



THE IMPACT OF DEBT ON ECONOMIC DEVELOPMENT OF THE WESTERN BALKAN COUNTRIES

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Abstract: The degree of increased indebtedness in the Western Balkan countries is generated by increasing consumption in terms of increased economic growth and structural reforms. Although these countries have shown an increase in exports and foreign direct investment over the past few years, the current account deficit remains high, especially in the ratio between external debt and GDP, which is not only high but at the stage of growth. Also, as domestic financial markets are underdeveloped, these countries are to a large extent exposed to an increase in the price of foreign borrowing. The current borrowing policy continues with increasing investment in non-productive consumption, which requires renewed borrowing. The presentation of debt trends, analysis and comparison of external debt of these countries show relevant guidelines in the selection of an adequate economic policy that would enhance the competitiveness of this part of the Balkans. Also, a comparative analysis of the indebtedness ratio will especially assess the state of indebtedness in Serbia, the structure and the movement of external debt towards international financial institutions. The comparison in this paper is made using standard indices of indebtedness based on the data obtained from the national statistical institutes and international financial institutions.

Keywords: external debt, public debt, competitiveness, economic growth, the Western Balkans.

JEL classification: F34, R11

1. Introduction

For the last two decades, the Western Balkan countries have undergone the transition period, which was primarily realised through active developmental policy based on consumption. The concept of development through consumption, that was somewhat more extensive than production, led to the creation of a

financial gap that had to be filled with borrowing. Thus, the borrowing levels were accompanied with a type of economic policy, in order to achieve a faster, positive economic ambience, commenced by financing the demand. Financing of the demand was intended to trigger an increased level of production; however, for a number of years of transitional and late transitional periods, Balkan countries have been characterised by a similar proportion of consumption in relation to production. This economic policy led to increased import compared to export, high levels of inflation, imbalance in the current payment balance, and the problems of servicing indebtedness. For these reasons, it is crucial for these countries to access foreign capital and direct it towards productive purposes, i.e. investment in infrastructure construction, import of new technology and development of relevant institutions and their effectiveness.

The problem of debt servicing is increasingly in question due to the constant, unforeseen changes and global economic activity, which brings into question the continuity of export in both developed and transition countries. One of the basic real sources, besides direct foreign investment and portfolio investment in debt financing, is a high rate of export. In addition to their weak economic systems and lack of experience in functioning of modern world markets, these countries are facing problems of slow export growth, thereby generating borrowing.

Such accelerated growth of borrowing, and above all, inadequate channelling of investments in public and personal consumption, leads to an increased price of new borrowing, which only pursues a vicious cycle, where each subsequent borrowing is related to financing the deficit and overdue payments.

In the analysis of indebtedness, the data issued by international financial institutions will be utilized through the use of relevant indicators of indebtedness. By analysing the indicators, the comparison of external debt will be made, the response to the extent of indebtedness of these countries will be elicited and the issue whether the current dynamics of borrowing is long-term sustainable will be discussed.

2. Indebtedness of the Western Balkan countries

Indebtedness is one of the basic macroeconomic issues for decisions related to the long-term sustainability of the development of each country. After the breakdown of the socialist system, the Western Balkan countries focused on market economies. Thus, at the end of the last century, liberalisation of the financial market and greater availability of foreign capital led to the increasing state borrowing. Also, at the beginning of this century, almost all transitional countries recorded a constant growth of external debt. There are several reasons for it; primarily, low capital equipment resulted in low productivity of labour in those countries. Furthermore, the growth of personal consumption, investment consumption and domestic production led to an increased boundary tendency to

import (Veselinović, 2009, p. 183). The additional problem is that these countries do not have growing export sectors that would cover the state and personal consumption.

However, high degree of indebtedness can be seen through endogenous and exogenous factors (Zdunić, 2003, p. 861). In addition to the already mentioned excessive consumption, endogenous factors include the high level of import of goods and services, outdated technology, the non-inclusion of these countries in the European system of accumulation. The most important exogenous factors are differences in reference rates and the overestimation of domestic currency.

From the stated above, it is rational to make comparisons between the countries of the Western Balkans and, thus, provide overall view of the state of indebtedness, interdependence and changes in indebtedness, the possibilities of a debt crises and general guidelines for proper macroeconomic policy.

2.1. Foreign debt and debt per capita

This section will show the total debt of the Western Balkan countries in the USD million, whose data are presented in Table 1. The analysis will cover five countries: Bosnia and Herzegovina, Serbia, Montenegro, Albania and North Macedonia.

The analysis of the absolute amount of debt shows that among the observed countries the largest debt was recorded in Serbia (USD 3,636.1 million at the end of 2012), while half the amount was recorded in Bosnia and Herzegovina with the next largest in Albania (USD 14,495.1 million in Bosnia and Herzegovina, and USD 9,114.6 million in Albania in 2017, with the amount of USD 8,821.6 million in 2013). Also, in the last presented year, the largest amount was found in Serbia (USD 34,548.5 million at the end of 2017), then in Bosnia and Herzegovina (USD 14,495.1 million at the end of 2017). The lowest external debt in 2008 was recorded in Montenegro, amounting USD 1,502.1 million and Albania USD 4,238.1 million.

Table 1. External debt (USD million)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Bosnia and Herzegov.	13,108	14,005	14,289	14,347	14,120	14,694	13,669	13,771	14,226	14,495
Serbia	30,493	33,809	32,907	31,657	34,361	36,278	32,987	31,290	29,526	34,548
Montenegro	1,502	2,356	1,603	2,357	2,833	3,061	2,634	2,659	2,712	3,138
Albania	4,238	4,587	5,372	6,330	7,176	8,821	8,399	8,207	8,340	9,114
North Macedonia	4,337	5,246	5,159	6,131	6,469	6,736	7,232	6,766	7,375	8,565

Source: World Bank, World Development Indicators, April 2019.

The total debt increased in all countries during the observed period from 2008 to 2017. The highest percentage of growth was observed in Albania (215%, from USD 4,238.1 million in 2008 to USD 9,114.6 million in 2017), in Montenegro (208% from USD 1502.1 million in 2008 to USD 3138.0 million in 2017) and North Macedonia (197%, from USD 4337.5 million in 2008 to USD 8,565.6 million in 2017. While according to the latest data in 2017, the smallest change was found in Bosnia and Herzegovina, (110%) and Serbia (113%).

The total external debt does not tell us the real state of debt burden; therefore it is realistic to expect larger countries to have higher debt. Thus, it would be pragmatic to consider the burden of each citizen with debt, or analyse the difference in *per capita* ratio. Indebtedness per capita illustrates the possibility of repayment of debt per capita, depending on the demographic structure and the achieved structural development of the country.

Table 2. Debt per capita (USD)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Bosnia and Herzegovina	1,502	1,608	1,821	1,920	1,892	2,014	2,220	2,099	2,124	2,027
Serbia	2,169	2,100	2,349	3,004	3,280	3,894	4,470	3,991	3,976	3,703
Montenegro	2,529	2,947	3,009	3,559	3,743	4,214	4,679	4,494	4,683	5,173
Albania	2,421	2,476	2,368	2,640	2,641	3,111	3,304	2,919	3,024	3,271
North Macedonia	988	1,081	1,100	1,435	1,591	1,780	2,090	1,852	2,052	2,149

Source: World Bank, World Development Indicators, April 2019.

Considering the debt, enormous differences among the analysed countries can be found in the period 2008-2017, Table 2. Thus the largest debt per capita was in Montenegro in the intersection of two years (USD 2,529 in 2008, and USD 5,173 in 2017). Although Serbia is on top position in the total external debt, it has a considerably smaller debt per capita than Montenegro (USD 2,169 in 2008, and USD 3,703 in 2017). On the third position was Albania in 2017, with the debt of USD 3,271 per capita. While Albanian residents were burdened with USD 2,421 in 2008, i.e. they were on the second position in the observed year; the citizens in Bosnia and Herzegovina were at least burdened with USD 2,027 in 2017, while in 2008 the citizens of North Macedonia were burdened with only USD 988.

The total debt per capita increased during the observed period. In 2017 the smallest growth of 134% was found in Bosnia and Herzegovina, then something greater in Albania, 135%. The two largest amounts of debt per capita were found in North Macedonia, 217% and Montenegro, 204%. This structure of debt growth per

capita during the observed period depended on the growth level of the total debt and birth rate.

It is noticed that over the last decade in the observed countries, the amount of indebtedness increased in all, while in some it almost doubled. As a consequence of financing the economic growth, structural reforms of expansive fiscal policy and poorly developed domestic financial market, financing had to be supported by foreign accumulation. This led to major payment imbalances, the appreciation of domestic currencies, which increased imports by bringing these economies into a lengthy, vicious circle.

2.2. Debt analysis through external debt indicators

In addition to the absolute and external debt value per capita, which do not reveal a precise picture of indebtedness sustainability, the indicators of indebtedness will be used. The indicators are applied for each country separately, and then a comparison is made to give a clear presentation of the state and flow of external debt in the observed countries.

Only some of the most important indicators, such as those used by the World Bank for evaluation of the state of indebtedness will be applied here, such as the ratio between external debt and GDP and the ratio between external debt and the export of goods and services, Table 3. Also, the indicator of flow of external debt as a percentage of participation of export in debt repayment will be shown.

Table 3. The World Bank's methodology of indebtedness

	High indebtedness	Medium indebtedness	Low indebtedness
Debt/BDP	$X > 80\%$	$48\% < X \leq 80\%$	$\leq 48\%$
Debt/Export	$X > 220\%$	$132\% < Y \leq 220\%$	$\leq 132\%$

Source: World Bank

The ratio between external debt and GDP is marked as the most general indicator of the risk of country insolvency. This indicator will be higher if the interest rate on the debt of economic growth is higher, and if the current balance tends towards deficit. More than 50% of the debt crises are believed to have been created when external debt moved up to 60% of GDP, while 70% of the debt crises were created when the level of external debt reached about 80% of GDP.

Another indicator, i.e. the ratio of external debt to export shows the possibility of repayment of debt through export of goods and services. Virtually, there is no risk of debt crisis if the export is greater than the import, i.e. no risk will arise unless the debt exceeds the 220% limit in relation to the export.

Table 4. External debt (in% of GDP)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Bosnia and Herzegovina	16.6	21.1	24.8	25.4	27.5	28.2	30.8	30.4	29.6	25.9
Serbia	62.2	72.6	78.9	72.1	80.9	74.8	77.0	78.3	76.5	69.9
Montenegro	33.2	56.8	38.7	51.9	69.2	68.5	57.4	65.5	62.0	64.7
Albania	37.8	41.4	45.5	53.5	57.5	66.1	69.4	74.3	73.5	68.7
North Macedonia	48.8	55.9	57.8	64.2	68.2	64.0	70.0	69.0	74.7	73.6

Source: World Bank and Eurostat, April 2019.

The ratio of external debt to GDP, shown in the Western Balkan countries, is given in Table 4, where it is noticed that Serbia had the highest percentage (62.2%) in 2008, which made the level for that year satisfactory, since in the first half of the last decade this indicator was a three-digit-number, and it was certainly the result of the policy in the late 1990s, strong expansion of fiscal policy and the beginning of structural reforms. At the approximately same level of this indicator was North Macedonia with 48.8%, and something lower were Albania (37.8%) and Montenegro (33.2%), while Bosnia and Herzegovina was the lowest (16.6%). At the end of 2017, the smallest level of this indicator was still in Bosnia and Herzegovina (25.9%), while the highest was in North Macedonia with 73.6%. Serbia was the fourth in line with 69.9%, and below it were Albania (68.7%) and Montenegro (64.7%).

If we observe the increase in this indicator we will see that the highest value was in Montenegro (194%), Albania (181%), Bosnia and Herzegovina (156%), and North Macedonia (150%). Only Serbia achieved minimum growth of this indicator, with 112% in total.

According to the World Bank criteria, the ratio of external debt to GDP, no country in the Western Balkans was ranked among highly indebted countries with over 80% of this indicator in 2017, while the medium-indebted, below 80%, included North Macedonia as the highest-value country, then Serbia, Albania and Montenegro. The only low-indebted country was Bosnia and Herzegovina with the value of this indicator below 48%.

In continuation, Table 5, shows the ratio between the external debt and export as the second important indication of external indebtedness. The fact is that the observed countries recorded negative net export in number of recent years, which resulted in additional borrowing, under the condition of budget deficit and decreased the scope of foreign investments.

In 2008, the highest percentage of this indicator was recorded in Bosnia and Herzegovina (204.4%) and Serbia with almost the same amount (203.9%), taking the position close to the upper border of highly indebted countries. The previously

stated reasons are a long-lasting and strong fiscal policy, the beginning of reforms and very small export. The next was Albania with 112.9%, thus being in the zone of low-indebted countries, but close to highly indebted countries. The low-indebted countries were still North Macedonia (95.9%) Montenegro (72.8%).

Table 5. External debt (% export of goods and services)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Bosnia and Herzegovina	204.4	262.9	251.1	215.9	230.0	218.7	196.5	222.9	217.0	184.8
Serbia	203.9	283.8	249.9	195.2	220.5	187.7	164.7	172.9	148.2	153.5
Montenegro	72.8	141.7	93.4	107.5	144.1	144.1	123.0	133.8	131.1	134.5
Albania	112.9	133.5	145.0	155.3	188.9	216.7	201.1	233.3	214.3	198.1
North Macedonia	95.9	165.3	135.7	122.2	143.1	137.0	128.5	133.4	131.7	133.6

Source: World Bank, International Debt Statistics, April 2019.

In 2017, the situation significantly changed. Serbia reduced the percentage of this indicator by 50.4% (from 203.9% in 2008 to 153.5% in 2009), but it still remained in the zone of the medium indebted countries. The situation worsened in Montenegro by 61.7%, which switched to middle-indebted countries (from 72.8% in 2008 to 134.5% in 2017). The situation was similar in Albania with the increase of 85.2% (from 112.9% in 2008, to 198.1% in 2017), which also ranked it among middle-indebted countries. North Macedonia moved from low-indebted in 2008 to the middle indebted in 2017, almost at the edge of this indicator (from 95.9% to 133.6%). Also, in addition to Serbia, the exception in this indicator was made by Bosnia and Herzegovina with the decrease of indebtedness of 184.8% in 2017, where it remained among the middle-indebted countries.

Table 6. External debt servicing (% export of goods and services)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Bosnia and Herzegovina	7.4	8.8	10.0	12.2	17.1	16.0	21.3	12.2	18.6	15.6
Serbia	31.7	39.0	32.7	32.1	38.7	43.7	41.7	23.5	29.9	22.0
Montenegro	3.4	4.1	5.7	9.7	13.7	17.6	13.8	25.1	24.0	13.4
Albania	5.4	7.1	10.3	11.8	14.2	13.6	17.2	30.9	14.5	10.4
North Macedonia	10.1	16.9	16.4	18.8	15.0	18.6	17.4	20.5	15.2	13.7

Source: World Bank, International Debt Statistics, April 2019.

Comparative servicing of external debt in the percentage of export of goods and services is presented in Table 6. The largest payment on the basis of export of goods and services in 2008 amounted 31% in Serbia, while in the following years it gradually declined to the value of 22.0% in 2017. While the value of this indicator in Bosnia and Herzegovina was 7.4% in 2008, ten years later it increased to 15.6%. This small share of debt servicing in relation to export of goods and services in 2008 was the result of very small export due to poor production and the lack of connectivity with the world market, which means that such rapid growth was caused by the low export base. Montenegro kept somewhat constant growth of value by 10% in ten years, from 3.4% in 2008 to 13.4% in 2017, and Albania and North Macedonia increased the value of this indicator by 5% to 3.6% in the ten-year period.

3. The impact of external debt on foreign direct investment and economic growth

The size of foreign direct investment is an important entry to the increase of GDP, funding of current account deficit, and hence the repayment of external debt and the increase of credit ratings.

The process of transition of the Western Balkan countries to market economies is still incomplete and a large number of serious investors are avoiding these countries, which is why the influx of FDI is still at insufficient levels. The biggest inflows based on FDI in most of these countries was achieved based on privatisation revenues (Milačić & Milačić, 2009, p. 6). The structure of the FDI inflows in the Western Balkan region was unfavourable, observed by economic sectors. The share of the secondary sector (industry and construction) in the overall world stock is about 40%, whereas in most Western Balkan countries it is below 20%. The reason for the unfavourable structure of inflow arose from the strong inflow of financial investments which, with the appreciation of domestic currencies, led to a strong growth of the external debt of all Western Balkan countries (Milačić & Milačić, 2009, p. 8). It can be observed that so far, foreign direct investment in Serbia, and also in the Western Balkan countries, have mainly entered the sector of so-called unchangeable goods, such as banking, insurance, energy, telecommunications, etc.

Considering net foreign direct investments (the differences between the direct investments that enter and leave the country) in the selected countries, the largest amount could be observed in Serbia in 2008, then almost four times smaller in Bosnia and Herzegovina, Albania and Montenegro, while the smallest was in North Macedonia. The trend of decrease in foreign direct investment is noticeable in almost all the countries. The strongest trend of FDI decrease was recorded in Bosnia and Herzegovina in ten years, where the largest net decrease fell to the value of USD 282.8 million in 2016. Also, Serbia, Montenegro and Macedonia

followed the similar tempo, while the only minor decline was in Albania with only USD 231 million in the observed period. In almost all observed countries the rise of FDI was reported until 2008, when these countries faced the global crisis, i.e. the moment when the opposite trend developed.

Table 7. Foreign direct investment (in USD million)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Bosnia and Herzegovina	1,004.9	138.5	443.8	471.6	392.0	313.3	544.9	383.1	282.8	462.7
Serbia	4,055.6	2,928.9	1,693.3	4,929.9	1,276.1	2,059.7	1,999.5	2,345.2	2,354.7	2,878.8
Montenegro	975.1	1,549.3	758.4	556.3	618.4	446.5	496.8	699.7	226.7	560.3
Albania	1,253.1	1,344.2	1,090.1	1,048.1	918.3	1,254.3	1,149.5	989.3	1,044.2	1,022.1
North Macedonia	611.7	259.5	301.4	507.9	337.9	402.5	60.9	296.6	549.4	380.7

Source: World Bank, World Development Indicators, April 2019.

If we compare the table of total debt and table of FDI, we will notice that the reduction of net FDI was followed by the increase of total debt. In the period of transition, these countries could not compensate for the accelerated development by either their own funds or funds from foreign investments, which normally increased their overall debt. Also, viewing the net investments, it can be concluded that they go in line with the performed transition in these countries. Hereof, the leading countries were Serbia and Albania. The transition of Bosnia and Herzegovina and North Macedonia diverged from other countries. Namely, their attitude towards reforms was quite conservative; therefore, they showed a considerably greater tolerance for monetary and fiscal problems and the emergence of political problems more than acceptable, thus causing the escape. As shown in Table 7, despite the world crisis and transition, only Montenegro and Albania continued the trend of investment growth in 2009. Concerning Montenegro, its independence probably contributed, i.e. the lack of association with the problems of Kosovo's independence, together with attractiveness of the country - the development of tourism, where the greatest growth of FDI was recorded (World Bank, 2008).

Considering Table 1, with the data related to the total amount of external debt, it is found that the debt permanently increased in all observed countries, especially in the second half of the observed period. The highest percentage of growth was noticed in Albania (215%), then slightly less in Montenegro (208%) and North Macedonia (197%), while the smallest change was found in Bosnia and Herzegovina, (110%) and in Serbia (113%), according to the latest data in 2017. If, in the same period, we consider the course of economic growth, Table 8, the high

level of growth is noticed in all countries in 2008, while in 2009, due to the impact of the global economic crisis, the growth transformed to a negative value in all countries except Albania. Low growth rate, but positive, continued until 2011, where negative values were reported again, based on the second wave of the crisis. It is noticeable that in this period, external debt growth rates had minimum growth due to the withdrawal of debt or reduced loans by private international institutions. This minimum rate of external debt growth in the first four years was especially generated by International Monetary Fund, with its aid packages. After 2012, the rate of GDP growth permanently rose with the appearance of increased debt growth, which was certainly normal in the Western Balkan countries, due to the necessity of the finalisation of transition and the appearance of low, starting economic growth rates, as well as the reconstruction of the existing hard infrastructure in economy.

Table 8. GDP growth (in %)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Bosnia and Herzegovina	5.4	-3.0	0.9	1.0	-0.8	2.3	1.1	3.1	3.1	3.2
Serbia	5.4	-3.1	0.6	1.4	-1.0	2.6	-1.8	0.8	2.8	1.9
Montenegro	7.2	-5.8	2.7	3.2	-2.7	3.5	1.8	3.4	2.9	4.7
Albania	7.5	3.3	3.7	2.6	1.4	1.0	1.8	2.2	3.4	3.8
North Macedonia	5.5	-0.4	3.4	2.3	-0.5	2.9	3.6	3.9	2.8	0.2

Source: World Bank, World Development Indicators, April 2019.

4. Credit rating and the height of indebtedness

Similarly to the reputation of an individual or an enterprise that is related to the method, principle and success in business, the reputation of a country is associated with its credit rating as the ability to fulfil its financial obligations. Higher credit ratings mean the safety of loans and investments. In addition to the solid market position, political stability and further economic development, the height of external debt is one of the factors that have an impact on the height of credit rating.

The credit rating for the Western Balkan countries is shown in Table 9 according to the estimation of the credit rating agency "Standard and Poor's".

The poorest credit rating is given to Montenegro; Bosnia and Herzegovina and Albania have a better position with the values of B +, North Macedonia has the rating of BB- with the latest report in 2013, while Serbia has the best rating with the score of BB. We will notice that among the observed countries, Serbia has the highest credit rating, but it also has the largest share of external debt in BDP,

immediately after North Macedonia, which is primarily visible in the clear short-term and long-term prospect and a strong control of fiscal policy. North Macedonia, with a score of the BB- is among the better rated Western Balkan countries, particularly due to the EU accession efforts, despite its highest percentage of external debt in GDP (73.6%). The next rating will likely give Serbia more positive grades because of the accelerated economic reforms on its pathway to the European Union, additionally due to its external debt that does not exceed the critical limit of 80% of GDP. It is interesting that Bosnia and Herzegovina with the smallest percentage of debt in GDP (25.9%) has a low credit rating. Some of the reasons are found in slow implementation of transition, inadequate developmental policy and political inconsistency.

Table 9. Rating

	Rating	Last Credit Rating Action
Bosnia and Herzegovina	B+	2019-03-08
Serbia	BB	2018-12-14
Montenegro	B	2017-10-06
Albania	B+	2016-02-05
North Macedonia	BB-	2013-05-24

Source: Standard & Poor's, April 2019.

It is noticed that the credit rating of the Western Balkan countries does not depend on the size of the external debt; the emphasis is put on the success of transition, market liberalisation, the aspiration towards European integrations and political stability.

In some Western Balkan countries where fiscal consolidation was thoroughly conducted, the debt continued to fall, while in others it continued to grow. Over the past two years, the combination of economic growth, fiscal consolidation and active management has decreased the share of public debt in Serbia, Albania and Bosnia and Herzegovina. Particularly in Serbia, the decrease of this ratio was influenced by fiscal surplus, economic recovery and exchange rates. It is estimated that the debt in Montenegro will follow the trend to grow over the next two years, driven by the construction of Bar-Boljare highway. In North Macedonia public debt has grown over the last two years, due to the issue of Eurobonds (World Bank, 2018).

5. The characteristics and sustainability of indebtedness in Serbia

It can be said that borrowing is the necessity, cause and consequence during the transition period, poor economic activity, the deficit of current account transactions, the appreciation of the domestic currency and budget deficit. The

indebtedness of Serbia and its characteristics are almost similar to the observed countries, which found the necessary funds for establishing a healthy market economy, stable investment ambience and financial market in foreign accumulation.

For the development of macroeconomic stability and the improvement of competitiveness of Serbian economy, which has a clearly defined aim of European integration, and in the current developmental conditions, the borrowing from the international financial institutions, governments and government agencies is unavoidable.

In the total structure of debt to international financial organisations in 2018, the fund of European Investment Bank (EIB) prevailed with the amount of EUR 2,434.1 million, over the fund of International Bank for Reconstruction and Development (IBRD) with the amount of EUR 2,165.2 million. However, the fund of International Monetary Fund (IMF) prevailed in the overall scope with the total amount of EUR 2,076.9 million in 2012. Although this fund was significantly lower than the International Bank for Reconstruction and Development in the period until 2009, when two withdrawals of USD 548.4 million in January and USD 401 billion in May, then USD 472.9 million in June 2010 were approved for the implementation of the Serbian Government programme of overcoming the impact of global financial crisis. The IBRD loans that were next in size during the last decade supported the reform efforts of Serbian government through improving the business ambience and encouraging new entrepreneurship together with the attraction of foreign investments. In addition, the strengthening of budgetary limits in economy was provided through continuous reform of social and restructuring of public enterprises. It is noticeable that the debt to governments and government agencies gradually increased as a result of establishment of more efficient financial system, reprogramming and regular payments, as shown in Table 10. Although the contract of two-phase debt write-off was previously agreed with the creditors of Paris Club in 2001, the first phase was completed in 2002, with the write-off 51%, while the second phase was in 2006 with a write-off of 15% of the debt. The debt write-off for London Club was based on the write-off of about 62% of debt, and with the repayment within the period of 20 years with a 5-year grace period.

A country is not threatened by the debt crisis as long as it manages to engage its so profitably as to provide the accumulation that will be sufficient for the return loans of principal, and the profit that will be at least as much as the loan interest (Arandelović, 2008, p. 61). Based on macroeconomic indicators, Serbia is not in danger of the non-sustainability of external debt, although the indicators of indebtedness suggest that Serbia was in the zone of the middle-indebted countries in the last few years, Table 11. Thus, for example, only a couple of years ago the ratio between debt and GDP, was 73.5% in 2015, while at the end of 2018 it was reduced to 62.9%, and the ratio between debt and export of goods and services was 126.7%.

Table 10. External debt to creditors

	International financial organisations							Foreign Governments, Development Banks and Foreign Government Agencies		
	IMF	IBRD	IDA	IFC	EIB	EU	EBRD	Paris Club - Consolidated debt	Foreign Governments	Foreign Government agencies
2000	164.6	1,655.7	0.0	105.2	275.6	0.0	0.0	4,168.9	523.2	0.0
2001	308.7	1,815.4	0.0	146.2	56.4	223.8	2.2	4,313.2	637.4	0.0
2002	541.5	1,815.4	160.9	145.4	102.9	223.8	42.4	2,518.4	608.2	41.7
2003	730.4	1,815.4	219.5	174.2	155.8	259.8	112.1	2,301.9	525.7	61.2
2004	706.4	1,815.4	318.5	69.2	207.0	259.8	221.0	2,186.2	522.6	78.3
2005	731.8	1,801.6	407.7	30.0	275.2	273.3	301.4	2,358.3	645.3	117.3
2006	185.4	1,616.0	417.9	139.7	386.6	273.3	368.9	1,761.2	620.8	202.2
2007	0.0	1,603.1	425.6	178.9	516.9	273.3	415.4	1,674.3	595.4	231.3
2008	0.0	1,588.0	461.1	183.6	591.7	273.3	600.3	1,674.6	659.6	236.1
2009	1,532.1	1,238.2	469.0	197.9	740.5	273.3	671.5	1,581.0	503.2	314.2
2010	1,978.3	1,358.7	511.6	223.5	1,030.6	273.3	857.7	1,616.7	684.7	371.6
2011	2,076.9	1,437.2	540.9	366.3	1,550.6	373.3	1,179.9	1,582.0	720.0	479.1
2012	1,841.0	1,452.5	536.7	420.6	2,020.5	328.5	1,185.5	1,475.9	747.5	606.6
2013	1,130.8	1,436.0	496.4	464.6	2,314.3	283.8	1,202.1	1,370.4	947.7	751.4
2014	614.4	1,534.5	491.6	341.7	2,318.2	231.8	1,078.8	1,362.8	1,904.2	896.1
2015	507.5	1,836.5	471.6	305.8	2,262.8	179.9	1,034.1	1,367.6	2,123.5	1,137.4
2016	493.7	1,844.4	412.9	255.6	2,338.3	125.2	1,062.6	1,319.0	2,278.3	1,327.1
2017	461.6	2,122.3	329.7	173.8	2,365.3	82.0	994.0	1,177.7	1,977.0	1,523.0
2018	472.5	2,165.2	279.4	314.2	2,434.1	38.7	1,144.6	1,093.4	2,011.0	1,991.1

Source: National Bank of Serbia, April (2019a).

Table 11. Indicators of external position of Serbia, indicators of external solvency (in%)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Foreign debt/BDP	55.1	58.8	68.6	74.5	68.1	76.1	70.4	72.4	73.5	72.1	65.3	62.9
Short-term debt/GDP	12.2	14.1	14.8	16.6	11.3	13.7	11.4	9.5	11.3	11.9	12.7	9.4
External debt/export	214.3	218.9	276.9	247.1	216.5	223.6	184.0	177.7	166.8	152.4	132.4	126.7

Source: National Bank of Serbia, April (2019b).

Considering some relevant macroeconomic indicators, such as the growth of GDP and the rise of external debt, we notice that where until 2012 external debt grew faster, the value of GDP increased and the debt value grew at a steady pace. Furthermore, the average export rate was lower than the import rate. This can be observed in the balance of current transactions, which, during the observed period, constantly recorded the deficit at a steady rate, amounting -5.2% in 2010, Table 12. Also, the unemployment and inflation rates recorded permanent decline, while the salary costs increased annually with the same or decreased productivity. The issue of good sustainability was in the high public consumption, which did not exceed the European criteria for sustainability of 3% in four successive years.

Table 12. Basic macro-economic indicators

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Real GDP growth (in%)	5.7	-2.7	0.7	2.0	-0.7	2.9	-1.6	1.8	3.3	2.0
Consumer prices (in%)	8.6	6.6	10.3	7.0	12.2	2.2	1.7	1.5	1.6	3.0
Export of goods and services (in EUR million)	9,583	8,043	9,515	11,145	11,469	13,937	14,451	15,728	17,385	19,312
Growth rate% compared to previous year	18.2	-16.1	18.3	17.1	2.9	21.5	3.7	8.8	10.5	11.1
Import of goods and services (in EUR million)	18,267	13,099	14,244	16,487	16,992	17,782	18,096	18,643	19,597	22,343
Growth rate% compared to previous year	18.1	-28.3	8.7	15.7	3.1	4.7	1.8	3.0	5.1	14.0
Current payment balance account (in% of GDP)	-20.0	-6.3	-6.5	-10.3	-10.9	-5.8	-5.6	-3.5	-2.9	-5.2
Unemployment (in%)	13.6	16.1	19.2	23.0	23.9	22.1	19.2 ⁿ⁾	17.7	15.3	13.5
Earnings (average for the period in EUR)	402.0	337.8	331.8	372.5	366.1	388.5	379.8	367.9	374.5	383.9
Republic budget surplus/deficit (in% of GDP)	-1.6	-3.0	-3.2	-3.8	-5.6	-4.9	-5.9	-2.7	-0.2	0.7
Consolidated fiscal result (in% of GDP)	-2.5	-4.2	-4.3	-4.5	-6.4	-5.1	-6.2	-3.5	-1.2	1.1
Public debt of the Republic of Serbia, (central level of state, in% GDP)	26.8	30.9	39.5	42.8	52.9	56.0	66.2	70.0	67.8	57.9
GDP (in EUR million)	35,701	32,486	31,546	35,432	33,679	36,427	35,467	35,716	36,723	39,183
External debt (in EUR million)	20,982	22,272	23,509	24,123	25,645	25,644	25,679	26,234	26,494	25,578

Source: National Bank of Serbia, April (2019c).

Macroeconomic trends suggest that the borrowing must constantly increase in both domestic and foreign markets or in the public sector by increasing the taxes in order to continue the permanent development and complete developmental capacity of the economy. Such movement of economy can be supported by gradual switching from the economy of consumption and import to the economy of production and export, i.e. faster accession to the European Union and increase of macroeconomic competitiveness.

6. Conclusion

Since 2008, economic reforms in the observed countries have been implemented together with the increased scope of indebtedness. This is not a new rule; it is also found in the developed countries, but it echoes somewhat more distinctly in the developing countries whose initial stages of growth require the funds beyond their capacity. However, depending on the economic policy programme, the poor management over the borrowed funds may result in an endless transition or life-long work in the repayment of interest.

Macroeconomic indicators and data do not show significantly noticeable difference in the current state of indebtedness and sustainability of these countries. Serbia has a higher ratio between the foreign debt and GDP; however, the fact that it is in the process of joining the European Union, gradually focusing on production, should be borne in mind. Albania and North Macedonia with almost the same amount of the total external debt take somewhat worse position, based on the indicators of external debt/GDP that are at the very limit of high indebtedness, and are at the risk of debt crisis unless adequate economic policy is implemented in terms of allocation of the borrowed funds to production and export capacities. Due to its current development, Montenegro is still not threatened by a debt crisis, regardless of the high level of external debt per capita. Bosnia and Herzegovina has a very favourable position related to indebtedness, but followed by very unfavourable conditions in borrowing, i.e. the lowest credit rating in the region and very high internal debt.

For some of the Western Balkan countries the course of economic development with continuous borrowing, driven by increased consumption, both public and personal, cannot be sustainable for long. Macroeconomic stability must be primarily created in order to achieve competitiveness and discover the real sources of financing economy. It is necessary to increase net export, decrease public consumption, increase domestic and foreign investments and coordinate fiscal and monetary policy. It is also imperative to invest in those projects that are based on the development of the economic structure, which will be highly profitable.

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UTICAJ ZADUŽENOSTI NA PRIVREDNI RAZVOJ ZEMALJA ZAPADNOG BALKANA

Rezime: Stepen povećane zaduženosti u zemljama Zapadnog Balkana generisan je sve većom potrošnjom, u smislu povećanog privrednog rasta kao i strukturnih reformi. Iako su ove zemlje tokom poslednjih nekoliko godina pokazale povećanje izvoza i stranih direktnih investicija, deficit tekućeg računa je i dalje visok, što se posebno ogleda u odnosu spoljnog duga prema BDP-u, koji ne samo što je visok nego je i u fazi rasta. Takođe, kako su domaća finansijska tržišta nedovoljno razvijena, ove zemlje su u velikoj meri izložene povećanju cene inostranog zaduživanja. Dosadašnja politika zaduživanja se nastavlja sa sve većim ulaganjem u neproizvodnu potrošnju, što zahteva ponovno zaduživanje. Pokazivanje trenda zaduženosti, analiza i komparacija spoljnog duga ovih zemalja pokazuje relevantne smernice u izboru adekvatne ekonomske politike čime bi se podigla konkurentnost ovog dela Balkana. Takođe će se komparativnom analizom stanja zaduženosti posebno oceniti stanje zaduženosti Srbije, struktura i kretanje spoljnog duga prema međunarodnim finansijskim institucijama. U radu je izvršena komparacija pomoću standardnih pokazatelja zaduženosti zasnovanih na podacima nacionalnih zavoda za statistiku i međunarodnih finansijskih institucija.

Ključne reči: spoljni dug, javni dug, konkurentnost, privredni rast, Zapadni Balkan.

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