ANALYSIS OF PUBLIC DEBT DYNAMICS OF THE REPUBLIC OF SERBIA IN THE PERIOD 2012-2023

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ABSTRACT

This paper examines the public debt dynamics of the Republic of Serbia from 2012 to 2023, a period characterized by significant economic reforms and global challenges. The study analyzes the evolving nature of Serbia's public debt, focusing on its composition, drivers, and impact on the country's economic landscape. Using data from the Ministry of Finance, the National Bank of Serbia, and international financial institutions, we investigate the interplay between public debt, fiscal policies, and macroeconomic indicators. The research reveals distinct phases in Serbia's debt trajectory: a sharp increase from 2012 to 2016, followed by a period of consolidation and reduction until 2019, and then a pandemic-induced surge in 2020 with subsequent stabilization efforts. We examine the effectiveness of fiscal consolidation measures, structural reforms, and their role in debt reduction. The study also assesses the changing structure of public debt, including its currency composition and maturity profile, and how these factors influence Serbia's fiscal vulnerability. Furthermore, we evaluate the sustainability of current debt levels in the context of Serbia's economic growth prospects and global economic uncertainties. This analysis provides valuable insights into the challenges and strategies of public debt management in emerging economies, offering lessons for policymakers and contributing to the broader discourse on fiscal sustainability in transitional economies.

KEYWORDS

public debt dynamics, Serbia, fiscal policy, debt sustainability, economic reforms, debt structure, fiscal consolidation

INTRODUCTION

Public debt encompasses all direct and indirect financial obligations of the state towards domestic and foreign legal entities and individuals. Specifically, Serbia's direct obligations have been incurred both domestically and internationally. The portion of direct obligations incurred within the country falls under the category of internal public debt, while direct obligations incurred abroad constitute external debt. The external debt category also includes all of Serbia's indirect obligations, as all guarantees issued up to the end of 2011, as contingent liabilities of the state, relate to loans from foreign creditors.

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The aim of this research is to analyze Serbia's public debt for the period 2012-2023. Additionally, the study aims to examine the structure of public debt and how it influences its trajectory. Furthermore, the paper will analyze the current account deficit, which serves as a significant source of information for both domestic and foreign investors, as well as for economic policymakers. The structure of public debt will also be examined from the perspective of creditors, and their participation in the total public debt of our country will be presented.

The subject of this research consists of analyzing the dynamics of Serbia's internal and external debt, monitoring it, providing recommendations for its reduction, all with the goal of examining factors that affect the sustainability of public debt. The sustainability of public debt in the coming period depends on GDP growth, reduction of public expenditure volume, changes in their structure, and reduction of the fiscal deficit.

Research methods used include the application of qualitative and quantitative research approaches, with a dominant influence of qualitative analysis of observed (quantitative) data, as well as analysis of available scientific literature and official documents from relevant institutional bodies. For easier disclosure, analysis, and interpretation of the presented data, quantitative data are presented graphically and in tabular form.

PUBLIC DEBT OF REPUBLIC OF SERBIA

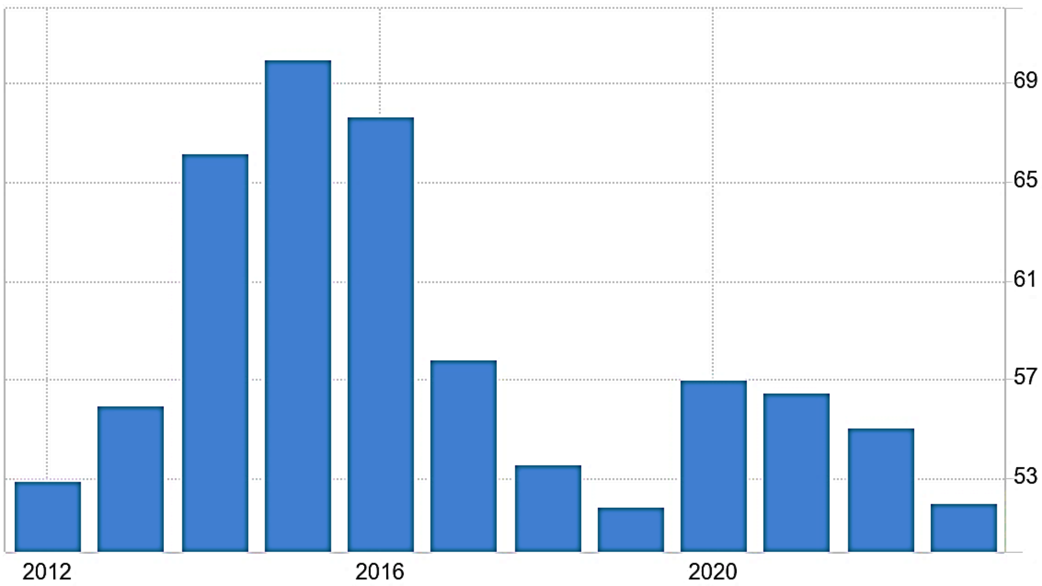
Public debt represents accumulated state funds, or the total claims of creditors against the state. The concept of public debt is often used as a proxy for deficit at all levels of the public sector (Đorđević, Veselinović, 2010, Arsić, Obradović, Stojanović, 2015).

Depending on the context, public debt can be characterized as either risky or non-risky. In a normally functioning economy, the existence of public debt does not necessarily pose a risk. However, if an economy experiences crisis fluctuations, it can lead to liquidity problems. To maintain sustainability in situations characterized by budget deficits and continuous debt increase, the state is compelled to implement certain measures such as refinancing and new debt issuance. If the state fails to take necessary measures to ensure normal economic functioning, it may lead to a situation where the private sector withdraws, and the economy experiences a continuous decline.

The continuous increase in public debt and budget deficit reflects the modern functioning of a country's economy. The state's role involves interventions in various areas, from production to education, and maintaining social peace. This necessitates significant government expenditures. To ensure sustainability, the most crucial condition is increasing savings and investments. In the GDP structure of the Republic of Serbia, the share of public debt is significant, thus requiring a more thorough analysis.

The State and Structure of Serbia's Public Debt in the Period 2012-2023

State debt, based on its origin, can be classified as either internal or external. Internal state debt arises in relation to the domestic banking system, other financial organizations, the population, enterprises, and other entities within the domestic market. When the state borrows from the domestic market, it withdraws a portion of funds from circulation, resulting in a reduction of the money supply. This, in turn, leads to an increase in interest rates. The ultimate consequence is the "crowding out" effect on private investments. External public debt, on the other hand, is incurred in relation to foreign banks or consortiums of banks, or as a bilateral arrangement with the government of another country. In the case of external debt, a significant factor to consider is the country's credit rating. This rating plays a crucial role in determining the terms and conditions under which a country can borrow from international markets or other governments. Both types of debt have distinct implications for the economy. While internal debt may affect domestic interest rates and private investment, external debt exposes the country to international financial markets and currency risks. The balance between these two types of debt is a critical aspect of a country's overall debt management strategy. According to data from the Public Debt Administration, the composition of the Republic of Serbia's public debt reveals a significant disparity between external and internal debt. An analysis of the debt structure shows that external debt constitutes a majority share of the total public debt, accounting for 57.46%. Conversely, internal debt represents a smaller but still substantial portion, making up 42.54% of the total public debt. This distribution highlights the country's reliance on both domestic and international sources of financing, with a slight tilt towards external borrowing. Such a composition has important implications for Serbia's debt management strategies, exposure to currency risks, and overall economic policy (Bakić, 2020).



Graph 1. GDP to Public debt ratio Republic of Serbia
Source: Trading economics, https://tradingeconomics.com/serbia/government-debt-to-gdp (Accessed 8/18/2024)

The evolution of Serbia's public debt as a percentage of GDP from 2012 to the end of 2023 presents a narrative of economic challenges, policy responses, and external shocks. This period can be divided into several distinct phases, each reflecting different economic conditions and policy approaches.

1. Initial Growth Phase (2012-2015): In 2012, Serbia's public debt stood at 52.9% of GDP, already above the legal limit of 45% set by the country's fiscal rules. The subsequent years saw a rapid escalation of debt (Trklja, 2015, Rakita, 2016):

- 2013: 56.0%
- 2014: 66.2%
- 2015: 70.0%

This sharp increase was primarily driven by high budget deficits, slow economic growth, and the depreciation of the dinar. The global economic slowdown following the 2008 financial crisis continued to impact Serbia's economy during this period. Additionally, the country faced the challenge of restructuring its economy, which led to increased government spending and borrowing.

2. Fiscal Consolidation Phase (2016-2019): Recognizing the unsustainability of the debt trajectory, Serbia implemented a series of fiscal consolidation measures starting in late 2014. The effects of these policies became evident from 2016 onwards:

- 2016: 67.7%
- 2017: 57.8%
- 2018: 53.6%
- 2019: 51.9%

This remarkable reduction in the debt-to-GDP ratio was achieved through a combination of measures including public sector wage cuts, pension reforms, improvements in tax collection, and structural reforms to boost economic growth. The success of these measures was also supported by a more favorable global economic environment and increased foreign direct investment into Serbia.

3. Pandemic Impact and Recovery (2020-2023): The COVID-19 pandemic disrupted the downward trend of Serbia's public debt (Petrović, Brčerević, Minić, 2016):

- 2020: 57.0%
- 2021: 56.5%
- 2022: 55.1%
- 2023 (projected): 52.0%

The increase in 2020 reflects the government's response to the pandemic, including increased healthcare spending and economic support measures. Despite this setback, Serbia managed to contain the debt increase more effectively than many other countries. The subsequent years show a return to the debt reduction path, indicating the resilience of Serbia's economy and the effectiveness of its fiscal management strategies.

This data tells a story of Serbia's economic transformation over the past decade. It highlights the country's ability to implement difficult reforms when necessary, its vulnerability to external shocks, and its capacity for economic recovery. The projected figure for 2023, bringing the debt-to-GDP ratio almost back to its 2012 level, suggests a full cycle of debt management, from crisis to recovery. However, it's important to note that while the debt-to-GDP ratio is approaching its 2012 level, the absolute value of the debt has likely increased significantly due to GDP growth over this period. This underscores the importance of sustained economic growth in managing public debt burdens. Looking forward, maintaining this downward trajectory will require continued fiscal discipline, further structural reforms, and strategies to enhance economic growth and resilience against potential future shocks.

Certainly. Here's a rephrased version updated for 2024 with the new currency breakdown:

As of 2024, the currency composition of Serbia's public debt reflects both the country's economic ties and its ongoing efforts to manage currency risk. Official data from the Ministry of Finance of the Republic of Serbia reveals a diverse but euro-dominated debt structure.

The euro continues to play a predominant role, accounting for 58.4% of the total public debt. This significant euro exposure underscores Serbia's strong economic links with the Eurozone and its potential path towards European Union integration. However, it also highlights the country's vulnerability to fluctuations in the euro exchange rate.

Notably, the share of dinar-denominated debt has increased to 21.4% of the total. This growth in domestic currency debt represents a positive trend, as it reduces the country's exposure to foreign exchange risks and provides greater monetary policy flexibility. However, the proportion of dinar-denominated debt is still relatively low compared to many developed economies, suggesting room for further improvement in this area.

The US dollar remains a significant component of Serbia's debt structure, constituting 13.4% of the total. This reflects the dollar's status as a global reserve currency and Serbia's engagement with international financial markets.

Special Drawing Rights (SDR) account for 6.4% of the debt, indicating Serbia's relationship with international financial institutions, particularly the International Monetary Fund.

The remaining 0.4% is composed of other currencies, demonstrating a small but diverse exposure to other international markets.

This currency composition presents both opportunities and challenges for Serbia's economic management. While the diversity offers some protection against currency-specific risks, the high proportion of foreign currency-denominated debt (78.6% in total) still poses significant challenges for fiscal and monetary policy, particularly in times of global economic uncertainty or domestic economic pressures.

CONCLUSION

The analysis of Serbia's public debt dynamics from 2012 to 2023 reveals a complex narrative of economic challenges, policy responses, and resilience in the face of global shocks. This period has been characterized by distinct phases: rapid debt accumulation, successful fiscal consolidation, and pandemic-induced disruption followed by recovery.

The initial phase (2012-2015) saw a sharp increase in public debt, reaching a peak of 70.0% of GDP in 2015. This surge was primarily driven by high budget deficits, slow economic growth, and currency depreciation, reflecting the lingering effects of the global financial crisis and the challenges of economic restructuring.

The subsequent fiscal consolidation phase (2016-2019) demonstrated Serbia's capacity for implementing effective economic reforms. Through a combination of public sector wage cuts, pension reforms, improved tax collection, and structural changes, the country managed to significantly reduce its debt-to-GDP ratio to 51.9% by 2019. This remarkable turnaround highlights the importance of decisive policy actions in managing public debt.

The COVID-19 pandemic in 2020 presented a new challenge, temporarily reversing the downward trend in public debt. However, Serbia's response to this crisis, while increasing debt levels, showed resilience and effective crisis management. The quick return to a debt reduction path in the following years is testament to the robustness of the fiscal framework established in the preceding years.

The currency composition of Serbia's public debt, as of 2024, with 58.4% in euros, 21.4% in dinars, and significant portions in US dollars and SDRs, reflects both the country's international economic ties and its efforts to reduce currency risks. The increase in dinar-denominated debt is a positive trend, though there remains room for further improvement in this area.

Several key lessons emerge from this analysis:

1. The importance of proactive fiscal management and structural reforms in maintaining sustainable debt levels.
2. The value of building fiscal buffers during periods of economic growth to better withstand external shocks.
3. The need for continuous efforts to increase the share of domestic currency-denominated debt to reduce exposure to exchange rate risks.
4. The critical role of sustained economic growth in managing the debt burden, as evidenced by the reduction in the debt-to-GDP ratio despite an increase in absolute debt levels.

Looking forward, Serbia's challenge will be to maintain its fiscal discipline while supporting economic growth and development. This will require continued structural reforms, prudent debt management, and strategies to enhance economic resilience against potential future shocks.

In conclusion, Serbia's experience over the past decade offers valuable insights into public debt management for emerging economies. It demonstrates that with appropriate policies and reforms, countries can successfully navigate challenging economic landscapes and build more resilient fiscal frameworks. As Serbia continues on its path of economic development and potential EU integration, maintaining this balanced approach to public debt management will be crucial for its long-term economic stability and growth.

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