scientific research is to analyze the structure of the public debt in the Western Balkan Countries. This research is based on the principle of originality, which makes an attempt to show the structure of the public debt during the time period from 1995 until 2017. For drafting of this scientific research we will use an all-inclusive methodology, using various research methods in order that the results have a high scientific credibility, such as: the narrative method, the comparative method, as well as the trend analysis. In this study, I have based myself on the data from the World Bank, as well as the data from International Monetary Fund. The main findings in the research demonstrate that there is a distinction in the structural aspect of the public debt in the countries of the West Balkans, compared to other countries in transition in Europe. More concretely, in such countries the threshold or better said the optimal limit of the public debt is lower than in countries in transition in East Europe and in Central Europe. The results gained through this study will be very important to the leading institutions of the Western Balkan Countries. Some of the Limits of this work consist of the fact that no other European countries in transition have been included, and to compare them with the Western Balkan countries.

Keywords: Public Debt, the Structure of the Debt, the Western Balkans.

Introduction

There is a lot of scientific research which has analyzed the impact of the public debt in developed countries (Checherita and Rother 2010, Cecchetti et al. 2011, Reinhart and Rogof 2010, Mencinger, Aristovnik, Verbic 2015). However, there are few studies which have treated the public debt in countries in transition or the countries of the Western Balkans (Uzun 2012, Moana 2008, Atique and Malik 2012). The study approach of the theme of this work titled "The Structure of the Public Debt in the countries of the Western Balkans" represents a special interest both theoretical and practical. Firstly, the study will offer a general review on the public debt and its characteristics. And secondly, the study will offer evidence expressed in the GDP percentage about the structure of the public debt in the countries of the Western Balkans during the time period from 1995 until 2017. According to the bibliography, economists favored the public debt in the 18th century, referring to the fact that the public debt had a positive effect, and this favor was a reason of the doctrine of that time. However, in the 19th century, the role of the state was limited within its borders, only with some minimal functions in economic aspect. This was the viewpoint of classical economists who believed in "Laissez Faire" policy. These economists had the opinion that the functions of the state should be minimized, and the government should only guard the inner law and order, as well as protect the country from an aggression.

The economic crisis due to the big economic depression of the 1930s was partly responsible for the developing of the modern theory of the public debt. The traditional consideration that a budget unbalanced with high expenses and that a rapid growth of the public debt can negatively affect in economic stability started to fade gradually. By freeing the passage to a new economic concept that states that a high public debt is a national asset, and cannot be qualified as a liability. The definitions of the public debt in particular countries may vary as a result of the tradition and the way of it interpretation, but the focus and the content usually remain the same (Dabrovski 2014). The public debt is a very important economic instrument if its usage is done with fair and decent purposes. More concretely, this study treats the structure of the public debt in the countries of the West Balkans and what is very important to be pointed out is the difference among the countries in relation to the burden of the public debt because referring to the data from the International Monetary Fund, we notice big differences in the aspect of using the public debt in relation to the GDP. The thesis and the material that this scientific study offers have been based on the data taken directly from the financial institutions such as: The International Monetary Fund, The Central Bank of Kosovo, as well as the data for macroeconomic indicators through reports of the World Bank. The structure of this scientific work is as follows: the first part starts with the purpose of the research, the importance and the motivation of the thesis; in the second part the review of the literature will be put; the third part shows the methodology used during the study; the fourth part shows the gained results; the fifth part shows the conclusions and the ending; and in the end of the study all the sources and references are presented where the structure of this scientific study was based.

1. Literature review

During the review and analysis of the theoretical and empirical literature related to the public debt and its component structure, I have noticed a very big absence of the empirical evidence to investigate, and confirmed some of the ascertainments presented in this study. The traditional viewpoint of the public debt was mainly based on the neoclassical theory, which urges the model of economic growth through the increase of the public debt to finance public expenses, public consumption, and capital goods (Adam and Bevan 2005, Cohen 1993, Elmendorf and Mankiw 1999, Diamond 1965, and Solow 1956). The treatment of the public debt is in the main focus among many authors, with a special emphasis after the financial crisis of the years 2008-2009. Ricardo (2001) qualifies the Public Debt as one of the most terrible sources that was created, and which influences directly to hit a nation, meaning that the increase of public loaning affects negatively on the economic system. Reinhart and Rogoff (2010) analyzed the effect of the public debt on the long-term real norm of the GDP, taking into account a sample from 24 developing countries during a period of nearby 200 years (1790-2010). The positive impact can be of short-term periods, whereas in long-term periods the effects of the public debt have been qualified as negative, breaking systematically the growth of the economic development. Reinhart and Rogoff (2010) created a big debate when they published findings which

showed that the increase of the public debt ratio over 90% of the GDP can negatively affect the economic growth, pointing out that the trade development on the basis of the public debt growth should be determined on the basis of a threshold, or an optimal limit. Also Baum et al.(2013) in his scientific analysis finds out something identical that can be compared to his studies made by Checherita and Rother (2010), where according to his findings, it is stated that the low level of the public debt can be positively affect the economic growth, but in long-term periods its effect will be negative. According to Abbas and Christensen (2007) there are several reasons that lead to the lack of empirical data about the public debt and its impact on economy as for e.g. the lack of data base with empirical data for comparison of countries with each-other, because the variable that expresses the public debt is exogenous variable, which means that as such it can be used both as a measurer and a controller of the macro-financial result. Pinkowski (2017) states that along with the debt level to the GDP, as an important indicator that has to be taken into consideration in the process of managing the debt are the obstacles for the debts to GDP, the payments of interest to the GDP, the structure of the debt and average term of maturity. In a scientific study made by Uzum (2012), he used the auto-regressive model with scattered delays to investigate the connection between the public debt and economic growth for countries in transition, during the period 1991-2009. The author in hand reached the conclusion that there is a positive relation between the public debt and the economic growth even in long-term periods in the developing countries, more concretely in countries in Transition, and which is in a full contradiction to the researchers stated above.

2. Study methodology and data

2.1. Study Methodology

In order to accomplish this scientific study, as well as to support the assumptions arisen in the beginning of this study, we will use advanced scientific methods and models. The methodology used will be all-inclusive, implementing various research-scientific methods, which have been accomplished mainly through the reading of the literature, observation, as well as the critical thought from where the information was selected according to its validity by various authors both foreign and native, and other subjects that are part of the research, or that have been involved in the situations from which it was aimed to draw conclusions, and to come to the solution of a problem. We started from the narrative method which enables us various analyses to different indicators, by synthesizing the results and giving answers of the scientific research. By using the narrative method, the knowledge about the conditions and relations with be gained, as well as about the dynamics of changes that determine the problems that are the objects of this study. Then we are going to use the comparative method, which is one the most frequently used methods during the analyses of different macroeconomic indicators in various time periods. We will achieve more accurate results if we compare the main indicators of a period to different time periods aiming to find the causes and reasons of deviations in the presented data. Also, we will use the trend analysis, where through graphic presentation of the public debt, we will

see the structure in the countries of Western Balkan countries during the time period 1995-2017.

3. Results and findings

3.1. The structure of the public debt in the countries in transition of the Western Balkans

Table 1. The Public debt in the Countries in Transition of the Western Balkans (EXPRESSED IN MONETARY VALUES)

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017
Albania	5,181	5,19	5,507	5,957	6,775	7,176	7,566	7,860	
Bosnia and Herzegovina	4,431	5,530	5,775	5,816	6,094	6,278	6,651	6,736	6,349
Macedonia	1,590	1,707	2,124	2,553	2,768	3,255	3,457	3,844	3,951
Serbia	10,999	12,850	15,572	18,336	20,955	23,936	25,457	25,289	
Montenegro	1,308	1,407	1,586	1,809	1,972	2,191	2,513	2,625	
Kosovo	249	260	253.6	283.4	476.2	582.8	748.9	852.7	996.4

Sources: Calculated by the author, and Countryeconomy.com

In the table 1we have presented the structure of the public debt in the countries in transition of the Western Balkans expressed in monetary values. If we stop and analyze the last years of this analysis, which is the years 2016-17 through the data presented in the table above, we will see that Serbia has marked the highest value of the public debt in relation to other countries of the Western Balkans, where in 2016 it reached the value of 25.2 billion. As we can see, Albania, too, in 2016 had a relatively high value of using the public debt in the countries of the Western Balkans, which was about 7.8 billion, followed by Macedonia with 3.8 billion, and Montenegro with 2.6 billion. From the above results, we see that Kosovo is the country with the lowest public debt in the countries of the Western Balkans, where its value in 2017 was 996.4 million.

Figure 1. The structure of the Public Debt (expressed in the percentage of the GDP) in Albania 1995-2017

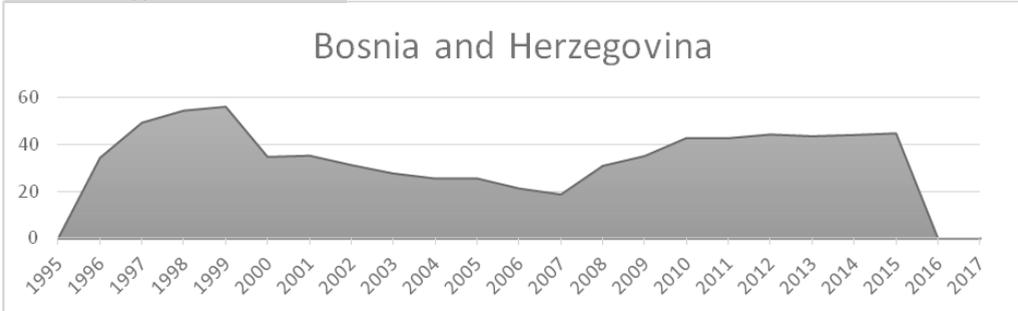


Source: Calculated by the Author, and the International Monetary Fund

Referring to the Figure 1, we can notice the public debt of Albania (in percentage of

GDP) through the data taken from International Monetary Fund. According to the results presented in the figure above, we see that the most marked growth of the use of the public debt in Albania was from 1996 until 1998, when the public debt reached the value of over 80 percent of the GDP. Whereas if we analyze the last years of the analysis, we see that the public debt in Albania increased again, when in 2015 it reached the value of 73.32 percent of the GDP.

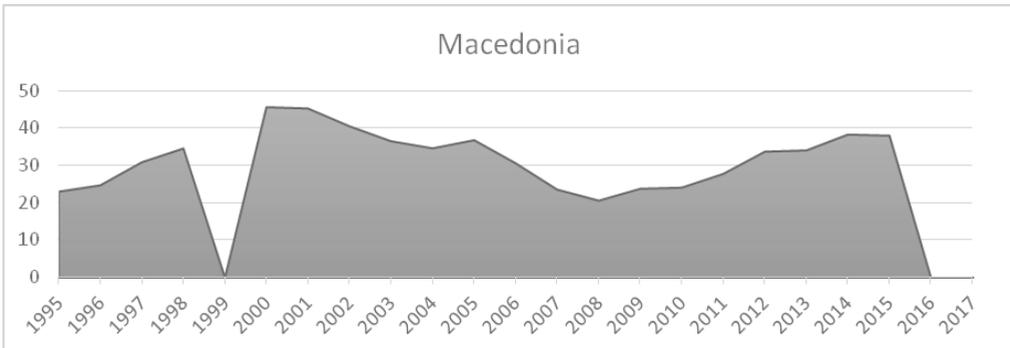
Figure 2: The Structure of the public debt (expressed in GDP percentage) in Bosnia and Herzegovina 1995-2017



Source: Calculated by the Author, and the International Monetary Fund

The increase of public debt value in Bosnia and Herzegovina happened in different cycles from a year to a year. More concretely, if we refer to the results presented in Figure 2, we can see the public debt of Bosnia and Herzegovina expressed in GDP percentage during the time period from 1995 to 2017, where we can see that the most marked increase of the use of the public debt was in 1999 with 56.04 GDP percentage, then from 2000 until 2007, the use of the public debt fell rapidly. Whereas from 2008 and on, the percentage of the public debt increased again in relation to the GDP, when in 2015 it was 44.47 percent.

Figure 3: The Structure of the public debt (expressed in GDP percentage) in Macedonia 1995-2017

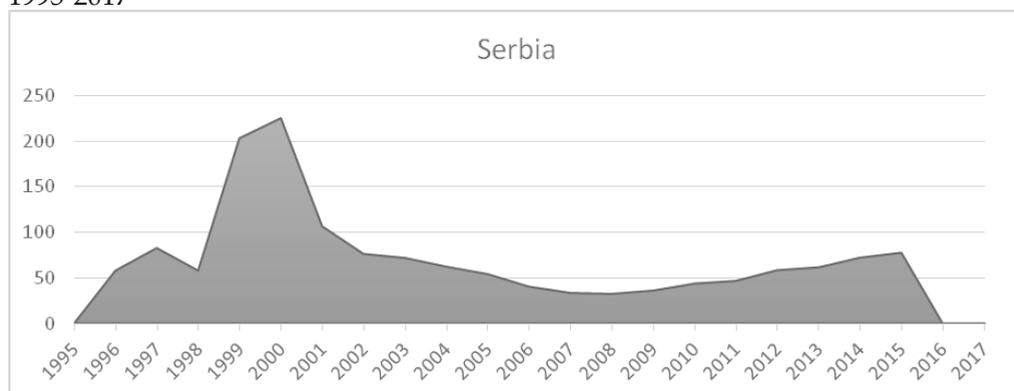


Source: Calculated by the Author, and the International Monetary Fund

From the results presented in Figure 3, we see the public debt of Macedonia expressed in GDP percentage during the time period 1995-2017. According to the data, we see that the most marked increase in Macedonia was during the years 2000-2002, when the public debt reached the value of over 40 percent of the GDP. Whereas in the beginning of 2003 and until 2008, the public debt value in Macedonia started to

fall, and after 2008 we see again a rapid increase in the use of the public debt, when the highest value was in 2015 with 37.95 GDP percentage.

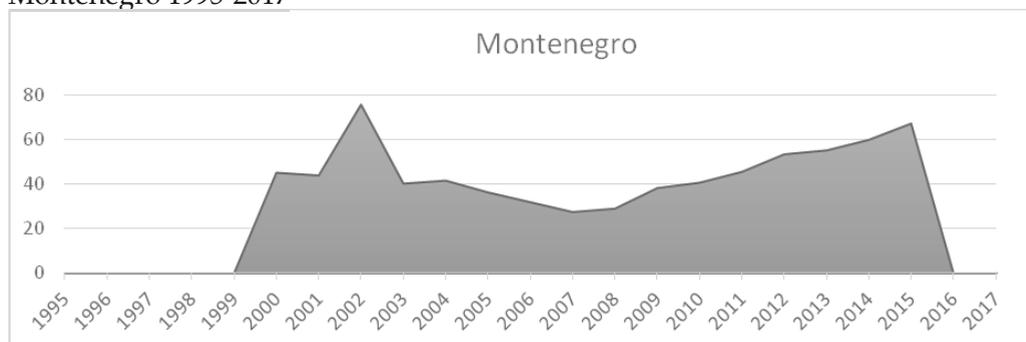
Figure 4: The Structure of the public debt (expressed in GDP percentage) in Serbia 1995-2017



Source: Calculated by the Author, and the International Monetary Fund

From the data presented in Figure 4, we can see the public debt of Serbia (in GDP percentage). If we can refer to years of the analysis, we will see that from 1995 to 2017 the most marked use of the public debt in Serbia was the beginning of 1998 until 2000, where as seen, in 2000 the public debt reached the value of 224 percent of the GDP. Whereas from 2001 and on the value of the public debt in relation to the GDP started to fall continually until 2010, when we can see again a gradual increase of the value of the public debt in Serbia, and based on the results above, we see that in 2015 it reached the value of 77.25 GDP percentage.

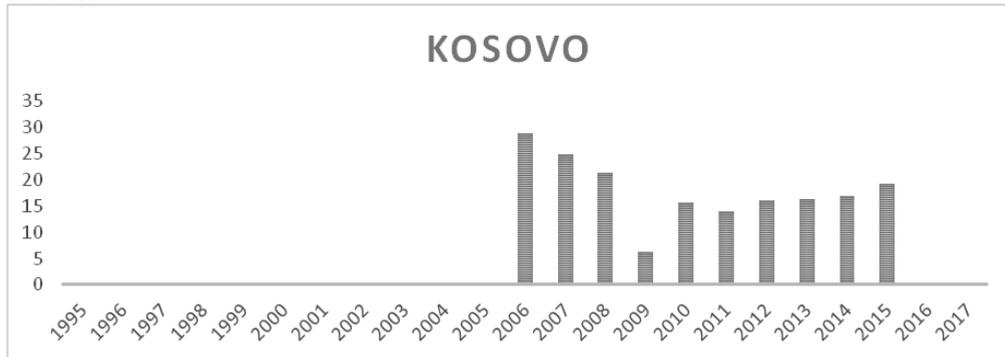
Figure 5: The Structure of the public debt (expressed in GDP percentage) in Montenegro 1995-2017



Source: Calculated by the Author, and the International Monetary Fund

In Figure 5 the public debt of the Montenegro was presented expressed in GDP percentage during the period from 1995-2017. According to the results presented in the figure above, we see that the most marked increase in the use of the public debt in Montenegro was in 2002, when it reached the value of 75.73 percentage, but then it started to fall gradually until 2009. Whereas if we analyze the last years of the analysis, we see that the public debt in Montenegro increased again, when in 2015 it reached the value of 67.23 percent of the GDP.

Figure 6: The Structure of the public debt (expressed in GDP percentage) in Kosovo 1995-2017



Source: Calculated by the Author, and the International Monetary Fund

Based on the results above, we see that Kosovo is one of the countries with the lowest public debt of all Western Balkan countries. In Figure 6 we can see the trend of the public debt in Kosovo only during the period from 2006-2015, because we don't have any data for the previous years as a consequence of the last war, and the separation of Kosovo from Serbia. According to the data, we see that the most marked use of the public debt in Kosovo was in 2006 with 28.67 GDP percentage, and then was a gradual fall until 2015.

From 2015 and onwards, the public debt in Kosovo started to increase again, but what is worth pointing out is that, although the public debt in Kosovo is increasing continually, Kosovo still remains one of the countries with the lowest use of the public debt in the region and further.

4. Ending and conclusions

Through this scientific study, we have had the opportunity to view the structure of the public debt in countries in transition of the Western Balkans during the time span from 1995 to 2017. Based on the data presented in Table 1, we see the different results in relation to Western Balkan countries. During this ending, we will take in consideration, and we will comment on the results based on the last year of this analysis. Therefore, from the data above we see that Serbia marked the highest values of the public debt compared with other countries (25.289 billion), expressed in percentage it is (77.25 % of GDP).

Followed by Albania, where the value of the public debt reached (7.860 billion) which expressed in percentage is (73.32 % of GDP); then Bosnia-Herzegovina with (6.736 billion) expressed in percentage it is (44.74%). Whereas from the results presented in Table 1, as well as the Figures above, we see that Macedonia, Montenegro, and Kosovo have the lowest value of the public debt in relation to other Western Balkan countries.

Macedonia has the level of the public debt about (3.844 billion), expressed in GDP percentage it is (37.95%), Montenegro the value of (2.6 billion), in GDP percentage it is (67.23%), and Kosovo with the lowest level of the use of the public debt, where

based on the data we see that the public debt in Kosovo has marked the value of nearby (1 billion), expressed in GDP percentage it is (19.04%).

If we analyze the theoretical literature related to the functioning of European countries, we can refer to "Maastricht Treaty", where according to it, it is clearly specified, among other things, that government finances of member countries of the European Union should not exceed the limit of the budget deficit of 3 percent of the gross domestic product (GDP), as well as we can see that these countries have no right to increase the level of the use of the public debt to more than 60 percent of the GDP. If we refer to this treaty, we can notice that countries in transition of the Western Balkans stand well in relation to the optimal level of the public debt, excluding Serbia and Albania where the level of the public debt exceeds the threshold of 60% of the GDP.

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