

FISCAL (IN)STABILITY IN THE COUNTRIES OF THE WESTERN BALKANS

Biljana Srdić Gojković

Faculty of Economics, University of Banja Luka, Republic of Srpska, BiH

biljana.srdic-gojkovic@ef.unibl.org

ORCID ID: 0000-0003-3297-948X

Jelena Poljašević

Faculty of Economics, University of Banja Luka, Republic of Srpska, BiH

jelena.poljasevic@ef.unibl.org

ORCID ID: 0000-0002-6891-4875

Sanja Popović

Fiscal Council of Republika Srpska, BiH

sanja.popovic@fiskalnisavjetsr.org

ORCID ID: 0000-0001-9045-3721

Paper presented at the 13th International Conference EKONBIZ 2025 - Economic implications of the multipolar world, June 5th and 6th 2025, Bijeljina.

Abstract: *The consequences caused by the Covid 19 crisis have had a negative impact on the public finances of the countries of the Western Balkans. Their fiscal stability was negatively affected by the many geopolitical changes that followed. Will changes in the global market slow down the process of accession of the Western Balkan countries to the European Union? These changes are caused by the consequences of the war in Ukraine and Gaza, the change in political circumstances in America, the strengthening of the BRICS alliance and Russia's turn towards African and Asian countries. The aim of this research is to review the public finances of the Western Balkan countries based on the evaluation of their fiscal consolidation. Based on a descriptive and comparative analysis, it will be possible to conclude whether and, if so, to what extent the path of integration of the Western Balkan countries into the European Union is difficult.*

Key words: *Fiscal policy, budget deficit, fiscal consolidation*

JEL classification: *E62, H62, H63.*

1. INTRODUCTION

Fiscal policy represents a set of instruments that serve to achieve set economic goals. Adequate selection of the means of spending funds ensures the intended goals of the fiscal policy, which have a direct impact on economic growth. Fiscal policy is often the basic instrument for overcoming crises. Fiscal policy interventions, especially in situations where there is a high level of deficit and public debt, are most often reflected in the effective application of its instruments.

The results of previous research show that in order to reduce the deficit, the most effective instrument for consolidation is the reduction of expenditures, and then the increase of income. Given that fiscal policy most often serves to achieve set economic policies in one country or integration, it is very important to look at the opportunities it provides. This is very important especially in countries where fiscal policy is the only instrument for intervention, such as Bosnia and Herzegovina.

The importance of a stable fiscal policy becomes particularly important in times of major economic

shocks, i.e. economic crises. The great economic crisis of 2008 as well as the Covid 19 crisis of 2020 presented such a problem. According to its characteristics, the Covid 19 crisis was a basic example of a crisis where the basis of stabilization of negative effects was the intervention of fiscal policy. The extent to which fiscal policy was effective in the countries of the Western Balkans will be analyzed in this paper.

Based on the results of fiscal consolidation in the countries of the Western Balkans, it will be possible to test the expansiveness of the fiscal policy. According to Krugman, an expansive fiscal policy is acceptable in countries that are facing a long-term recession and in a situation of low interest rates when, at the same time, the effectiveness of monetary policy is very low, such as the situation in Bosnia and Herzegovina. The conclusive evidence that an expansive fiscal policy encourages economic growth, while the reduction of public spending and the increase of taxes, as the basis of fiscal consolidation, has a negative effect, is numerous. However, there are studies that indicate a possible expansionary effect of fiscal consolidation. Under certain conditions, fiscal consolidation, which is achieved by permanently reducing public spending, increases private spending. A reduction in public expenditure that is perceived as permanent will cause a wealth effect. Namely, given the reduced expenditures, the expectations are that taxes will be lower in the future, which increases the wealth of the private sector (Alesina & Perotti, 1997).

The rapid growth of the deficit is not a rule that only happens in the period of recession in recent times, but it is also becoming a rule in times of expansion. Thus, there is a sudden increase in debt, which leads a large number of countries to a high level of public debt in relation to their fiscal capacities. The success of fiscal adjustment depends on the level of public debt before consolidation.

The above is the main reason for the country's accession to the procedure of fiscal consolidation of public finances. The greater the growth of public debt before consolidation, the greater the probability of success of fiscal adjustment (Alesina & Ardagna, 1998).

The results of the research also differ when it comes to the economic conditions of the country in which the consolidation is being carried out. Experience shows that fiscal adjustments are more successful if they are implemented during or immediately after a period of recession (Drazen & Grilli, 1993), that is, that the effects are greater. However, the largest number of studies indicates

that the right time for consolidation is the time of expansion (Von Hagen & Strauch, 2001).

An expansionary approach is used when the economy enters a recession and at the same time unemployment rises. Then the fiscal policy tries to initiate economic activity with adequate responses by means of increasing consumption, reducing taxes or with a certain combination of necessary activities. In this way, the liquidity of the household increases.

The goal of fiscal policy is to achieve market equilibrium, especially after economic shocks. Adequately managed fiscal policy encourages economic growth, but also takes into account the trend of inflation and the emergence of a high deficit and public debt.

The Western Balkan countries are more vulnerable to economic shocks than the European Union countries. The analysis of the resilience of the Western Balkan countries to economic shocks is very important due to their accession to the European Union. It will be possible to conclude how vulnerable the economies of the Western Balkan countries are after analyzing the results of fiscal consolidation, depending on the application of fiscal instruments for the implementation of fiscal consolidation.

This research analyzes the fiscal balance and public debt in the countries of the Western Balkans from 2008-2024. year. This period is interesting since it includes two major economic crises and the current crisis that aims to further threaten the fiscal stability of especially less developed economies. Based on the results of the descriptive and comparative analysis, it will be possible to determine the resilience of the Western Balkan countries to economic shocks caused by crises.

Fiscal policy is one of the three key pillars of economic policy. It is successful if it provides fiscal stability, fiscal responsibility and stable economic conditions, which are reflected in favorable macroeconomic indicators.

That is why this research analyzes the success of fiscal policy. If the government of a country spends more in one fiscal year than the country's public finances can allow, this leads to uncontrolled growth of the deficit, and therefore public debt (Srđić Gojković, 2025). Such circumstances require implementation of fiscal consolidation. Depending on the procedure of fiscal consolidation, the final effects also depend.

Research that analyzes the fiscal position of the countries of the Western Balkans was done in different periods. Some research was done before 2008. Krajišnik et al. in the article Effects of Fiscal

Consolidation in the Western Balkan Countries show the vulnerability of the aforementioned economies after 2008. However, due to the path to the European Union, it is especially important to analyze the possibility of consolidating the public finances of the Western Balkan countries after the Corona 19 crisis. Due to the broken supply chains and the need to react quickly with the help of fiscal policy instruments, it will be interesting to see how the countries of the Western Balkans responded to these challenges.

When economies suffer from successive fluctuations in unemployment and inflation, one of the first instruments developed by countries to mitigate value cycles is fiscal policy, which consists of government expenditures divided into goods and services (G) and taxes and transfers (T) (Samuelson, Nordhaus & Hill, 2011).

Unstable economic conditions caused by multiple factors of the crisis from the previous period influenced the reduction of economic growth in the developed countries of the world. Countries with a low level of development had much stronger negative effects, but especially those countries whose fiscal stability and economic growth is conditioned by the growth of other countries (Srdić Gojković, Krsmanović & Krajišnik, 2023).

Due to a series of geopolitical changes, the economy of the Western Balkans suffered negative effects. Considering the path to the European Union and the conditions that must be met, the question arises as to how difficult that path is after all the geopolitical changes. Nevertheless, a stable fiscal policy and adequate application of its measures can significantly ease that path.

As part of efforts to strengthen fiscal capacities, WB6 have made efforts to introduce mediumterm planning, or create Medium-Term Fiscal Strategies (Basheska et al., 2024). The results of this paper will show to what extent the application of fiscal consolidation instruments has ensured fiscal policy stability in the Western Balkan countries.

Previous research also shows that fiscal consolidations based on the reduction of expenditures in the budget are more effective than those that rely on increasing revenues (Maroto & Mulas Granados, 2007).

2. ANALYSIS OF THE FISCAL CAPACITIES OF THE WESTERN BALKAN COUNTRIES BASED ON THE RESULTS OF FISCAL CONSOLIDATION

Since 2008, the countries of the Western Balkans have been facing challenges that have a direct impact on their public finances. After that period and a slight stabilization in some countries, there

were smaller or larger oscillations in the level of deficit and public debt. However, the biggest oscillations are evident since the beginning of the Corona 19 crisis.

Then it can be safely said that the aforementioned crisis tested the "resistance of the economies of the Western Balkans"² to extreme shocks, and that is why it is most interesting to monitor the effects of the fiscal consolidation of the countries of the Western Balkans in that period.

As a rule, the procedure of fiscal consolidation implies first of all the determination of the period of consolidation. It shows whether a one-year (cold shower) or multi-year fiscal consolidation is being carried out in a certain country.

A period of fiscal consolidation represents a period of one year in which the cyclically adjusted primary budget balance improved by at least 1.5% of GDP or a period of 3 consecutive years in which the cyclically adjusted primary deficit did not deteriorate by more than 0.5% of GDP (Alesina & Ardagan, 2009 & Mirdala, 2013).

Based on the above, a descriptive and comparative analysis will be used to conclude how the Western Balkan countries react to shocks caused by crises.

Based on the final results that fiscal consolidation can have on the budget balance and public debt, it can be declared as a successful or unsuccessful fiscal consolidation.

If there is a positive effect on GDP, it can be said that the fiscal consolidation had an expansionary character.

A successful fiscal consolidation is one that ensures that in the three-year period after consolidation, the cyclically adjusted primary deficit is reduced on average by at least 1.5% below its value in the years of consolidation, or if three years after consolidation the ratio of public debt to GDP is reduced by at least 5% of the ratio in the year of consolidation.

Finally, fiscal consolidation is considered expansionary if the average GDP growth rate in the consolidation period and two years after that period is higher than the average growth rate at the beginning of the fiscal consolidation period (Alesina & Ardagana 2009 & Mirdala 2013).

The following table shows the years of consolidation according to the presented criteria in the Western Balkan countries.

² Basheska, M., Petreski, M., Tumanoska, D., Petreski, B., (2024). "The Fiscal Space in the Western Balkans: Evidence from the Recent Multilayer Crisis". Journals at IDEAS. Policy Study No. 51.

Table 1. Years of fiscal consolidation in Western Balkan countries

Country		Years of Fiscal consolidation			
WB	Abania	2010	2016	2021	
	Bosnia and Hercegovina	2010	2021		
	Kosovo 1244	2013	2021		
	Montenegro	2010	2012	2019	2021 2023
	North Macedonia	2015	2021		
	Serbia	2009	2014	2021	

Source: Author's analysis based on IMF - World Economic Outlook Database, October 2024

As a result of the 2008 crisis, it was necessary to implement fiscal consolidation in 2009 or 2010 in most countries of the Western Balkans. However, what is common in all countries is fiscal consolidation in 2021 on the basis of a high level of deficit in 2020. The procedure of fiscal consolidation in the countries of the Western Balkans is analyzed below. In the observed period, Albania implemented three fiscal consolidations. The first fiscal consolidation in 2010 was related to the rehabilitation of the consequences of the 2008 crisis. Thus, in 2009, the budget deficit comprised 6.59% of GDP. According to the criteria, in 2009, on the basis of expenditure reduction, consolidation was carried out, which reduced the deficit to 3.52% of GDP. Given the same amount of deficit in the following year, this consolidation is evaluated as a one-year fiscal consolidation. On the basis of the final effects, it

can be assessed that the expenditure reduction instrument was not sufficient for a more serious stabilization of public finances in Albania, and in 2015 the deficit will increase again. This is the reason why Albania carried out fiscal consolidation again in 2016. This time, the instrument for fiscal consolidation was an increase in income, followed by a decrease in expenditure. Considering the reduced effects of the crisis and the sufficient passage of time since the crisis of 2008, this consolidation gave greater effects, but also the combined application of instruments for consolidation. It can be concluded that the application of a combination of instruments of primarily reducing expenditures and increasing income ensures long-term stability, but also greater economic growth.

However, even after that it was not easy to ensure the stability of the budget.

Table 2. Fiscal consolidation in Albania, in the period 2008-2024

Albania						
Years	GDP, growth rate	General government revenue, % of GDP	General government total expenditure, % of GDP	Primary balans, % of GDP	General government gross debt, % of GDP	CONSOLIDATION INSTRUMENT
2008	7.50	26.84	31.73	(4.88)	55.14	
2009	3.35	26.09	32.68	(6.59)	59.67	
2010	3.71	25.87	29.39	(3.52)	57.72	RASHOD
2011	2.55	25.41	28.92	(3.52)	59.41	
2012	1.42	24.79	28.23	(3.44)	62.14	RASHOD
2013	1.00	23.98	29.19	(5.22)	70.39	
2014	1.77	26.27	31.73	(5.46)	71.99	
2015	2.22	26.44	30.76	(4.32)	73.72	RASHOD+PRIHOD
2016	3.32	27.64	29.14	(1.50)	73.32	
2017	3.80	27.76	29.16	(1.41)	71.90	
2018	4.02	27.46	29.08	(1.62)	69.47	
2019	2.09	27.21	29.08	(1.87)	67.37	
2020	(3.30)	25.85	32.55	(6.70)	75.77	
2021	8.91	27.53	32.12	(4.60)	75.22	PRIHOD+RASHOD
2022	4.86	26.79	30.45	(3.66)	65.55	
2023	3.45	27.82	29.17	(1.35)	59.81	RASHOD+PRIHOD
2024	3.25	28.63	30.82	(2.19)	58.30	

Source: Author's analysis based on IMF - World Economic Outlook Database, October 2024

A high deficit of 6.7% of GDP was the basis for implementing a three-year fiscal consolidation in Albania. The gradual reduction of the deficit from 2020 to 2024 was accompanied by the reduction of the public debt.

The initial instruments for fiscal consolidation were an increase in income and then a decrease in expenditure. In the later period, with the aim of further stabilization, expenditure was reduced, and then income was increased. It is estimated that this consolidation did not have an expansive character. Nevertheless, it is very important to keep in mind that fiscal stability is not only affected by economic policy measures.

Very often, fiscal stability is also influenced by political decisions.

In the analyzed period, Bosnia and Herzegovina implemented fiscal consolidation in 2010 and 2021. In 2010, a three-year fiscal consolidation was carried out, which ensured stability until 2014.

This consolidation was done on the basis of increasing income and decreasing expenses.

Despite the fact that in 2014 the deficit amounted to 0.92% of GDP, it can be stated that the previous consolidation had very positive effects, and this increase in the deficit did not have significant negative effects.

On the contrary, in the following years until 2020, Bosnia and Herzegovina realized a surplus. Taking into account the criteria for consolidation, it can be concluded that Bosnia and Herzegovina had a balanced budget balance until 2020.

Considering the results of consolidation in 2010, it can be concluded that the choice of instruments for consolidation was very effective.

In addition to the aforementioned instruments, fiscal consolidation in 2009 was slightly helped by additional borrowing that did not threaten the level of public debt in relation to the Maastricht criteria.

Table 3. Fiscal consolidation in Bosnia and Herzegovina, in the period 2008-2024

Bosnia and Herzegovina						
Years	GDP, growth rate	General government revenue, % of GDP	General government total expenditure, % of GDP	General government structural balance, % of GDP	General government gross debt, % of GDP	CONSOLIDATION INSTRUMENT
2008	5.59	45.51	49.42	(6.30)	30.97	
2009	(0.82)	43.67	49.01	(6.09)	36.40	
2010	0.77	44.66	48.72	(4.18)	42.24	REVENUE+ EXPENDITURE
2011	0.91	43.69	46.42	(2.43)	40.98	
2012	0.71)	44.24	46.93	(1.26)	43.61	
2013	2.35	43.24	44.52	0.23	43.81	
2014	1.15	43.40	46.27	(0.92)	47.23	
2015	4.31	42.49	42.69	0.63	46.38	
2016	3.24	41.80	41.46	0.70	44.87	
2017	3.24	41.77	39.98	1.77	38.62	
2018	3.83	42.06	40.42	1.03	34.89	
2019	2.89	41.28	39.92	0.65	33.17	
2020	(3.02)	40.77	45.39	(2.63)	37.10	
2021	7.39	40.47	39.86	0.48	35.62	EXPENDITURE
2022	4.23	39.56	38.63	0.22	31.01	
2023	1.68	40.75	42.46	(1.91)	32.22	
2024	2.50	41.46	43.93	(2.48)	34.50	

Source: Author's analysis based on IMF - World Economic Outlook Database, October 2024

However, as a consequence of the Covid 19 crisis, Bosnia and Herzegovina carried out fiscal consolidation in 2021.

More precisely, a one-year fiscal consolidation was carried out with balancing in the first year of

consolidation. Although the deficit in 2020 was not significantly high, the need for balancing in times of crisis based on the reduction of expenditures was the basis for economic growth.

In the observed period, the instruments used by Bosnia and Herzegovina during the stabilization of public finances indicate that the current concept of conducting fiscal policy and public finances provides stability and sufficient opportunity for the consolidation of public finances in times of major economic shocks.

In Kosovo 1244, during the observed period, there were two years when fiscal consolidation was carried out. The first year of consolidation can be considered 2013 and it was carried out with the help of reducing expenses.

This consolidation was not carried out according to the stated criteria, however, it had a tendency to decrease the deficit until 2018.

Table 4. Fiscal consolidation in Kosovo 1244, in the period 2008-2024

Kosovo 1244						
Years	GDP, growth rate	General government revenue, % of GDP	General government total expenditure, % of GDP	General government structural balance, % of GDP	General government gross debt, % of GDP	CONSOLIDATION INSTRUMENT
2008	1.82	26.66	26.62	(0.55)	10.77	
2009	5.04	31.89	30.27	(0.73)	6.90	
2010	4.94	28.88	29.89	(3.29)	6.45	
2011	6.32	28.64	29.68	(2.61)	5.57	
2012	1.71	27.55	30.23	(3.73)	8.56	
2013	5.34	25.88	29.30	(3.57)	9.43	EXPENDITURE
2014	3.35	25.06	27.71	(2.29)	11.19	
2015	5.92	25.67	27.79	(1.89)	13.42	
2016	5.57	26.77	28.48	(1.75)	14.47	
2017	4.83	26.75	28.17	(1.59)	16.38	
2018	3.41	26.60	29.46	(3.01)	17.14	
2019	4.76	27.00	29.92	(3.65)	17.67	
2020	(5.34)	25.64	33.45	(5.89)	22.49	
2021	10.75	27.79	29.04	(1.27)	21.58	EXPENDITURE+REVENUE
2022	4.28	28.09	28.83	(0.78)	20.09	
2023	3.34	29.62	29.86	(0.81)	17.52	
2024	3.80	29.55	30.85	(1.22)	18.43	

Source: Author's analysis based on IMF - World Economic Outlook Database, October 2024

The high deficit level of 5.89% of GDP in 2020 was the basis for the re-consolidation of Kosovo's 1244 public finances.

Considering the level of the deficit, it was necessary to carry out the consolidation by using both instruments, in this case the more dominant expenditure reduction.

Only in the first year of consolidation, expenditures were reduced by about 13%, and revenues increased by 8%.

This is proof that the primary reduction of expenditures in the fiscal consolidation process brings better effects than the primary increase in income. During the period, the debt was relatively low compared to the criteria prescribed by Maastricht. This consolidation enabled economic growth in the following period, which is evaluated as a consolidation with an expansive character.

Fiscal consolidation is a procedure that must be carried out when, according to the criteria, a high

deficit or public debt tends to threaten fiscal stability.

Due to the high level of the deficit in 2009, Montenegro tried to significantly reduce the deficit in one year with the help of reducing expenditures.

According to the criteria, it can be said that this was a one-year fiscal consolidation.

However, this fiscal consolidation did not have long-term positive effects, and in 2011 a deficit level of 6.73% of GDP was reached.

This was followed by a renewed attempt at consolidation (2012), which had a two-year tendency to reduce the deficit, but according to the foreseen criteria, it cannot be evaluated as a successful consolidation.

Despite the fact that during the period of consolidation there were temporary reductions in expenditure, at the same time there was also a reduction in income.

Table 5. Fiscal consolidation in Montenegro, in the period 2008-2024

Montenegro						
Years	GDP, growth rate	General government revenue, % of GDP	General government total expenditure, % of GDP	Primary balans, % of GDP	General government gross debt, % of GDP	CONSOLIDATION INSTRUMENT
2008	7.20	48.80	51.10	(2.30)	34.19	
2009	(5.80)	44.63	51.34	(6.71)	43.69	
2010	2.70	41.78	46.65	(4.87)	45.01	EXPENDITURE
2011	3.20	38.55	45.28	(6.73)	48.57	
2012	(2.72)	39.86	45.71	(5.84)	56.87	
2013	3.55	41.34	45.83	(4.49)	58.65	
2014	1.78	43.51	44.21	(0.70)	63.36	REVENUE-EXPENDITURE
2015	3.39	40.42	46.38	(5.96)	68.76	
2016	2.95	41.34	47.52	(6.18)	66.39	
2017	4.72	40.28	47.09	(6.81)	66.21	
2018	5.08	40.97	47.19	(6.21)	71.89	
2019	4.06	42.26	43.97	(1.72)	78.79	EXPENDITURE+REVENUE
2020	(15.31)	43.45	54.35	(10.90)	107.35	
2021	13.04	43.12	44.83	(1.71)	85.63	EXPENDITURE
2022	6.41	38.24	42.32	(4.08)	70.55	
2023	6.00	41.81	41.06	0.76	61.50	REVENUE-EXPENDITURE
2024	3.74	41.45	44.52	(3.06)	62.17	

Source: Author's analysis based on IMF - World Economic Outlook Database, October 2024

In the following years, a high level of debt is evident, which has decreased from 107.35% of GDP in 2020 to 62.17% of GDP in 2024. Therefore, it can be stated that this consolidation is based on debt reduction. However, in 2021, with the help of reducing expenditures, a one-year consolidation, or "cold shower" consolidation, was carried out. Proof that such consolidations, as a rule, do not provide long-term positive effects is the re-growth of the deficit in 2023. The consolidations carried out in Montenegro did not have an expansive character.

By increasing income, in 2015, a one-year fiscal consolidation was carried out. This consolidation

did not meet the expected criteria, but it had a positive impact on the tendency to reduce expenditures until 2019.

Consolidation according to the foreseen criteria was carried out in 2021. Due to the high level of the deficit (8.04% of GDP), a one-year consolidation was carried out with the help of an increase in income and a decrease in expenditure. Nevertheless, bearing in mind the global effects that had a negative impact on the consolidation in North Macedonia, the deficit will grow again in the following years. The reason for this is the trend of increasing expenditures.

Table 6. Fiscal consolidation in North Macedonia , in the period 2008-2024

North Macedonia						
Years	GDP, growth rate	General government revenue, % of GDP	General government total expenditure, % of GDP	Primary balans, % of GDP	General government gross debt, % of GDP	CONSOLIDATION INSTRUMENT
2008	5.47	32.83	33.76	-0.928	20.64	
2009	(0.36)	30.93	33.56	-2,628	23.73	
2010	3.36	30.10	32.51	-2,411	24.27	
2011	2.34	29.38	31.86	-2,474	27.73	
2012	(0.46)	29.45	33.26	-3,807	33.66	
2013	2.93	27.84	31.67	-3,836	33.97	

2014	3.63	27.52	31.71	-4,195	38.02	
2015	3.86	28.75	32.22	-3,475	38.08	REVENUE
2016	2.85	28.41	31.11	-2,702	39.81	
2017	1.08	29.03	31.76	-2,734	39.38	
2018	2.88	28.51	30.27	-1,755	40.43	EXPENDITURE
2019	3.91	29.44	31.41	-1,968	40.45	
2020	(4.69)	28.35	36.40	-8,048	50.85	
2021	4.51	29.96	35.27	-5,317	52.75	REVENUE+ EXPENDITURE
2022	2.22	30.29	35.61	-5,328	51.56	
2023	1.03	32.97	37.90	-4,928	54.51	REVENUE
2024	2.20	35.51	40.49	-4,985	56.39	

Source: Author's analysis based on IMF - World Economic Outlook Database, October 2024

And this consolidation did not have an expansive character. The results of the consolidation of public finances in North Macedonia prove the correctness of the application of primarily reducing expenditures and then increasing revenues. Therefore, it is concluded that the fiscal consolidations implemented in North Macedonia did not produce the expected results.

In the analyzed period, Serbia implemented three fiscal consolidations. However, only two consolidations were carried out according to the consolidation criteria. In 2009, Serbia implemented a one-year fiscal consolidation based

on the exclusive reduction of expenditures. This consolidation did not have long-term positive effects, so it was necessary to re-consolidate in 2014. This consolidation was not successful according to the predicted criteria, but despite the exclusive increase in income, it had the effect of reducing the deficit in the following years. Based on the results of this consolidation, it can be concluded that proper management, a political decision on constant consolidation of public finances gives a better result for the purpose of fiscal stability than a decision on occasional consolidation of public finances based on set criteria.

Table 7. Fiscal consolidation in Serbia , in the period 2008-2024

Serbia						
Years	GDP, growth rate	General government revenue, % of GDP	General government total expenditure, % of GDP	General government structural balance, % of GDP	General government gross debt, % of GDP	CONSOLIDATION INSTRUMENT
2008	5.7	40.96	45.38	(6.73)	30.56	
2009	(2.7)	39.34	42.78	(3.85)	33.93	EXPENDITURE
2010	0.7	39.37	42.86	(4.02)	39.77	
2011	2.0	37.73	41.64	(4.71)	43.71	
2012	(0.7)	38.77	45.13	(5.51)	53.87	
2013	2.9	37.32	42.31	(5.23)	56.41	
2014	(1.6)	38.96	44.81	(4.96)	66.24	REVENUE
2015	1.8	39.28	42.66	(3.13)	69.85	
2016	3.3	40.69	41.81	(1.14)	67.43	
2017	2.1	41.45	40.08	1.10	57.50	
2018	4.5	41.50	40.69	0.73	53.31	
2019	4.3	42.03	42.03	(0.54)	51.71	
2020	(0.9)	40.97	48.21	(6.06)	56.89	
2021	7.7	43.24	46.55	(4.50)	56.24	REVENUE+ EXPENDITURE
2022	2.6	43.34	43.48	(1.12)	53.50	
2023	2.5	42.62	43.93	(1.37)	48.91	
2024	3.9	43.80	46.39	(2.26)	48.61	

Source: Author's analysis based on IMF - World Economic Outlook Database, October 2024

However, what is common in all countries of the Western Balkans is the need to consolidate public

finances due to the Covid 19 crisis in 2021. Due to the size of the deficit, as well as the tendency of

the public debt to grow, Serbia implemented a comprehensive fiscal consolidation based on an increase in income and a decrease in expenditure. This consolidation had a trend of deficit reduction until 2024. However, it cannot be concluded that this consolidation had an expansive character.

Stable public finances of the Western Balkan countries represent an important segment for their integration into the European Union. Based on the results of the consolidation, it can be concluded that the basis of instability in all the countries of the Western Balkans is represented by crises that had negative effects in the countries of the

European Union. After the Kovid 19 crisis in Albania, North Macedonia and Serbia, consolidation was carried out on the basis of increasing income and decreasing expenditure. However, what is common in all countries is that fiscal consolidation implied a mandatory reduction in expenditures. This shows that the fiscal capacities of the countries of the Western Balkans are sufficient to overcome the crisis.

The following table shows the results of fiscal consolidation in the countries of the Western Balkans in 2021 and the instruments of consolidation.

Table 8. Year and method of fiscal consolidation in the Western Balkan countries

Country	Structural balance of general government before consolidation, % of GDP, 2020	Structural balance of general government after consolidation, % of GDP, 2021	% of revenue in GDP in the year before consolidation	% of revenue in GDP in the year after consolidation	% change in revenue	% of expenditure in GDP in the year before consolidation	% of expenditure in GDP in the year after consolidation	% change in expenditure	CONSOLIDATION INSTRUMENT
Albania*	(6.7)	(4.6)	25.9	27.5	6.5	32.6	32.1	(1.3)	PRIHOD+ RASHOD
Bosnia and Hercegovina	(2.6)	0.5	40.8	40.5	(0.7)	45.4	39.9	(12.2)	RASHOD
North Macedonia*	(8.0)	(5.3)	28.4	30.0	5.7	36.4	35.3	(3.1)	PRIHOD+ RASHOD
Serbia	(6.1)	(4.5)	41.0	43.2	5.5	48.2	46.6	(3.4)	PRIHOD+ RASHOD
Kosovo 1244	(5.9)	(1.3)	25.6	27.8	8.4	33.5	29.0	(13.2)	RASHOD+ PRIHOD
Montenegro	(10.9)	(1.7)	43.5	43.1	(0.8)	54.4	44.8	(17.5)	RASHOD

Source: Author's analysis based on IMF - World Economic Outlook Database, October 2024

The common starting point for consolidation in 2021 in all countries is a high level of deficit. The results of the consolidation show the ability to overcome crises by initiating the fiscal consolidation procedure. However, despite the consolidation of public finances, all countries had a problem to ensure the effect of expansiveness.

CONCLUSION

The countries of the Western Balkans are among the countries with a lower level of economic development. Therefore, it can be expected that their resistance to economic shocks is also low. However, the previous analysis shows that, to a large extent, the economies of the Western Balkans, based on fiscal consolidation procedures,

were prepared to face the extreme impacts of crises, especially considering the continuation of the crisis caused by geopolitical changes and changes in international relations. Therefore, it can be concluded that the consolidation of public finances in the countries of the Western Balkans is not an obstacle on the way to the European Union. If the possibilities of consolidating the public finances of the European Union countries were to be analysed, it could be clearly established that they have significantly greater fiscal imbalances, especially the level of debt. In this way, the resistance of the economies of the Western Balkan countries to economic shocks and the possibility of rapid consolidation was determined. It is interesting that the countries of the Western

Balkans have significantly lower levels of debt than the countries of the European Union.

Also, the results of the assessment of fiscal consolidation in the countries of the Western Balkans show that the application of consolidation criteria is not a basis for a positive assessment. The results of fiscal consolidation in the countries of the Western Balkans show that constant responsible management has greater effects on fiscal stability and economic growth than periodic consolidation of public finances.

Despite the fact that the fiscal stability of the countries of the Western Balkans does not represent a risk for inclusion in the European Union integration, for greater economic growth and the expansion of fiscal consolidation, it would be important to join the European Union as soon as possible. On the path to accession to the European Union, it can significantly help the strengthening of countries through the Growth Plan for the Western Balkans.

The growth plan implies the strengthening of economic integration with the single market of the European Union and the strengthening of economic integration within the Western Balkans through the common market. Also, the Growth Plan for the Western Balkans implies the acceleration of fundamental reforms, but also an increase in financial aid. All this will be a good basis for strengthening the countries of the Western Balkans and faster inclusion in the integration of the European Union.

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