

PUBLIC DEBT OF THE REPUBLIC OF SERBIA IN THE NEW MILLENNIUM: ANALYSIS OF THE SITUATION AND FUTURE TREBDS

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Abstract: The subject of research in the paper is focused on the analysis of public debt in the Republic of Serbia in the time interval from 2000 to the end of 2022. Observing the data on the movement of public debt in the new millennium, it is noticeable that there is a trend of its increase after the world economic crisis of 2008. The main cause of such trends is the excessive consumption of state authorities and the reduction of tax revenues, which is a consequence, first of all, of reduced economic activity due to global negative tendencies in certain years. The high level of public debt represents the main barrier for the economic development of the Republic of Serbia. Analysis of the data in the observed period indicates that the problem of public debt growth can be solved by increasing the gross domestic product and reducing public spending.

Keywords: oil and oil derivatives, import dependency, supply management

1. Introduction

The term public debt is generally used as a synonym for financing the public sector deficit and represents one of the key variables in financing government activities. It consists of monetary amounts borrowed by the state in order to finance past budget deficits (Kolačević & Hreljac, 2011, 209). This means that the public debt is the accumulated surplus of spending over the revenues that were realized in the previous period (Rosen, 1999, 458). In other words, it consolidates the total budget deficit, in the sense that the state increases the public debt when the budget continuously generates higher expenditures than revenues.

A major problem of the Republic of Serbia for many years and decades is the chronic occurrence of the budget deficit, i.e. constantly higher public expenditures than public revenues. From this arises the need of the Republic of Serbia to borrow from international financial institutions, which implies the conclusion of credit agreements with the World Bank and the International Monetary Fund. According to the Law on Public Debt, the Republic of Serbia can borrow in the country and abroad, with the aim of financing the budget deficit, current liquidity, refi-

ancing due obligations on the basis of public debt, for financing investment and program projects and the acquisition of financial assets, as well as for fulfilling obligations under given guarantees (Zakon o javnom dugu). Accordingly, the public debt of the Republic of Serbia includes all direct and indirect obligations of the state towards domestic and foreign legal and natural persons.

Considering the importance that public debt has on domestic accumulation and the functioning of detention, the subject of research in the paper will be the analysis of the state and trends of the public debt of the Republic of Serbia in the new millennium. The aim of the work is to monitor the public debt and make recommendations for its reduction. In the Republic of Serbia, the level of public debt in the future will depend on the growth of the gross domestic product, and above all on the reduction of the fiscal deficit.

2. State and structure of the public debt at the beginning of the new millennium

The public debt of the Republic of Serbia includes old foreign currency savings, obligations of social, private and state banks and companies, as well as borrowing to maintain current liquidity (Arsić et al., 2015,

182). In order to analyze the public debt of the Republic of Serbia as accurately as possible, the total observed period was divided into three phases. The first phase refers to the analysis of the state and structure of public debt before the emergence of the world financial and economic crisis (2007-2008). The second phase of the analysis is from 2009

until the emergence of Covid-19, while the third phase includes the last three years of the corona virus.

At the beginning of the new millennium, i.e. at the end of 2000, public debt in Serbia amounted to 14.167 billion euros, of which domestic debt was 4.108 billion euros, and foreign debt was 10.059 billion euros. Such a large public debt of the Republic of Serbia is a consequence of "taking over the debts of companies that made losses and failed banks in the period from the 1970s onwards. In the period up to 2006, the Republic of Serbia, with the support of the IMF in the process of recovery, went through the process of bankruptcy and in that period the debts to the Paris and London clubs were reduced" (Arsić et al., 2015, 182). This is also shown by the reduction of public debt in the early years of the new millennium. Thus, the public debt was reduced to 9.676 billion euros by

the end of 2004, and after a slight increase in 2005, it continued to fall until 2008, when it amounted to 8.781 billion euros. Of that amount,

domestic debt was 3.162 billion euros, and foreign debt was 5.620 billion euros. In this period, the total public debt was reduced by 5.781 billion euros, which represents a decrease of 38%. The progress that Serbia achieved in the period 2001-2008. year is the result of institutional reforms, economic and social policy, but also relatively favorable external circumstances on the international capital market (Đorđević & Veselić, 2010, 22).

As a consequence of the world financial and economic crisis, in the following years there will be a constant increase in public debt. The total public debt in 2009 was 9.851 billion euros, and at the end of 2016 it was 24.820 billion euros. In this period, the public debt increased by 14.969 billion euros, which is an increase of as much as 60%. "In 2015, the level of public debt was a warning to foreign creditors that it is necessary to approach fiscal consolidation measures.

Table 1. *Volume and structure of public debt as of December 31. in the period from 2000-2022. year (in millions of euros)*

Years	Direct obligations		Indirect obligations		Total public debt (I+II+III+IV)
	Internal debt (I)	External debt (II)	Internal debt (III)	External debt (IV)	
2000.	4,108.0	10,059.0	0.0	0.0	14,167.1
2001.	3,870.5	9,561.1	0.0	2.2	13,434.9
2002.	4,151.9	7,230.2	0.0	147.2	11,529.3
2003.	4,239.6	6,563.6	0.0	220.0	11,023.2
2004.	4,064.5	5,266.9	0.0	344.4	9,676.8
2005.	4,255.5	5,364.1	0.0	663.1	10,282.7
2006.	3,837.0	4,745.5	0.0	769.5	9,352.0
2007.	3,413.3	4,615.8	0.0	846.2	8,875.3
2008.	3,161.6	4,691.2	0.0	928.7	8,781.4
2009.	4,050.2	4,408.6	135.0	1,257.4	9,851.2
2010.	4,571.8	5,872.7	340.0	1,372.5	12,156.9
2011.	5,440.6	7,238.6	535.8	1,573.8	14,788.8
2012.	6,452.6	8,618.1	722.6	1,877.8	17,671.1
2013.	7,054.6	10,244.9	823.0	1,990.3	20,088.7
2014.	8,225.2	11,991.5	687.3	1,857.6	22,761.6
2015.	8,732.9	13,517.7	637.6	1,806.3	24,694.5
2016.	8,767.7	13,908.2	381.7	1,762.7	24,820.2
2017.	9,089.1	12,357.6	209.3	1,553.6	23,210.0
2018.	9,413.5	12,077.0	154.6	1,369.5	23,014.6
2019.	9,814.9	12,641.0	178.0	1,310.2	23,944.0
2020.	11,217.7	14,028.5	216.2	1,207.0	26,669.3
2021.	11,344.8	17,407.2	262.0	1,120.2	30,134.2
2022.	11,278.4	20,501.3	481.4	1,064.6	33,325.6

Source: Authors based on [Republika Srbija, Ministarstvo finansija, Uprava za javni dug, Mesečni izveštaj, Analiza javnog duga i duga opšte države, decembar 2014. godine, br. 33, str. 5 (od 2000 do 2010. godine), i Republika Srbija, Ministarstvo finansija, Uprava za javni dug, Mesečni izveštaj, Analiza javnog duga i duga opšte države, decembar 2022. godine, br. 129, str. 6 (od 2011 do 2022. godine)]

As a consequence of the world financial and economic crisis, in the following years there will be a constant increase in public debt. The total public debt in 2009 was 9.851 billion euros, and at the end of 2016 it was 24.820 billion euros. In this period, the public debt increased by 14.969 billion euros, which is an increase of as much as 60%. "In 2015, the level of public debt was a warning to foreign creditors that it is necessary to approach fiscal consolidation measures. The IMF and the World Bank imposed these measures on our country at the end of 2014, which had the greatest impact on employees in the state administration, pensioners and persons who have no or very uncertain income" (Bakić, 2020, 185). In 2017, the public debt in Serbia was reduced to 23.210 billion euros, while it further fell in the following year 2018, when it amounted to 23.015 billion euros at the end of the year. In these two years, a total reduction of public debt by 1.806 billion euros was achieved. For Serbia, the year 2018 was quite stable and some of the positive results primarily concern growth that reached the CEE average (countries in the region of Central and Eastern Europe), then the increase in the number of new jobs, maintaining inflation at a stable level, the budget surplus and the decline of the country's public debt

(Bakić, 2020, 184). However, in this period there is a growth in the current wage and trade deficit, an increase in demand above the level of GDP and an outflow of labor force abroad. All this had the effect that at the end of 2019, the public debt increased to nearly 24 billion euros, of which the domestic debt was almost 10 billion euros, and the foreign debt slightly less than 14 billion euros.

The public debt of the Republic of Serbia at the end of December 2020 amounted to 26.669 billion euros, which was an increase of 2.7 billion euros compared to the previous year. Serbia's public debt continued to grow in the following two years. Thus, at the end of 2021, it amounted to 30.134 billion euros, and at the end of 2022, it would be 33.326 billion euros. The total increase for three years, in which different strains of the corona virus appeared, is 9.4 billion euros, which is more than the total public debt in the years before the emergence of the global financial and economic crisis.

3. Share of public debt in gross domestic product

Public debt is usually expressed as a ratio to GDP, and this relative indicator is often used to compare indebtedness between countries (Švaljek, 2007, 75). However, the public debt

expressed in this way in a relative amount does not show the true picture of the state of public finances in a country. Namely, the ratio of public debt to GDP omits information about the average price of that debt, i.e. the average interest rate at which a country borrows, but also information about the currency and maturity structure of the debt, i.e. potential risks arising from the public debt structure of a country (Biznis i finansije, 2020).

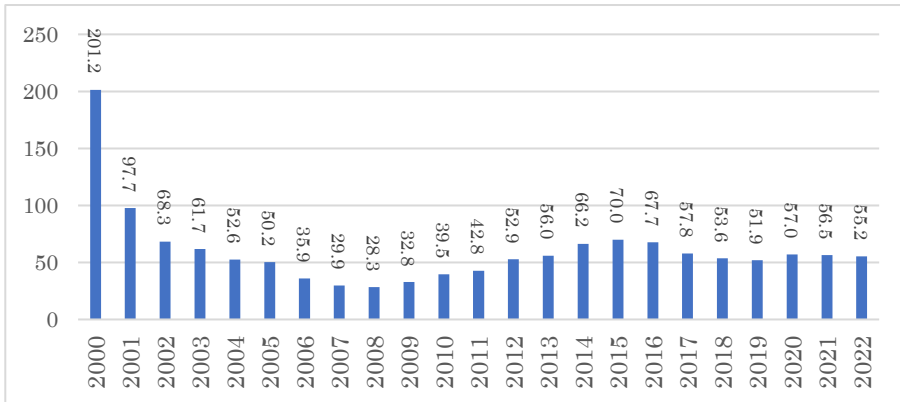
The share of public debt in the GDP of the Republic of Serbia in 2000 was extremely high and amounted to 201.2% of GDP, which means that it was unsustainable. "Such a high public debt was primarily caused by a high external debt, which means that Serbia was over-indebted to foreign creditors. A good part of the external debt can be attributed to debts dating from the time of the former Yugoslavia, whereby each former member state had to take on a part of this debt" (Rakita, 2016, 102). However, in the period from 2001-2008. there is a constant decrease in the share of public debt in the gross domestic product. Thus, the public debt was already 97.7% of GDP in 2001, and 52.2% of GDP in 2005, only to reach its historical minimum in 2008, when it amounted to only 28.3% of GDP. Such a signi-

ficant decrease in the share of public debt in GDP was due to more moderate economic prosperity in the period after the political changes in 2000. According to Trklja (2015, 27), the main causes of the reduction of public debt were:

- debt write-off of 66% to the Paris Club and 62% to the London Club;
- returning 1.3 billion euros of foreign currency savings, and
- reduced volume of borrowing, because the budget deficit was financed, first of all, by revenues from the privatization of public companies.

However, the emergence of the world financial and economic crisis at the end of 2007 and the beginning of 2008 had a negative impact on our country. This, among other things, led to the growth of the public debt in absolute amount, and thus its increasing share in the gross domestic product from 2009 to 2015. Namely, the share of public debt in GDP in the mentioned period increased from 32.8% to 70%, respectively. In the period from 2008-2011. In 2008, the Government's measures aimed at preserving economic activity and preventing the reduction of the gross domestic product had an impact on the increase in the budget deficit. In 2012, the legally defined upper limit of public debt of 45% of

Graph 1. *The share of public debt in the GDP of the Republic of Serbia in the period from 2000-2022. years (%)*



Source: [Republika Srbija, Ministarstvo finansija, Uprava za javni dug, Mesečni izveštaj, Analiza javnog duga i duga opšte države, decembar 2014. godine, br. 33, str. 5 (od 2000. do 2010. godine), i Republika Srbija, Ministarstvo finansija, Uprava za javni dug, Mesečni izveštaj, Analiza javnog duga i duga opšte države, decembar 2022. godine, br. 129, str. 6 (od 2011 do 2022. godine)]

GDP was exceeded (Zakon o budžet-skom sistemu). Even then, "it became clear that without a radical turn in the conduct of fiscal policy, domestic public finances are on an unsustainable path. In order to prevent the possibility of a debt crisis, since the second half of 2012 there have been several attempts to permanently reduce the deficit and bring the public debt under control. First, several tax rates were increased (general VAT rate from 18% to 20%, profit tax rate from 10% to 15%, excise taxes were also increased), while relatively mild measures were taken on the

expenditure side, such as reduced indexation of pensions and salaries. in the state sector" (Petrović et al., 2015, 29). Together with fiscal policy measures, structural reforms were also planned, but they were completely absent.

In addition to weak institutions and large fiscal imbalances, which led to a sharp increase in the public debt in the mentioned years, the Republic of Serbia was hit by large floods in 2014, which caused even greater pressure on the public debt. That is why the Government started fiscal consolidation at the end of the same year.

Fiscal consolidation measures taken have yielded positive results in the following years. The level of public debt at the end of 2016 was reduced to 67.7% of GDP, at the end of 2017 to 57.8% of GDP and at the end of 2018 to 53.6% of GDP. The results of the successfully implemented fiscal consolidation led to the fact that the public debt in the Republic of Serbia in 2019 amounted to 51.9% of GDP and was the lowest since 2012. However, the structure of the public debt was not favorable considering that a large share was made up of debt denominated in foreign currency as well as debt owned by non-residents. A large program of fiscal measures, which amounted to close to 13% of GDP in 2020, helped the recession caused by the Covid-19 pandemic in Serbia to remain relatively mild (Marjanović & Ivanović, 2021, 18).

The increase in public debt in 2020 to 57% of GDP "was among the smallest in Europe and was driven by a strong fiscal policy response (with a general government deficit of around 8.0 GDP), in order to minimize the negative effects of the pandemic possible measure. Significant fiscal space for intervention was provided in previous years by responsible fiscal policy and consolidation measures, provided by favorable finan-

cing conditions and economic growth, as well as low inflation and a stable exchange rate, which reversed the growing path of public debt in GDP in 2016" (Narodna banka Srbije, 2021, 65). The downward trajectory lasted until the beginning of the pandemic and resulted in a reduction of the public debt of the Republic of Serbia by as much as 18.1 percentage points compared to the end of 2015 (70%). The share of public debt in the GDP of the Republic of Serbia in 2021 and 2022 was slightly reduced (56.5% and 55.2%, respectively) compared to the share of public debt in the year of the beginning of the pandemic (57%).

The public debt of the Republic of Serbia in 2021 is lower than the European average. According to Eurostat data, the average share of public debt in the GDP of the European Union this year is 87.9%. Countries with a higher share of public debt measured by GDP compared to the European average are Greece (194.5%), Italy (150.3%), Portugal (125.5%), Spain (118.3%), France (112.8%), Belgium (109.2%) and Cyprus (101%). Other countries have a lower level of public debt compared to the EU average, of which Luxembourg (24.5%), Bulgaria (23.9%) and Estonia (17.6%) have the lowest share of public debt in

GDP (Eurostat, General government gross debt - annual data, 2022). As can be seen, the debt level of the Republic of Serbia is lower than in developed countries, due to a worse credit rating.

4. Factors of public debt of the Republic of Serbia at the end of 2022 and its currency structure

Based on the previous analysis, it can be seen that the public debt of the Republic of Serbia at the end of 2022 amounts to 33.326 billion euros, which is 55.2% of GDP. In order to gain insight into the factors that had the greatest impact on the high level of public debt as of December 31, 2022. year, it is expedient to provide a comprehensive overview of the state of public debt, from which the largest creditors of the Republic of Serbia can be easily identified. For the sake of a clearer analysis, it is necessary to mention that the internal public debt refers to the direct and indirect obligations of the Republic of Serbia to domestic investors and lenders, while the external public debt includes direct and indirect obligations to foreign investors and creditors (Rakita, 2016, 102).

Table 2. *Overview of the public debt of the Republic of Serbia as of December 31, 2022. years - Central level of government (in thousands)*

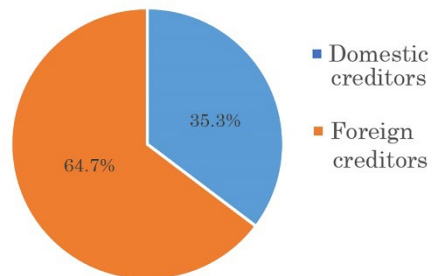
	EUR	USD	RSD
1. DIRECT OBLIGATIONS (1.1. + 1.2.)	31,779,667	33,848,534	3,728,466,838
<i>1.1. Internal debt</i>	<i>11,278,411</i>	<i>12,012,639</i>	<i>1,323,210,245</i>
Government securities issued on the domestic market	10,449,624	11,129,898	1,225,974,958
Savings bonds	11,301	12,037	1,325,918
Government bonds - restitution	69,445	73,966	8,147,493
Old currency savings	394,959	420,671	46,337,490
Loans from commercial banks	283,493	301,949	33,260,104
Other obligations	69,588	74,119	8,164,282
<i>1.2. External debt</i>	<i>20,501,256</i>	<i>21,835,895</i>	<i>2,405,256,593</i>
International Bank for Reconstruction and Development	2,224,194	2,368,990	260,947,776
International Association for Development	56,975	60,684	6,684,401
European Investment Bank	1,398,742	1,489,801	164,103,791
European Bank for Reconstruction and Development	127,406	135,701	14,947,620
Council of Europe Development Bank	518,687	552,453	60,853,570
Export-Import Bank of China	2,211,171	2,355,119	259,419,857
Foreign governments	3,599,358	3,833,677	422,285,315
Eurobonds of the Republic of Serbia	7,316,432	7,792,735	858,381,400
German Development Bank	61,469	65,471	7,211,704
Creditors' Club of Paris	600,439	639,528	70,444,920
International Monetary Fund	1,269,448	1,352,090	148,934,711
Loans from commercial banks for financing projects	723,756	770,873	84,912,824
Other obligations	393,179	418,775	46,128,706

2. INDIRECT OBLIGATIONS (2.1. + 2.2.)	1,545,943	1,646,584	181,373,745
2.1. Internal debt	481,358	512,695	56,474,087
Loans from commercial banks	481,358	512,695	56,474,087
2.2. External debt	1,064,585	1,133,890	124,373,745
European Bank for Reconstruction and Development	335,526	357,369	39,364,767
European Investment Bank	455,868	485,545	53,483,484
German Development Bank	78,926	84,064	9,259,729
Eurofima	00	00	00
Loans from commercial banks	14,286	15,216	1,676,034
International Association for Development	4,147	4,417	486,520
Japan International Cooperation Agency	146,073	155,583	17,137,692
Foreign governments	10,270	10,939	1,204,953
Other obligations	19,489	20,758	2,286,478
Total internal debt (1.1.+ 2.1.)	11,759,769	12,525,334	1,379,684,332
Total external debt (1.2.+ 2.2.)	21,565,841	22,969,785	2,530,156,251
TOTAL STATE OF PUBLIC DEBT OF THE CENTRAL LEVEL OF GOVERNMENT (1+2)	33,325,610	35,495,119	3,909,840,582

Source: [Republika Srbija, Ministarstvo finansija, Uprava za javni dug, Mesečni izveštaj, Analiza javnog duga i duga opšte države, decembar 2022. godine, br. 129, str. 5]

Based on the data from the table, it can be seen that in the structure of public debt, the share of external debt (21,565,841,000 euros) is significantly higher than that of internal debt (11,759,769,000 euros) in the total public debt of the Republic of Serbia (33,325,610,000 euros). This means that, relatively speaking, domestic creditors have a 35.3% share, and foreign creditors a 64.7% share in the total withdrawn funds at the end of 2022.

Graph 2. The share of domestic and foreign creditors in the public debt of the Republic of Serbia at the end of 2022 (%)



Source: Authors based on [Table 3]

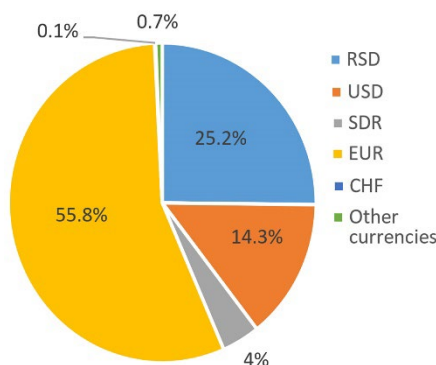
In the internal debt structure, the largest liabilities of the Republic of Serbia are based on issued government securities (10,449,624,000 euros). In terms of foreign debt, the Republic of Serbia has the largest debts based on issued Eurobonds (7,316,432,000 euros) and to foreign governments (3,599,358,000 euros). In addition, the International Bank for Reconstruction and Development (EUR 2,224,194,000), the Export-Import Bank of China (EUR 2,211,171,000) and the European Investment Bank (EUR 1,398,742,000) are among the foreign creditors who have the largest claims against the Republic of Serbia.

In addition to the absolute amount of the public debt and the public debt/GDP ratio (relative amount - ratio) and the currency structure of the public debt, i.e. the participation of different currencies in the total public debt "represents an important signal for the regulators of a country's monetary and economic policy. Constant oscillations on the market and the continuous need of the state to carry out market interventions imposes the need to dispose of some additional liquid sources denominated in foreign currency" (Bakić, 2020, 189).

Official data from the Public Debt Administration of the Ministry of

Finance of the Republic of Serbia show that a quarter of our country's public debt (25.2%) is denominated in dinars, while the rest of the debt is denominated in foreign currencies.

Graph 3. Currency structure of the public debt of the Republic of Serbia as of December 31, 2022. years (%)



Source: [Republika Srbija, Ministarstvo finansija, Uprava za javni dug, Mesečni izveštaj, Analiza javnog duga i duga opšte države, decembar 2022. godine, br. 129, str. 7]

A characteristic of the currency structure of the public debt of the Republic of Serbia at the end of 2022 is a high share of obligations in the currencies of the euro (55.8%) and the dollar (14.3%). In this way, Serbia is significantly exposed to currency risk and external shocks that can increase rapidly in periods of instability. A quarter of the public debt of the Republic of Serbia denominated in local currency can be assessed as positive. The share of dinars in the currency structure of

public debt was higher in previous years. At the end of 2020, it amounted to 30.5%. However, due to borrowing during the previous two years on the foreign market due to more favorable conditions, the share of dinars will drop to 25.2% at the end of December 2022. Observing the currency structure of the public debt in the previous five years, one can observe the tendency of the dinar to stagnate, the dollar share to decrease and the debt in euros to increase more significantly.

5. Projection of the public debt in the coming years and strategies for its reduction

The end of the corona virus pandemic, increasing inflation as a result of the crisis on the international market and the special operation of the Russian Federation in Ukraine are the main features of the year 2022 in the world. Because of all this, there is a real danger that uncertainty and crisis will be present in the coming years. In such conditions, the Government of the Republic of Serbia has the task of ensuring stable economic flows and preserving the standard of citizens. Starting from the projected primary result of the budget of the Republic of Serbia for the period 2022-2025. year, including the volume of withdrawal of loan funds for project financing from budget beneficiaries, the effects of the exchange

rate change of the dinar against the euro and the US dollar, in the basic macroeconomic scenario, the debt balance of the central level of the state should be at the level of 53.0% of GDP at the end of 2025 (Strategija upravljanja javnim dugom od 2023. do 2025. godine, 79).

Table 3. Basic projection of the state of public debt at the general level of the state until 2025

	2023	2024	2025
Public debt (central level of government), billion.	4,419.1	4,745.1	5,041.1
Central government debt, in % of GDP	55.1%	54.1%	53.0%
Unguaranteed debt of local self-government units and other government sectors, in % of GDP	1.0%	1.0%	1.0%
General government debt, in % of GDP	56.1%	55.1%	54.0%

Source: [Strategija upravljanja javnim dugom od 2023. do 2025. godine, str. 79]

As for the share of public debt at the general level of the state in GDP, it is expected to be 56.1% at the end of 2023, 55.1% at the end of 2024, and 54.0% at the end of 2025. In the coming period, the implementation of large projects in the field of infrastructure is announced, which will be financed primarily from project loans, as well as their more active implementation compared to previous years. "This is precisely one of the points where a clear coordination of fiscal and development goals can be seen. The sustainability of public debt and the gradual decline of its share in GDP are taken into account, while at the same time new borrowing is used to improve infrastructure conditions that lead to the growth of GDP, living standards and new investments. It is predicted that the non-guaranteed debt of local self-government units and other sectors of the state will be at a relatively stable level of around 1.0% of GDP in the coming period" (Strategija upravljanja javnim dugom od 2023. do 2025. godine, 79).

Based on the planned macroeconomic concept, the public debt of the Republic of Serbia (central level of government) should amount to 53.0% of GDP at the end of 2023, in the absence of the influence of possible risks. The main factors that should influence the stabilization of public debt/GDP ratio

are: GDP growth, primary deficit, dinar exchange rate against foreign currencies and interest rate (Rakita, 2016, 106).

Table 4. Contributions of the basic macroeconomic variables to the change in ratios public debt (central government level)/GDP, in %

	2023	2024	2025
Central government debt/GDP	55.1	54.1	53.0
Change compared to the previous year, in % of GDP	-1.0	-1.0	-1.1
Contribution of the primary fiscal	1.2	0.1	-0.5
Interest contribution	1.8	2.0	1.9
Contribution to nominal GDP growth	-6.6	-4.7	-4.2
Contribution of other factors	2.6	1.5	1.7

Source: [Vlada Republike Srbije (2022). Revidirana Fiskalna strategija za 2023. godinu sa projekcijama za 2024. i 2025. godinu, str. 85]

In accordance with the Law on the Budget System, in the event that the debt of the general government has exceeded the level of 45% of GDP, the Government of the Republic of Serbia should propose measures by which the debt will return to a sustainable level. In the event that the debt is above 55%, the Government, as part of the Fiscal Strategy and according to the procedure for the adoption of the fiscal strategy, proposes a Debt Reduction Program with concrete measures to reduce the debt below the set limit (Vlada Republike Srbije, 2022, 69). Accordingly, the Government presented the basic scenario of the fiscal framework, which envisages a gradual reduction of the fiscal deficit to 1.4% of GDP by the end of 2025, as well as a reduction of the level of public debt to around 45% of GDP in 2030.

Table 5. Simulation of the level of total debt in the base scenario until 2030, % of GDP

Basic scenario	2023	2024	2025	2026	2027	2028	2029	2030
Income	40.8	40.3	39.6	39.3	39.1	38.9	38.7	38.5
Expenses	44.1	42.5	41.0	40.5	40.1	39.7	39.2	39.0
Decrease in expenditure share	-2.7	-1.6	-1.5	-0.4	-0.4	-0.4	-0.5	-0.2
Fiscal result	-3.3	-2.2	-1.4	-1.2	-1.0	-0.8	-0.5	-0.2
Primary fiscal result	-1.5	-0.1	0.5	0.7	0.8	0.9	1.2	0.6
Public debt/GDP	56.1	55.1	54.0	52.2	50.4	48.4	46.3	44.2
GDP real growth, in %	2.5	3.5	4.0	4.0	4.0	4.0	4.0	4.0

Source: Vlada Republike Srbije (2022). Revidirana Fiskalna strategija za 2023. godinu sa projekcijama za 2024. i 2025. godinu, str. 71]

Based on the simulation of the movement and variation of the factors affecting the debt dynamics, the assumptions in the basic scenario are (Vlada Republike Srbije, 2022, 71):

1. After achieving a high level of fiscal deficit in 2020, in the period from 2021 to 2025, the level of the general and primary fiscal result enables a gradual reduction of the share of public debt in GDP. After that, the fiscal deficit is reduced from 1.2% of GDP in 2026 to the level of 0.5% of GDP;
2. Slower growth of fiscal revenues compared to nominal GDP growth due to changes in the structure of the economy, strengthening of investment activity and export growth. No significant changes in tax policy are foreseen, while maintaining a high level of capital expenditures;
3. Absence of net increase in issued guarantees after 2025;
4. Average real GDP growth rate of 4% in the long term;

5. Slowing inflation and then keeping it at the level of 3% on average in the long term;

6. Absence of significant inflows from privatization in the observed period. Possible higher privatization revenues reduce the need for financing and further reduce the share of public debt.

However, as stated in the Fiscal Strategy, the uncertainty in the projections given in it is much higher than usual due to the nature and intensity of the shocks at the international level. Global risks associated with the development of the situation in Ukraine, the movement of energy prices, the restriction of world trade flows and in general with the state of international economic and political relations may very well have a great impact on the domestic economy. For this reason, the Government's measures are aimed at mitigating the negative impact of the international environment on the country's economy and preserving energy stability. Such an orientation will remain the focus of economic policy makers in the future, and keeping the public debt below 60% will continue to be the main goal of fiscal policy (Vlada Republike Srbije, 2022, 7).

These forecasts should be taken with a grain of salt. Namely, the biggest challenge in the current year when it comes to public finances is the repayment of old debts. According to the

forecast of the Fiscal Council, our country needs to borrow between three and four billion euros in order to service the loans taken in the previous period that are due for payment this year. A special problem is high interest rates, because we have come out of the time when they were at a historical minimum during 2019 and 2020. With the rise in interest rates due to curbing inflation, borrowing costs also rise. This implies higher fiscal expenditure and more difficult financing of public debt. At the same time, if worse economic forecasts are realized, we will have an increase in borrowing costs on the one hand, and a slowdown in economic growth on the other hand, which will have a negative effect on both the volume of public debt and its share in the gross domestic product.

6. Conclusion

Public debt and budget deficit represent one of the biggest problems of the Republic of Serbia. Financing the deficit in the budget is a priority task of the Government's economic policy. In addition to reducing expenditures, the deficit is largely covered by borrowing from international financial institutions, government borrowing from the central bank, as well as the issue and sale of bonds. In the early years of the new millennium in the Republic of Serbia, the budget deficit and public

debt were covered primarily with revenues from the privatization of social enterprises, and after their exhaustion, they switched to borrowing on the international financial market.

Based on the analysis carried out in the paper, the following conclusions were reached. After the political changes in 2000, the public debt tended to fall both in absolute and relative amounts. Namely, the public debt was reduced from 14.2 billion euros at the beginning of the new millennium to 8.8 billion euros in 2008. As a consequence, the public debt/GDP ratio also tended to fall from 201.2% in 2000, that is, from 97.7% in 2001 to 28.3% in 2008. This is the historical minimum of the share of public debt in GDP in the observed period and is a consequence not only of institutional reforms, but also of the relatively favorable situation on the international capital market at that time.

However, the public debt increased to 9.9 billion euros in 2009 and continued to grow in the following years as a result of the global economic and financial crisis. By 2016, it had grown to 24.8 billion euros. At the same time, its share in GDP increased from 32.8% in 2009 to 70% in 2015. Since 2016, there has been a change in the dynamics of the public debt of the Republic of Serbia in terms of its moderate decline

in the following years. Thus, the public debt in 2019 amounted to 23.9 billion euros, and its share in GDP was 51.9%. The key reason for the reversal in the trend of public debt in those years was the implemented fiscal consolidation, which contributed to the reduction of the high fiscal deficit.

The outbreak of the health and then the economic crisis at the global level led to the fact that the public debt of the Republic of Serbia reached the amount of 26.7 billion euros at the end of 2020, and the share of public debt in the same year was 57% of GDP. This is a direct consequence of the financing of measures to support the economy and the population with the aim of reducing the impact of the crisis caused by the corona virus pandemic. The public debt continued to grow even in the post-corona crisis years, so that as of December 31, 2022, amounted to 33.3 billion euros with a share of 55.2% in GDP. Mitigation of the pandemic in 2022 had the effect of creating fiscal space, which is much needed in the newly emerging unfavorable situation. The outbreak of the war in Ukraine, the energy crisis and the changed international relations due to this have a strong effect on the economic trends in the world, which are very quickly reflected on the domestic market as well. That is why in the same year, the

implementation of measures to cushion the shocks of the latest crisis began.

In order for public finances to be sustainable, it is necessary for the public debt to be consolidated at a level of less than 50% of GDP for a long period of time, which has not been the case in the Republic of Serbia for many years. The forecasts of macroeconomic and fiscal policy holders are optimistic, but they should be taken with a grain of salt. Statistical figures on the reduction of public debt in GDP can be misleading, especially in a situation where the total debt is growing in absolute terms. For a realistic reduction of the public debt, concrete measures are needed, primarily in terms of spending restrictions, in order for the public debt to be sustainable at an optimal level and to maintain macroeconomic stability. Care should be taken in doing so, because overly strict restrictive spending measures can lead to recession. Taking loans from foreign institutions is not a long-term solution, because it threatens a debt crisis that our country can easily enter. Therefore, the Republic of Serbia should continuously create conditions that will be attractive for foreign investors and gradually build a healthy macroeconomic environment, all with the aim of strengthening their confidence in the Serbian economic system. Only in such circumstances will there

be a reduction of the total public debt and bringing its relative values within the legal framework.

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JAVNI DUG REPUBLIKE SRBIJE U NOVOM MILENIJUMU: ANALIZA STANJA I TENDENCIJE KRETANJA U BUDUĆNOSTI

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Rezime: Predmet istraživanja u radu usmeren je na analizu javnog duga u Republici Srbiji u vremenskom intervalu od 2000. do kraja 2022. godine. Posmatranjem podataka o kretanju javnog duga u novom milenijumu primetno je da postoji trend njegovog porasta nakon svetske ekonomske krize 2008. godine. Osnovni uzrok takvih kretanja je prekomerna potrošnja državnih organa i snižavanje poreskih prihoda, što je posledica, pre svega, smanjene ekonomske aktivnosti usled globalnih negativnih tendencija u pojedinim godinama. Visok nivo javnog duga predstavlja glavnu barijeru za privredni razvoj Republike Srbije. Analiza podataka u posmatranom periodu ukazuje da se problem rasta javnog duga može rešiti povećanjem bruto domaćeg proizvoda i smanjenjem javne potrošnje.

Ključne reči: javni dug, bruto domaći proizvod, Republika Srbija, budžetski deficit, izvori finansiranja.