GROWING PUBLIC DEBT AS A RESULT OF THE COVID-19 PANDEMIC IN THE WESTERN BALKANS REGION: THE CASE OF NORTH MACEDONIA AND SERBIA

**ABSTRACT:** Just before the start of the pandemic, the public debt of the Western Balkan countries averaged over 50% of GDP, with large fluctuations between countries, which narrowed the fiscal space for resolving the consequences of the COVID-19 crisis. Despite that, although partially stable to pandemic turbulence, the needs for borrowing in the countries of the Western Balkans are growing sharply, as a result of which future interest payments are increasing in the conditions of increased public debt. It is estimated that all countries in the region will record an increase in public debt, while Montenegro will have the highest level of growth. That is why the countries of the Western Balkans need to implement successful fiscal consolidation and more prudent fiscal management at the national level, but also to pay attention to higher government borrowing and increased public investment in pandemic conditions. The aim of this paper

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is to analyze the movement of public debt of the countries in the region in the crisis caused by the COVID-19 pandemic, with special emphasis on the case of North Macedonia and the Republic of Serbia. The paper consists of three parts. After the introduction, the first part of the paper presents an analysis of public debt in the Western Balkans region. The second part analyzes the public debt in the case of the Republic of Serbia, while the third part deals with the analysis of the public debt in the case of North Macedonia. Finally, concluding remarks are given.

Key words: public debt, growth, pandemic COVID-19, Western Balkans, North Macedonia, Republic of Serbia.

INTRODUCTION

Following the great global economic and financial crisis of 2008, public debt has emerged as a global problem. There was an upward trend of public debt, expressed as a percentage of GDP, both in developed and developing countries. Consequently, many EU countries, as well as the United States and Japan, have faced increased public debt and the need for adequate financing. Such circumstances have contributed to the global economic crisis of 2008 plunging the world into a new debt crisis. A concerning factor regarding the public debt is the problem of its servicing. Debt, as a key problem that arises from the inability of a country to meet its due liabilities, is determined by the amount and structure of public debt, economic capacity, as well as the fiscal policy of the country (Економски институт, 2017).

The crisis caused by the COVID-19 virus pandemic has severely affected the public finances of most countries in the world (Kisin, Ignjatović, 2020) including the countries of the Western Balkans. Therefore, in order to mitigate the economic consequences of the pandemic, the countries of this region provided the state with extraordinary expenditures by borrowing, which led to an increase in public debt. However, overemphasizing public debt for development policy can potentially be very damaging and can lead to major strategic failures, especially continuous and intensive borrowing (Madžar, 2019). Bearing in mind that the economies of the Western Balkans, as well as the global economy, currently have record levels of public debt, which has been constantly growing over the years, it can be concluded that the economies are "in immediate danger". The obligation of countries is responsible management of public debt, which includes economically justified use of these funds, but also care about how to use public debt (Grgić, 2010., pp. 6).
As the most developed country in the region (Ignjatović et al., 2020, pp. 21), Serbia has gone through a period of dramatic changes, managing the political and economic environment. At the beginning of 2020, the focus of the Serbian Government was on supporting the economic recovery from the consequences of the pandemic (Ignjatović, et al., 2021), when a stimulus program of about 13% of GDP was approved, which affected a mild recession in the amount of -1% (World Bank, 2021a). Nevertheless, the program had significant fiscal costs, given the growth of the fiscal deficit to 8.0% GDP and the significant growth of public debt 56.5% of GDP approaching the high indebtedness threshold (NBS, 2021, pp. 2-13). Galloping the growth of public debt in this way ranks Serbia among the highly indebted countries (Jotić and Lovre, 2013, pp. 112; Obradović-Matijašević, Ilić, 2018, pp. 93). However, although the Serbian economy began to show signs of recovery in the first half of 2021, even in the second year of the pandemic, the future remains uncertain. It is certain that another "wave" of public debt growth in the coming period would not be sustainable. Also, since borrowing policy is an integral part of macroeconomic policy, it cannot be successful if general macroeconomic policy is ineffective (Kovačević, Stevović, 2019, pp. 4).

In the case of North Macedonia at the end of 2019, the overall fiscal deficit was expected to remain below 2% of GDP, keeping public debt stable (IMF, 2020a). However, there were estimates that public debt in 2020 would continue its upward trajectory and reach a level of as much as 52% of GDP due to the high gross need for financing but also potential future shocks that would make negative differences. However, as North Macedonia began to record economic growth after a major slowdown, a debt increase of 60.2% of GDP in 2020 was recorded (Ministry of Finance, 2021, pp. 21), mainly due to higher government borrowing, but also due to increased public investment. This year, a growth trend of 41.4% is expected, while the return of public finances to a sustainable path will be necessary in the upcoming period (World Bank, 2021).

The question inevitably arises, what will be the further consequences of the COVID-19 pandemic (Kisin, et al., 2021) in the Western Balkans region, known for public debt crises (Jeremić et al. 2019, pp. 2). Therefore, the aim of this paper is to analyze the movement of public debt as a macroeconomic aggregate in the conditions of the COVID-19 pandemic on the example of the Western Balkans in the case of North Macedonia and the Republic of Serbia. The first part of the paper presents an analysis of public debt in the Western Balkans region. The second part of the paper analyzes the public debt in the case of the Republic of Serbia, and the third part deals with the analysis of the public debt in the case of North Macedonia. Finally, concluding remarks are given. Certainly, the topic for some future research may be the analysis of the
individual contribution of each individual alimony for each budget item affected by the pandemic.

**PUBLIC DEBT ANALYSIS OF THE WESTERN BALKANS REGION**

The countries of the Western Balkans, after a period of suppressing the impact of the economic crisis, sought to strike a balance between fiscal policy measures and support for economic recovery and ensuring fiscal sustainability. Some countries in the region have improved their fiscal position in recent years, thus creating space for fiscal action and financing of public assistance programs, which became indispensable with the entry into the COVID-19 crisis.

With the onset of the pandemic, all countries in the region have increased their public debt, much more than was the case during the global economic crisis. In response to the pandemic, as fiscal policy is crucial, all Western Balkan countries have introduced the necessary measures to mitigate the impact of the crisis. Nevertheless, their effectiveness depends on the extent to which they are tailored to the specific case in each of the countries in the region. However, as the need for borrowing grows, later interest payments will increase in the Western Balkans, given the increased fiscal deficit and public debt and reduced availability of funds in the financial markets (World Bank, 2021).

Despite the fact that the regional economy is predicted to grow in the period 2020-2021, it will still remain slightly below the ten-year maximum achieved in 2018 (Trivić, 2019). Also, the high public debts of some countries in the region, together with fiscal risks, make these countries vulnerable to growing uncertainty. According to data (World Bank, 2021a) in the period 2009-2019 the average public debt in the Western Balkans was 31.6% of GDP. The highest level was achieved in 2009 in the amount of 20.4%, after which a constant increase in debt was recorded. If we look at 2020, the public debt of the Western Balkan countries amounted to over 55% of GDP, with large differences between individual countries, as a result of which the fiscal space for resolving the consequences of the crisis was narrowed (Chart 1).
Today, all Western Balkan countries have higher debts than before the global financial crisis, while their risk premiums are higher. If we compare the increase in public debt between countries in the period 2008-2019 it is concluded that Albania and BiH recorded a moderate increase of between 13-17% of GDP, North Macedonia and Serbia an increase of about 25% of GDP, and Montenegro an increase in debt of close to 50% of GDP.

Albania, BiH and Serbia entered the pandemic crisis in the period of improving the fiscal position, where they previously in 2018-2019 reduced public debt between 1 and 1.7% of GDP, with strong economic growth. North Macedonia kept its debt at a level slightly higher than in 2018, with a growth of 0.3% of GDP. Montenegro faced a public debt crisis of over 81% of GDP. Although net debt decreased in 2019 after the sale of Eurobond issues in the amount of EUR 500 million (10% of GDP), these funds were deposited and used to service debt maturing in 2020 (including 320 million on the basis of repurchased Eurobonds).

According to the IMF (2020b, Bakić, 2020, pp.74) in the case of Albania, successful fiscal consolidation and more prudent fiscal management have made it possible to reduce the share of public debt to 32.9% of GDP this year, compared to 34% in 2020. Although Albania's public debt is on a downward trajectory, its contingent liabilities on the basis of public-private partnerships are growing. In Bosnia and Herzegovina, public debt is stable at 38%, while debt reduction is expected to fall to 35.3% this year. It is estimated
that public debt will remain low and sustainable in pandemic conditions, and that it will be reduced to 26% of GDP by 2025. International financial institutions will continue to finance projects, and the Government is expected to return fiscal positions after the crisis subsides, which will stabilize the public debt to the level of 2019.

On the other hand, the economy of Montenegro is very specific, in the sense that it is often vulnerable, but it often recovers quickly, with borrowing to the limits of liquidity, in order to repay incomes. Montenegro used to have large oscillations of public debt, which amounted to 80% at the beginning of this century, but in the period before the beginning of the world economic crisis in 2007-2008 decreased to 28% (Vukićević, 2020). However, according to estimates by World Bank (2021b), public debt in Montenegro in 2020 reached 92% of GDP, while this year it will amount to 79.5%. However, the question arises as to whether another rebalance will be made, through additional borrowing, which would enable the payment of salaries, social benefits and basic maintenance of investments. In addition, one of the main topics in Montenegro is debt restructuring with a Chinese investor to build a highway. The reason is that Montenegro, like other countries in the Western Balkans, has a limited access to European funds and a great need for investment in infrastructure, so they see Chinese projects as a developmental opportunity (Filipović, Ignjatović, 2021. pp. 83). In the following text, we will analyze in detail the public debt in North Macedonia and the Republic of Serbia.

THE IMPACT OF THE COVID-19 PANDEMIC ON PUBLIC DEBT OF THE REPUBLIC OF SERBIA

Since 2000 and the beginning of the transition process, in terms of public debt, Serbia has achieved a long-term trend of reduction, due to good economic results and debt write-offs to individual creditors. At the beginning of the global economic crisis, in 2008 public debt was at a decades-long low level, with public debt-to-GDP ratio of 26.8% (Ministry of Finance of the Republic of Serbia, 2021c). After good macroeconomic results, improvement of the fiscal position and reduction of indebtedness of Serbia, as a consequence of the economic crisis, since 2009, a new period of public debt growth trend has followed. According to official reports, Serbia's public debt has doubled in just four years between 2009 and 2013, to increase to almost 15 billion euros by 2016. (Chart 2).
The share of public debt in the GDP of Serbia, as the second relevant indicator of indebtedness, during the observed period recorded constant and progressive growth, which at the end of 2015 amounted to as much as 70% of GDP. After that, positive results were recorded, when there was a decrease in indebtedness. Nominally, public debt was reduced by about a billion euros in the period 2015-2019, while a significantly better result was achieved in the ratio of public debt and GDP, according to which the share of public debt in GDP decreased by about 18% during the same period. Although according to the official projections at the time, it was expected that the tendency of public debt reduction would continue (Kisin, Mihic, 2021), the end of 2019 brought the appearance of the COVID-19 pandemic, which will become a global phenomenon in early 2020. Officially, the beginning of the pandemic in Serbia was in March 2020, when epidemiological restrictions began, which strongly affected the decline in economic activity and public finances. At the same time, such a crisis requires great fiscal support, for the payment of extraordinary expenses and for the implementation of a package of mitigation measures to help the economy and the population (Kisin, Ignjatovic, 2020).

Due to the expansive fiscal policy as a result of extraordinary circumstances, the dynamics of Serbia's public debt since the beginning of 2020 has a strong growing trend. Total public debt of Serbia on December 31st 2020 amounted to 26.67 billion euros, which is an increase of 2.7 billion EUR
compared to the end of 2019. The change in the share of public debt in GDP, as one of the most important criteria of sustainability, also had an increase, which is a consequence of the growth of public debt and falling GDP, due to the COVID-19 pandemic. At the end of 2019, the share of public debt in GDP was about 52%, but growth was recorded during 2020, so at the end of the first year of the pandemic in Serbia, the share of public debt to GDP was 57.4% (Table 1).

Table 1. – Public debt of Serbia, amount and structure, 2019 and 2020.

<table>
<thead>
<tr>
<th></th>
<th>2019.</th>
<th>% GDP</th>
<th>2020.</th>
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<tbody>
<tr>
<td><strong>1. Direct obligations</strong></td>
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<tr>
<td>Internal public debt</td>
<td>9.814.869.889</td>
<td>21,3%</td>
<td>11.217.692.874</td>
<td>24,1%</td>
</tr>
<tr>
<td>External public debt</td>
<td>12.640.912.641</td>
<td>27,5%</td>
<td>14.028.483.523</td>
<td>30,2%</td>
</tr>
<tr>
<td>Total direct obligations</td>
<td>22.455.782.530</td>
<td>48,8%</td>
<td>25.246.176.397</td>
<td>54,3%</td>
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<tr>
<td><strong>2. Indirect obligations</strong></td>
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<tr>
<td>Internal public debt</td>
<td>177.949.979</td>
<td>0,4%</td>
<td>216.175.173</td>
<td>0,5%</td>
</tr>
<tr>
<td>External public debt</td>
<td>1.310.274.912</td>
<td>2,8%</td>
<td>1.206.978.379</td>
<td>2,6%</td>
</tr>
<tr>
<td>Total indirect obligations</td>
<td>1.488.224.891</td>
<td>3,2%</td>
<td>1.423.153.551</td>
<td>3,1%</td>
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<tr>
<td><strong>3. Local government, state sector</strong></td>
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<tr>
<td>Local government public debt and non-guaranteed other government public debt</td>
<td>620.677.207</td>
<td>1,3%</td>
<td>582.005.693</td>
<td>1,3%</td>
</tr>
<tr>
<td><strong>In total</strong></td>
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<tr>
<td>Public debt of the central level of government (1+2)</td>
<td>23.944.007.421</td>
<td>52,0%</td>
<td>26.669.329.948</td>
<td>57,4%</td>
</tr>
<tr>
<td>General government debt total (1+2+3)</td>
<td>24.354.852.572</td>
<td>52,9%</td>
<td>27.055.797.547</td>
<td>58,2%</td>
</tr>
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Source: Authors based on data by Ministry of Finance of the Republic of Serbia (2021b)

The structure of public debt is based on the loan issuance system and according to the territorial principle, i.e. depending on whether the creditors are domestic or foreign entities. These criteria provide a basic division into direct and indirect obligations in public debt, which includes internal and external debt. For decades, Serbia has been borrowing predominantly from foreign creditors, creating higher external indebtedness. This trend continued during 2020 as well. According to the data presented in Table 1, indebtedness with foreign creditors dominates the structure of Serbia's public debt. At the end of 2020, the external public debt amounted to 15.2 billion euros, and the internal public debt to around 11.4 billion euros. Compared to 2019, the structure of public debt has changed in the direction of increasing external debt, which amounted to 1.3 billion euros, which is a total increase of about 2.5% share in GDP, from 30.3% at the end of 2019 to 32.8% at the end of 2020. Also, the total direct obligations make up almost the entire public debt of the Republic of Serbia. According to the data of the Ministry of Finance of the Republic of Serbia (2021b), the percentage of public debt in foreign
currency at the end of December 2020 was 69.5%, where the euro dominates in relation to all other foreign currencies. In terms of the structure of interest rates, Serbia's public debt is dominated by fixed interest rates with over 80% of the contracted share, while the other 20% is contracted at variable interest rates.

The growth of Serbia's public debt continued during the second year of the pandemic. In 2021 Serbia practically eliminated any epidemiological measures, especially those related to the interruption or reduction of economic activity, which has a positive impact on GDP growth. The real growth of GDP in the third quarter of 2021, compared to the same period a year before, amounted to 7.7%, which is also the average GDP growth in 2021 (Statistical Office of the Republic of Serbia, 2021). At the same time, government borrowing had a new wave of growth. From the last quarter of 2020, the total public debt increased by about 3 billion euros until the end of the third quarter of 2021, which is in only 9 months (Chart 3).

**Chart 3 – Quarterly trend of public debt, Q1 2020 – Q3 2021.**

![Chart 3](image)

*Source: Authors based on data by Ministry of Finance of the Republic of Serbia (2021c)*

Although nominally public debt continued the growing trend, the mentioned strong economic growth in 2021 caused a slight downward trend in the share of public debt in Serbia's GDP by about 1% compared to the end of 2020. According to the latest available data, as of October 31st 2021, the total public debt of Serbia amounts to almost 30 billion euros, with the public
debt-to-GDP ratio 57.2% (Ministry of Finance of the Republic of Serbia, 2021b). Summarizing the trend of public debt, we come to the conclusion that from the beginning of the pandemic to the latest available data, the state of Serbia has borrowed an additional 5.6 billion euros. The reasons for government borrowing are numerous and varied, especially due to extraordinary circumstances. In this context, the growth of public debt due to the pandemic was expected. However, questions arise as to whether the additional debt of 5.6 billion euros is too high for an economy like Serbia, as well as the question of the economic justification of so much borrowing (Kisin, Mihić, 2021).

It is also important to point out that from the beginning of the debt growth due to the crisis caused by the COVID-19 pandemic until the latest available data, the share of public debt in GDP did not exceed 60%, which would classify Serbia as a highly indebted country according to EU methodology and Maastricht criteria.4 Two years after the start of COVID-19, due to significant GDP growth during 2021, Serbia has a good chance of returning to the pre-pandemic period. According to the Fiscal Strategy for 2022 with projections for 2023-2024, (Table 2) and the planned medium-term GDP growth of around 4%, the projections of Serbia's indebtedness should have a declining trend (Ministry of Finance of the Republic of Serbia, 2021a).

Table 2. – Public debt forecast, 2021-2024.

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<tr>
<td>Public debt, in billions of RSD</td>
<td>3.505,8</td>
<td>3.698,8</td>
<td>3.842,8</td>
<td>3.934,8</td>
</tr>
<tr>
<td>Public debt, in % of GDP</td>
<td>59,0</td>
<td>58,3</td>
<td>56,5</td>
<td>54,4</td>
</tr>
</tbody>
</table>

Source: Authors based on data Ministry of Finance of the Republic of Serbia (2021a).

According to the data of the Ministry of Finance of the Republic of Serbia (2021a), in the medium term, a gradual balancing of public finances and a reduction in indebtedness is envisaged. Public debt would nominally have a slight growing trend until 2024, but due to the planned GDP growth rates, the share of public debt in GDP would begin to decline to around 55% by the end of 2024. Serbia's public debt management strategy until 2024 envisages various financial and fiscal risks, which can lead to an increase in

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4 In Serbia, data are available according to three different methodologies for public debt monitoring: 1. National methodology according to the Law on Public Debt; 2. EU methodology - Maastricht criterion, which monitors the gross public debt of the general government sector; 3. According to the Law on Budget System, which observes the general government debt.
indebtedness and public debt service costs. Potential risks include: refinancing risk, foreign exchange risk, market risk (interest rate risk, inflation risk), liquidity risk, credit and operational risks and risks related to the distribution of servicing costs (debt structure, concentration of liabilities). In the medium term, achievable macroeconomic projections and fiscal policy goals are set, and recommendation is to increase the credibility of the strategy through decisive and consistent implementation, without frequent changes in public policies (Fiscal Council of the Republic of Serbia, 2021).

THE IMPACT OF THE COVID-19 PANDEMIC ON PUBLIC DEBT OF THE NORTH MACEDONIA

During pandemic period, in terms of global and regional trends, North Macedonia was characterized as a moderately indebted country. Despite all challenges, before the outbreak of the COVID-19 pandemic, during 2019 in a condition of a stable domestic environment and significantly reduced inflationary pressure, North Macedonia provided better economic growth compared to previous years. Financial stability was supported by satisfactory stability of public finance and a sustainable level of public debt (Ignjatovic et al, 2021).

Chart 4 – The trend of the Public debt (% of GDP) and Government debt (% of GDP) of North Macedonia before the Covid-19 pandemic

Source: Authors based on data Open economy (2021)
In the 2002–2008 period, North Macedonia was characterized by a continuous decline of public debt from 43.2% of GDP in 2002 to 23.0% of GDP in 2008, while the government debt was 20.5% of GDP (Hristovska and Spasovska, 2016). From 2008 to 2016, the public debt of North Macedonia was continuously increasing, reaching its maximum of 48.8% of GDP in 2016, marking the largest increase since the country's independence (Chart 4). In contrast to the upward trend that was recorded in the period from 2008 to 2016, the public debt in the period after 2016 was slightly stabilized. Prudent management of public finances resulted in stabilizing the level of public debt and government debt. Consequently, just before the outbreak of the Covid-19 crisis, public debt amounted to 5,540.9 million euros, i.e. 49.4% of GDP, while government debt amounted to 4,556.8 million euros, i.e. 40.7% of GDP (Government of the Republic of North Macedonia, 2021).

With the outbreak of the COVID-19 crisis, the government of North Macedonia has taken a series of measures to support companies and households in order to mitigate the economic and social impact of the crisis, which resulted in an increase in public debt. As a result, a fiscal consolidation policy has been implemented in order to stabilize the debt level.

<table>
<thead>
<tr>
<th>Table 3. – Public Debt Stock, mil. EUR</th>
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<tr>
<td>General government dept</td>
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<tr>
<td>Guaranteed public debt</td>
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<tr>
<td>Non-guaranteed public debt</td>
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<tr>
<td>Total public debt (general)</td>
</tr>
<tr>
<td>External public debt</td>
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<tr>
<td>Domestic public debt</td>
</tr>
<tr>
<td>Public debt as % of GDP</td>
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Source: Authors based on data by Ministry of Finance of the Republic of North Macedonia (2021: 21)

In conditions of the higher budget deficit and increased needs for its financing, the government debt of North Macedonia at the end of 2020 amounted to 5,516 million euros, i.e. 51.2% of GDP, which is an increase of 10.5 p.p. compared to 2019. The annual growth of central government debt is a result of the increase in external debt (from 24.6% to 31.4% of GDP), with the simultaneous growth of domestic debt (from 15.9% to 19.7% of GDP). However, even with this level of government debt, North Macedonia remains a moderately indebted country with government debt lower than the average debt level of EU27 countries, which at the end of 2020 was accounting for 90.7% (National Bank of the Republic North Macedonia, 2020: 31). On the other hand, the public debt of the Republic of North Macedonia at the end of
2020 amounted to 6,483.3 million euros, i.e. 60.2% of GDP, which is an increase of 10.8 p.p. compared to the end of 2019 (Table 3). This is the largest increase in public debt since the independence of North Macedonia. External public debt in 2020 increased by 614.4 million euros, while internal public debt increased by 328 million euros compared to 2019 (Ministry of Finance, 2020., pp. 10-11).

The increase in public debt stems from the increase in external public debt (from 33.1% to 40.2% of GDP), as well as from the growth of domestic public debt (from 16.3% to 20.1% of GDP). Within the public debt, the total government debt (debt of the central government, public funds, and municipalities) in 2020 increased from 40.7% to 51.2% of GDP, while the debt of public enterprises (guaranteed and non-guaranteed) was 8.6% of GDP. At the end of 2020, the share of the government debt in the total public debt was 85.1% (82.2% in 2019), while the share of the debt of the public enterprises (guaranteed and non-guaranteed) in the total public debt was 14.3% (17% in 2019) (National Bank of the Republic North Macedonia, 2020: 32).

In order to keep the public debt level within a sustainable framework, without disrupting the fiscal sustainability, the limit of total public debt in the medium and long term is determined and should not exceed the level of 60% of GDP. As a result of the economic crisis caused by the Covid-19 crisis, a significant part of the EU countries, as well as countries in the region, were forced to expand their budget deficits in order to provide funds to deal with the current pandemic, resulting in an increase in the level of public debt by more than 10 percentage points. The trend of growing the level of public debt was also noticed by North Macedonia by about 10 p.p. and approached the maximum grant determined by the national 2021-2023 Public Debt Management Strategy.

*Chart 5* - Projections on total Public debt (% of GDP) and total Government debt (% of GDP), 2021-2025.

At the beginning of 2021, the impact of the COVID-19 pandemic was still present in the Macedonian economy. In order to easily finance the budget needs, in March 2021 the Republic of North Macedonia issued the eighth Eurobond in the amount of 700 mil. EUR. The government debt at the end of Q1 2021 was 6,207.8 mil. EUR, i.e. 54.1% of the projected GDP. The total public debt, which includes the state debt and the debt of the public enterprises established by the state or the municipalities, the municipalities in the city of Skopje and the city of Skopje, at the end of Q1 2021 was at the level of 7,173.6 million EUR, which represents 62.5% of projected GDP. With the Law on Modification and Amendments to the Law on Public Debt, the national definition of public debt was expanded, and starting from Q2 2019, the unsecured debt of public enterprises is included in the public debt balance (Ministry of Finance, 2020a, pp. 4). Regarding the public debt projections, medium-term analyses show that public debt will exceed the maximum limit of 60% in the period 2021-2023, primarily as a result of fiscal consolidation measures (Chart 5). In the 2024 period, the stabilization of the public debt is expected and its return to the specified limits in 2025, i.e. below 60% of GDP (Government of the Republic of North Macedonia, 2021a: 9).

CONCLUSION

Following the great global economic and financial crisis of 2008, public debt has emerged as a global problem. There was an upward trend of public debt, expressed as a percentage of GDP, both in developed and developing countries. In the years before the COVID-19 pandemic, the reduction of Serbia's public debt was achieved, which created fiscal space for additional borrowing for extraordinary expenditures and measures to support the economy could be supported in potential crisis conditions. However, the COVID-19 pandemic caused an economic downturn, an increase in expenditures and new borrowing, which resulted in negative consequences for Serbia's public finances. Quantitative data show that due to the expansive fiscal policy as a result of COVID-19 crisis, the dynamics of Serbia's public debt since March 2020 has had a strong growing trend. Borrowing of the Republic of Serbia, to finance the budget deficit, was the dominant way of providing funds for the implementation of a package of mitigation measures to help the economy and the population, which has had major changes in the amount of public debt in the last two years. The budget for 2021 foreshadowed large capital investments and raising the quality of life of citizens through increased pensions and salaries in the public sector, higher health expenditures and increased investment in attracting foreign investment, road and railway infrastructure. However, the great uncertainty brought by 2021 shows that
such economic growth can easily not be realized, because the deficit could be significantly higher than planned. The implemented policy of full openness of the Serbian economy, regardless of the epidemiological and health risk, especially during 2021, had positive effects in terms of economic growth, but the growth of the increase in public debt continued. Summarizing the analysis of Serbia's public debt structure, direct obligations dominate, as well as high external indebtedness, which has become one of the features of Serbia's fiscal policy for a long time. According to projections, in the coming years it is planned to reduce the fiscal deficit and public debt of Serbia, which would bring stronger fiscal stability. It is expected that the Serbian economy will return to the level of growth in the medium term before the start of the COVID-19 pandemic. Despite this, there are still challenges that limit short-term and long-term economic growth, indicating that all bottlenecks need to be removed. Any exit strategy from the COVID-19 crisis in the economic part should include reducing public debt in the upcoming years, as one of the most important goals.

During this period, in terms of global and regional trends, North Macedonia was characterized as a moderately indebted country. At the end of 2019, just before the outbreak of the COVID-19 crisis, the public debt of North Macedonia amounted to 5,540.9 million euros, i.e. 49.4% of GDP, while government debt amounted to 4,556.8 million euros, i.e. 40.7% of GDP. With the outbreak of the COVID-19 crisis, the government of North Macedonia has taken a series of measures to support companies and households in order to mitigate the economic and social impact of the crisis, which resulted in an increase in public debt. As a result, a fiscal consolidation policy has been implemented in order to stabilize the debt level. The government debt of North Macedonia at the end of 2020 amounted to 5,516 million euros, namely 51.2% of GDP, which is an increase of 10.5% compared to 2019. Consequently, with this level of government debt, the Republic of North Macedonia remains a moderately indebted country with government debt lower than the average debt level of EU27 countries, which at the end of 2020 was accounting for 90.7%. On the other hand, the public debt of the Republic of North Macedonia at the end of 2020 amounted to 6,483.3 million euros, i.e. 60.2% of GDP, which is an increase of 10.8% compared to the end of 2019. This is the largest increase in public debt since the independence of the Republic of North Macedonia. Regarding the public debt projections, medium-term analyses show that public debt will exceed the maximum limit of 60% in the period 2021-2023, primarily as a result of fiscal consolidation measures. In the 2024 period, the stabilization of the public debt is expected and its return to the specified limits in 2025, i.e. below 60% of GDP.
REZIME
RAST JAVNOG DUGA KAO POSLEDICA PANDEMIJE COVID-19
U ZEMLJAMA ZAPADNOG BALKANA: SLUČAJ SEVERNE
MAKEDONIJE I REPUBLIKE SRBIJE


Ključne reči: javni dug, pandemija, COVID-19, Zapadni Balkan, Severna Makedonija, Republika Srbija

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