ASSESSMENT OF THE FISCAL STANCES OF THE BALKAN STATES

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Abstract: The research paper presents an assessment of key budgetary and socio-economic indicators to reveal the effects of the models of public finance management adopted by the countries on the Balkan Peninsula. Based on these indicators, the analysis determines the fiscal stance of each Balkan country before, during and after the global economic crisis. The results of the analysis show a significant degree of similarity in the discretionary measures taken, but at the same time some more pronounced deviations from the general economic development of the Balkans.

Key words: fiscal policy, fiscal stance, central government budget, output gap.

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Introduction

Fiscal policy is a set of actions related to specific solutions to achieve certain political, social and economic goals and objectives. In economics, the central government's fiscal policy has three main functions: to allocate, to distribute and to stabilize. They are associated not only with the efficient distribution of goods and resources, but also with the distribution of income and the management of certain macroeconomic and social processes aiming to achieve higher employment levels (respectively lower unemployment rates), price stability, and sustainable economic growth.

Regardless of its objectives, every particular model of public finance management must be subjected to adequate quantitative and qualitative assessment. The **subject of this study** is fiscal policies of the Balkan states. **Its object** is the assessment of the effects of the fiscal policy and the analysis of certain quantitative (fiscal) indicators. These indicators are combined into a framework for fiscal monitoring and assessment of the sustainability of each country's public finance. The **aim of the study** is to assess the fiscal stance of each Balkan state. This paper comprises several sections. The first part discusses the importance of fiscal policy and the tools to assess its effects. *Section 2* presents a methodological framework for assessing the fiscal stances of the Balkan countries. *Section 3* presents a quantitative assessment of the effects of the discretionary measures of the Balkan governments for the period 2004-2018. The last part summarizes the main findings and conclusions regarding these fiscal policies.

Literature Review

According to Popa & Codreanu (2010), the role of any fiscal policy is determined mostly by the degree of the country's economic development. While developed countries focus their efforts on maintaining full employment and stable economic growth, developing countries' fiscal policies aim to stimulate investments, accelerate growth, minimize social inequality, raise the level of employment, and achieve price stability by means of appropriate fiscal levers. On the other hand, Zahariev & Dimitrov (2015) point out that governments often seek to achieve only short-term goals given the limited political horizon of their mandates and their aspirations for purely political gains on the forthcoming elections.

In the aftermath of the global financial and economic crisis which occurred in the first decade of the 21st century, the pressure for strict monitoring of fiscal policy and measuring of its impact has been increasing. Such a monitoring requires a system of indicators which would most accurately measure its impact. International research and expert practice uses a wide range of indicators to monitor the effects and consequences of fiscal policy. Chouraqui, Hagemann & Sartor (1990) define four main groups of indicators for assessing fiscal policy, each targeted to the following aspects: the discretionary element in fiscal policy, the sustainability of fiscal policy, the aggregate demand impact of fiscal policy, and the allocational consequence of fiscal policy's distribution function. Gramlich (1990) points out that the selection of fiscal indicators should take into account the control of aggregate demand, government debt management and microeconomic efficiency.

The applicable toolbox is based on certain budget indicators adopted by the IMF (International Monetary Fund Data), which include: overall budget balance (BB), primary budget balance (PBB), cyclically adjusted budget balance (CAB), cyclically adjusted primary budget balance (CAPB), total budget revenue (TREV) and total budget expenditure (TEXP).

The cyclically adjusted budget balance (CAB) and the cyclically adjusted primary budget balance (CAPB) are used by many countries world-wide to measure their fiscal stance (FS) as part of the monitoring over their governments (Boije & Fischer, 2006). These indicators measure the effect of the government's discretionary measures on both the current and the future management of public finance (Pattnaik, Raj & Chander, 2006). While most financial indicators are analyzed and assessed in terms of their relation to the actual GDP, the cyclically adjusted indicators are analyzed in terms of potential GDP (PGDP). The reason for applying this methodological measure is due to the assumption that the cyclically adjusted budget balance (CAB) shows the budget balance of an economy in equilibrium, i.e. in which production has reached its potential level. Subtracting the cyclical part of the budget balance (CB) from the actual budget balance (BB) leaves a measure of the CAB, i.e. shows the budget balance which is formed mainly as a result of government's measures rather than the balance caused by changes in the economic cycle. The cyclical component in the budget balance in practice reflects the activity of the so-called automatic budget stabilisers.

$$CAB = BB - CB$$

Various methodological approaches are used to calculate the cyclically adjusted budget balances (CAB and CAPB). These approaches differ mainly in terms of the degree of disaggregation of the data they use.

Methodological framework of the research

Regardless of the approach we have chosen, one of the first steps is to estimate the output gap (OG), i.e. the deviation of the actual GDP of the Balkam countries from their potential GDP (PGDP).

$$OG = \frac{GDP - PGDP}{PGDP}$$

Within the EU, the deviation from the potential level of the economy is an important indicator that underpins the subsequent budgetary adjustments that each country must make. Its determination requires an additional calculation of the value of potential GDP (PGDP). There are two approaches to estimate the potential GDP: using the production function and using the filter of Hodrick-Prescott (1997). This research is based on the second approach, i.e.

$$\min_{\{PGDP_t\}_{t=1}^{T}} \left\{ \sum_{t=1}^{T}(GDP_t - PGDP_t)^2 + \lambda \sum_{t=2}^{T-1}[(PGDP_{t+1} - PGDP_t) - (PGDP_t - PGDP_{t-1})]^2 \right\},$$

where:

λ is the smoothing parameter, $\lambda > 0$.

The second step is to determine requires determining the fiscal impulse (FI), i.e. what actions are taken by each government of the countries in the Balkan region within the analysed period. The aim of this step is to assess the actual impact of these actions on the fiscal system, excluding the actions of the so-called automatic budget stabilizers (i.e. changes in the values of the indicators caused by the economic cycle). The methodological framework requires to calculate the so-called cyclically adjusted values.

The cyclically adjusted budget balance (CAB) is the difference between the cyclically adjusted budget revenue ($TREV_{CA}$) and the cyclically adjusted budget expenditure ($TEXP_{CA}$). This common approach is based on the IMF methodology (Fedelino, Ivanova & Horton, 2009):

$$CAB = TREV_{CA} - TEXP_{CA}$$

The calculation of the cyclically adjusted budget revenue and expenditure is based on the actual budget revenue and expenditure adjusted with the elasticity of revenue ($\varepsilon_{TREV,OG}$) and expenditure ($\varepsilon_{TEXP,OG}$) times the output gap, i.e.

$$TREV_{CA} = TREV * \left(\frac{PGDP}{GDP}\right)^{\varepsilon_{TREV,OG}}$$

$$TEXP_{CA} = TEXP * \left(\frac{PGDP}{GDP}\right)^{\varepsilon_{TEXP,OG}}$$

To determine the elasticity of revenues and expenditures to the deviation of economic development from its potential, an econometric technique was applied with regression equations using the least squares method (LSM). The values of the variables are taken in logarithmic form, using the first differences.

$$\Delta \ln\left(\frac{TREV}{PGDP}\right) = \alpha + \varepsilon_{TREV,OG} * \Delta \ln\left(\frac{GDP}{PGDP}\right) + \mu$$

$$\Delta \ln\left(\frac{TEXP}{PGDP}\right) = \alpha + \varepsilon_{TEXP,OG} * \Delta \ln\left(\frac{GDP}{PGDP}\right) + \mu,$$

where:

α is the constant term;

μ is a random component.

In order to calculate the cyclically adjusted primary budget balance (CAPB) we have to eliminate the impact of interest expenditure (IEXP) on the budh=get balance.

$$CAPB = CAB + IEXP$$

The change of the cyclically adjusted primary budget balance to potential GDP ratio (CAPB/PGDP) for a given period (e.g. a year, a quarter, a month) from a previous period is referred to as fiscal impulse (FI):

$$FI = \frac{CAPB_{t-1}}{PGDP_{t-1}} - \frac{CAPB_t}{PGDP_t}$$

In order to measure the actual fiscal stance of a country over a period (t), we need to take into account both the value of the fiscal impulse and the value of the output gap (as a measure of the deviation from the potential output). The results are usually presented graphically (see Figure 1) to assess the fiscal stance considering the indicator dynamics (Fitoussi & Saraceno, 2010).

When the output if below its potential (OG<0), the government follows a restrictive fiscal policy thus increasing the CAPB (FI<0), which is considered a **pro-cyclical stance** (lower left quadrant), i.e. the government is raising the taxes and reducing its spending, which has a negative impact on the components of aggregate demand, and hence helps widen the recession gap. Conversely, when the output is below its potential (OG<0) and the government follows an expansionistic fiscal policy thus reducing the CAPB (FI>0), this is considered an **anti-cyclic fiscal stance** (upper left quadrant), i.e. the government is increasing its spending and decreasing its fiscal revenue in order to stimulate consumption and investments and thus to increase the output towards its potential.

Source: Author's figure based on Fitoussi & Saraceno (2010)
*Figure 1. **Fiscal stance types (FS)***

When the output if above its potential (OG>0) and the government follows an expansionistic fiscal policy thus reducing the CAPB (FI>0), this is considered a **pro-cyclic fiscal stance** (upper right quadrant), i.e. the government is increasing its spending and decreasing its fiscal revenue, which increases the inflation gap and results in overheating of the economy. Conversely, when the output if above its potential (OG>0) and the government follows a restrictive fiscal policy thus increasing the CAPB (FI<0), this is considered an **anti-cyclic fiscal stance** (lower right quadrant), i.e. the government is raising the taxes and reducing its spending, which brings the output down to its potential level.

Research Results

A general overview of the fiscal indicators for the individual Balkan countries shows both some similarities and some serious differences among their national fiscal policies. This is why we undertook the task to assess the fiscal stance of each Balkan country using the methodology described above and annual statistical data for the period 2004 – 2018 published by their national statistical and financial institutions.

Our calculations show that, with the exception of Greece, all Balkan countries reported a marked trend of GDP growth in the period 2004-2018. The GDP of most of these countries deviates significantly from its potential, i. e. they reported large output gaps. The greatest output gap was calculated for Turkey, but the OGs of Romania, Montenegro, Greece, Bulgaria, Bosnia and Herzegovina and Croatia place them in the same group.

Output gaps of Turkey, Bulgaria, Romania, Montenegro, Greece, Bosnia and Herzegovina and Croatia (% of potential GDP)

Year	Turkey	Bulgaria	Romania	Montenegro	Greece	Croatia	Bosnia and Herzegovina
2004	32.97	-9.03	-8.08	-8.79	-10.23	-8.46	-6.35
2005	19.33	-6.66	-8.27	-11.25	-8.05	-5.06	-7.60
2006	13.29	-3.25	-4.54	-3.90	0.23	0.02	-1.54
2007	5.74	5.18	5.18	9.10	7.03	6.27	4.37
2008	1.91	11.91	20.22	16.59	11.79	11.08	12.07
2009	-11.65	5.26	8.00	5.21	10.86	3.57	3.97
2010	-10.84	0.98	-0.87	3.53	7.20	1.00	2.05
2011	-6.38	3.87	-2.53	2.54	0.28	0.66	1.68
2012	-7.53	0.83	-3.47	-4.92	-5.10	-1.66	-1.80
2013	-6.02	-4.00	-3.36	-4.21	-7.99	-2.89	-2.96
2014	-5.91	-5.97	-4.70	-6.04	-6.62	-4.29	-4.01
2015	-4.05	-4.09	-4.66	-5.26	-5.01	-3.41	-2.87
2016	-3.95	-2.19	-3.76	-2.18	-3.14	-1.78	-1.60
2017	3.56	0.90	1.65	1.56	1.22	0.75	0.01
2018	12.99	3.87	6.60	5.36	6.17	3.51	3.34

Source: authors' calculations.

It is worth noting that of the seven countries in this group, only the Turkish economy has a reverse trend of development (i.e. an inflationary OG) in the period 2004-2006 compared to the other countries. At the same time, the global economic crisis affected the Turkish economy most seriously in the first years (2009-2010) with recessionary output gap exceeding 10% of the potential output level. In the other countries the recessionary output gap occurred at a later stage and increased incrementally.

The second group comprises Albania, Serbia, Slovenia, North Macedonia and Kosovo. The economies in this group had significantly smaller output gaps. The economies of North Macedonia and Kosovo were nearest to their potential, especially between 2012 and 2018 (for Kosovo) and 2009 and 2011 and 2015 and 2017 (for North Macedonia).

Table 2
Output gaps of Albania, Serbia, Slovenia, North Macedonia, and Kosovo (% of potential GDP)

Year	Kosovo	North Macedonia	Slovenia	Albania	Serbia
2004	4.50	-2.34	-6.15	-2.91	-7.74
2005	-1.91	-1.44	-5.03	-3.50	-4.48
2006	-6.48	-1.03	-1.20	-3.74	-1.38
2007	5.44	2.58	6.28	-1.40	1.50
2008	-0.23	6.83	11.35	2.90	5.57
2009	-2.41	0.43	3.55	2.26	1.21
2010	-1.08	0.03	1.34	4.71	-0.53
2011	1.77	0.57	0.97	4.44	2.87
2012	0.96	-4.02	-3.36	2.27	1.70
2013	0.69	-1.87	-4.96	-0.61	3.74
2014	-0.03	-1.80	-4.15	-1.15	-0.74
2015	-0.70	-0.84	-3.46	-2.00	-2.14
2016	-0.94	0.72	-2.25	-2.84	-2.13
2017	0.09	0.07	1.39	-1.07	-1.61
2018	0.55	2.04	5.13	0.99	0.47

Source: authors' calculations.

The global economic crisis of 2007-2008 affected most of the Balkan countries. In the post-crisis years, most Balkan economies deviated from their potential level and reported a recession output gap, i.e. they performed below their potential. In 2017–2018, there was a tendency for economic growth of the Balkan countries to exceed their potential. Such a development must be carefully monitored and analysed as it could lead to overheating of these economies, soaring inflation levels, and new economic shocks.

In order to assess the impact of fiscal policy and discretionary measures on the governments of the Balkan countries, we must exclude the effect of the economic cycle on the assessment indicators. The data in Table 3 show that in Slovenia and Kosovo public spending has low elasticity to the dynamics of economic development and output deviation from the potential level.

Table 3
Elasticity of budget revenue to output gap

| Country	$\varepsilon_{TREV,OG}$	$\varepsilon_{TEXP,OG}$	Страна	$\varepsilon_{TREV,OG}$	$\varepsilon_{TEXP,OG}$
Bulgaria	1.23	0.66	North Macedonia	1.45	0.73
Greece	0.55	0.70	Turkey	0.77	0.66
Croatia	0.95	0.55	Serbia	0.89	0.85
Romania	0.85	1.04	Bosnia and Herzegovina	1.13	1.27
Slovenia	0.81	0.18	Kosovo	0.85	0.07
Montenegro	1.60	1.17	Albania	1.25	1.12

Source: authors' calculations.

On the other hand, the revenues and expenditures of Bosnia and Herzegovina, Montenegro and Albania are highly sensitive to changes in economic development. Seven of the Balkan countries have inelastic budget revenues (Greece, Croatia, Romania, Slovenia, Turkey, Serbia and Kosovo), while data show that public spending is inelastic in eight of the countries (Bulgaria, Greece, Croatia, Slovenia, North Macedonia, Turkey, Serbia and Kosovo).

The results presented in Exhibit 1 show that most Balkan countries, including Bulgaria, Greece, Croatia, Romania, Montenegro, and Bosnia and Herzegovina, pursued mainly restrictive fiscal policies in the period 2005–2018, which is proved by their negative fiscal impulses. In the period 2005–2009, the Bulgarian governments tried to accelerate the country's economic growth through fiscal expansion. From 2010 to 2013, some more restrictive measures were introduced, which is typical for the EU countries as a whole in search of fiscal consolidation and addressing the emerging fiscal imbalances. In 2014, the fiscal policy was partially expansionary and in 2015 and beyond it was predominantly restrictive.

Two the Balkan countries (Slovenia and Kosovo) consistently followed fiscal policies that were both expansionary and restrictive throughout the whole period. The other four Balkan countries (Albania, Serbia, North Macedonia and Turkey) pursued predominantly expansionary fiscal policies (i.e. FI>0.) The analysis can also be done by years, noting that 2005, 2010, 2015, 2016 and 2017 were the years in which restrictive fiscal policies were predominant (i.e. most countries pursued this type of policy). In the first years of the global economic crisis (2007-2009), as well as in 2011 and 2018, most of the Balkan countries pursued expansionist fiscal policies. In 2006, 2012, 2013 and 2014, their policies included both expansionist and restrictive measures.

The assessment of Bulgaria's fiscal stance confirms the above observation that in the first years of the period under review (2005-2006) the fiscal system relied on budgetary expansion. Although these are strong years for the Bulgarian economy, Figure 2 shows that the economy operated below its potential and was gradually approaching its potential through a counter-cyclical fiscal stance, and after 2006 it even exceeded its potential.
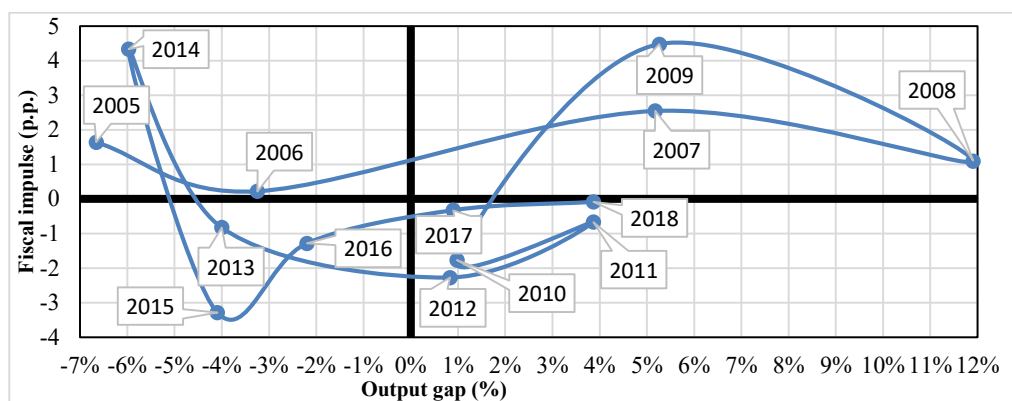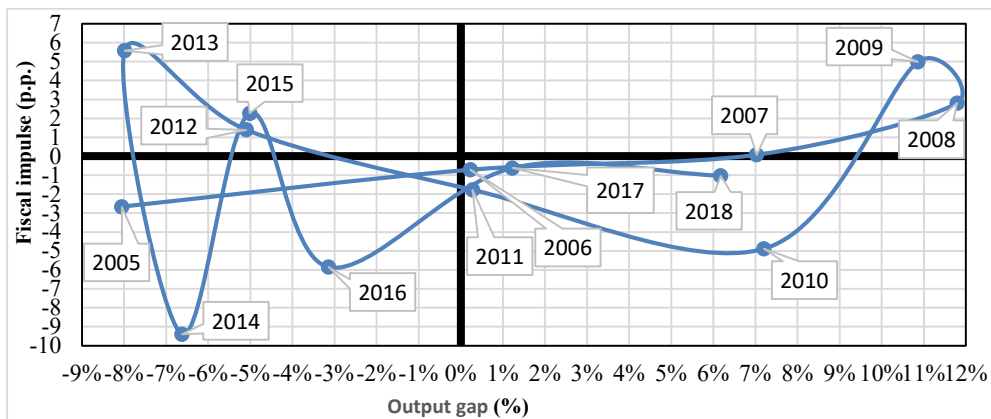
Source: authors' calculations.

Figure 2. ***Bulgaria's fiscal stance***

In the first years (2007-2009) of the global economic crisis, the country continued to pursue an expansionary fiscal policy, but the economy was already above its potential, which is why its fiscal stance is considered pro-cyclical. In order to "overcool" the economy and return it to its potential (keeping inflation at bay) as well as to consolidate public finance, the Bulgarian governments in the period 2010-2013 pursued a restrictive fiscal policy and from 2010 to 2012 this policy was rather counter-cyclical given that the economy was above its potential, and in 2013 it was pro-cyclical.

From 2014 to 2016, the economy was below its potential - in 2014 the government adopted a counter-cyclical expansionist policy while in 2015 and 2016 - a restrictive pro-cyclical policy. In the period 2015-2016, government spending remained at and even below its 2014 level but the economy still performed with a positive real GDP growth and was approaching its potential level. In 2017 and 2018, the fiscal discretionary measures continued to maintain a positive growth of the cyclically adjusted primary budget balance (FI<0), although there was an increase in both budget revenues and budget expenditures.

Greece is the Balkan country that was most severely affected by the economic crisis that occurred at the end of the first decade. From 2006 to 2011, the Greek economy was above its potential, with significant fiscal stimuli in 2008-2009 (Figure 3).

Figure 3. ***Greece's fiscal stance***

The country's expansionistic fiscal policy further burdened the state budget by increasing the annual budget deficit. This in turn aggravated the fiscal, debt, financial, and political crisis in the country. Its economy collapsed, which is reflected in the dynamics of its GDP after 2010. To address the fiscal problems, the Greek governments in the period 2012-2016 signed international bail-out agreements undertaking to conduct fiscal consolidation of Greece's public finance sector by reducing and restructuring the government spending as well as to undertake adequate reforms in the country's tax system in order to provide additional budget revenues. In 8 of the 14 years of the period under review, Greece's fiscal stance is counter-cyclical and its policy is predominantly restrictive, especially in the periods after 2008 and after 2015.

Bosnia and Herzegovina is one of the Balkan countries with strong public sectors involved in their economic development measured in terms of the share of public revenues and public expenditures as a percentage of GDP.
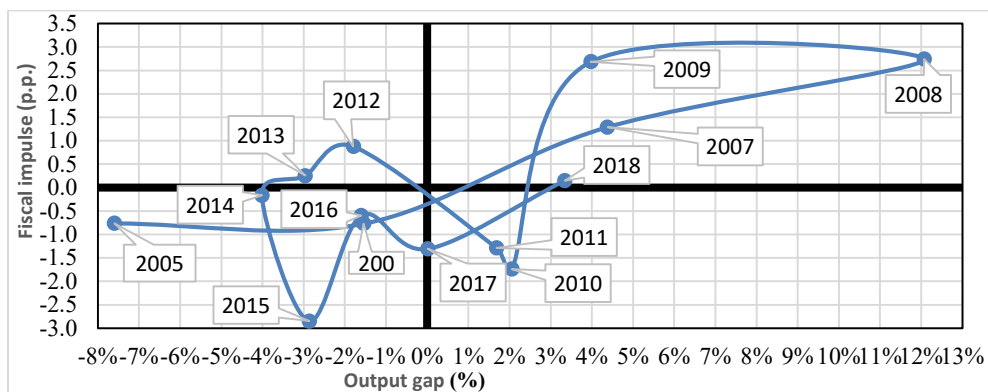
Figure 4. ***Bosnia and Herzegovina's fiscal stance***

From 2005 to 2009, Bosnia and Herzegovina had a pro-cyclical fiscal stance, with the country's government generating sufficiently large budget revenues in 2005-2006 to cover the budget expenditures, but after 2006 there were additional fiscal stimuli, which resulted in budget deficits (Figure 4). The budget balance remained negative until 2014 due to a broadly pro-cyclical expansionist policy (high levels of government spending and insufficient budget revenues due mainly to the crisis) in the period 2007-2009 and a counter-cyclical expansionist policy in 2012 and 2013. In order to reduce the annual budget deficits, the government undertook certain reforms in the public sector (e.g. freezing/reducing wages), which aimed to keep public spending within a certain level with a tendency to gradually reduce it. At the same time, budget revenues are more constant over time. The ongoing fiscal consolidation improved the budget balance after 2014 and especially in 2015.

Croatia is also one of the Balkan countries where the treasury has pursued a pro-cyclical policy for most of the period under review. In the period 2005–2018, only in 2010 and 2017 did the country's fiscal position have a counter-cyclical character, with restrictive discretionary measures in place (Figure 5). The analysis of the fiscal position of Croatia gives the opportunity to form two sub-periods according to the actions of its government.
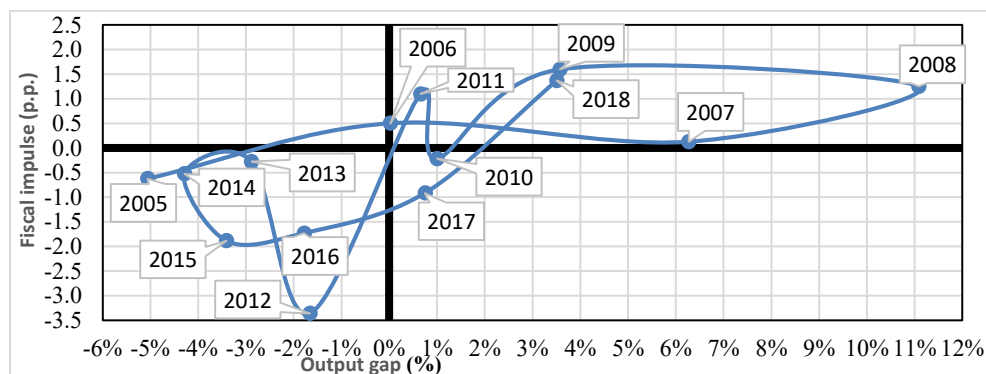
Source: authors' calculations.
*Figure 5. **Croatia's fiscal stance***

From 2006 to 2011 (except in 2010), its pro-cyclical fiscal stance was accompanied by expansionary actions by the government, while from 2012 to 2016, although the fiscal stance remained pro-cyclical, the policy pursued was restrictive, which was due to the excessive deficit procedure launched in the beginning of 2014 by the Council of the EU on recommendation of the European Commission.

The recommendations for structural reforms to improve the competitiveness of the Croatian economy and to curb macroeconomic imbalances, as well as the actions taken by the Croatian government, contributed not only to improving the budget balance but also to achieving significant economic growth after 2015. At the same time, there was a gradual decrease in unemployment in the country and especially in youth unemployment, where the youth unemployment rate was reduced by half in 2018 compared to 2013 and 2014. There was also a decline in inequality in income distribution.
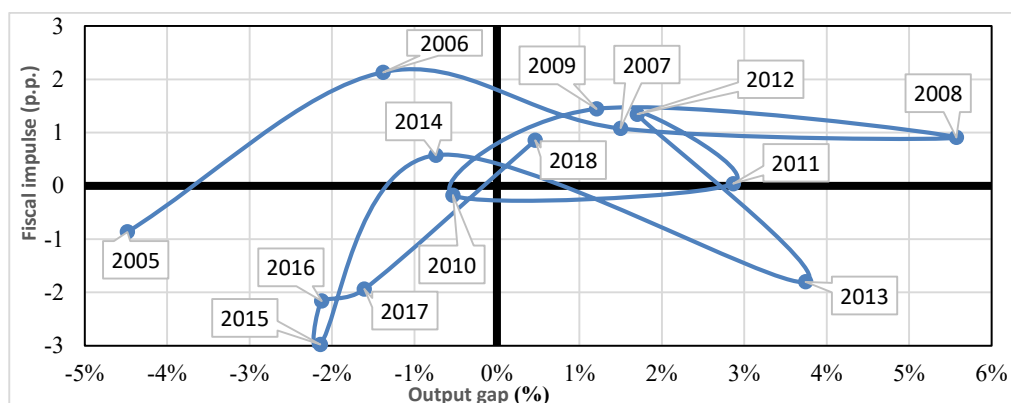
Source: authors' calculations.
Figure 6. Serbia's fiscal stance

The fiscal stances of Serbia, Romania and Kosovo are by and large similar to that of Croatia. The assessment of Serbia's fiscal stance for the period 2005-2018 shows that the discretionary measures of its government are mostly pro-cyclical (2005, 2007-2012 and 2015-2018), whereas in certain years the fiscal impulse had positive values (i.e. a pro-cyclical fiscal stance through expansionary measures in the periods 2007-2009, 2011-2012 and in 2018), while in other periods the fiscal policy was restrictive.

Figure 6 shows that in 2006 as well as in the period 2013-2014, the Serbian government opted for a counter-cyclical type of fiscal policy.

Romania's public finance management policy is predominantly pro-cyclical, but unlike the expansionist policy of Serbia, Romania's pro-cyclical fiscal policy is accompanied by fiscal restrictions (Figure 7), mostly in the period 2010-2015, when the fiscal impulse had negative values as a result of the gradually increasing cyclically adjusted primary budget balance. While in 2010 the cyclically adjusted primary budget balance was in deficit of 30 billion Romanian lei, in 2014 the balance was relatively balanced and in 2015 there was a surplus. These measures undertaken by the Romanian government after

2009 are largely due to the excessive deficit procedure which was launched in 2009 and continued until 2013. Some of the recommendations of the European institutions, which were implemented by the Romanian government after that, were to balance the expenditure by freezing the salaries and social benefits in the public sector, as well as to look for different options to increase its budget revenue. (EC, 2013).

Figure 7 shows that since 2015, the country has again adopted a looser, albeit at first glance countercyclical, fiscal policy, which in the coming years may create conditions for new shocks in the fiscal sector. The reason for this policy of fiscal incentives can be the frequent changes in the country's governance in the last years of the period under review and thereafter.
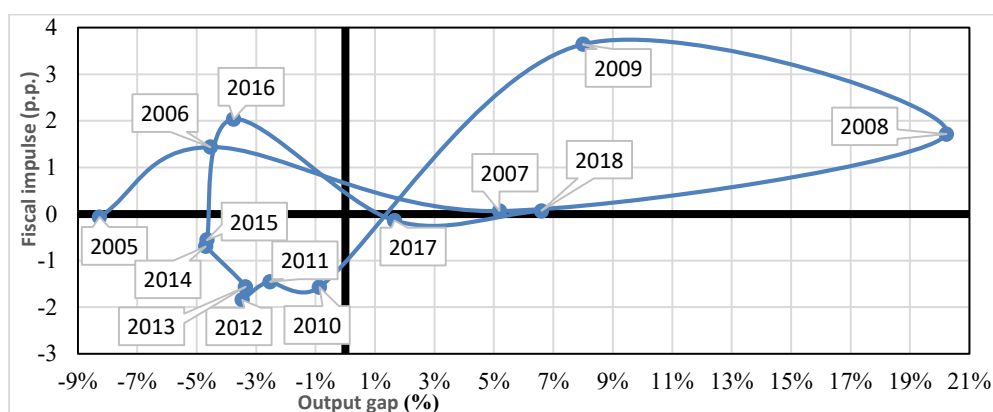
Source: authors' calculations.
*Figure 7. **Romania's fiscal stance***

Kosovo's fiscal stance, albeit pro-cyclical for most of the period under review, is characterized by significant dynamics (Figure 8). In the period 2005-2010, Kosovo's economy was quite volatile, performing both below and above its potential level. The fiscal impulse increased steadily until 2008, with the country moving from a restrictive to an expansionary fiscal policy.

Since 2011, there were no serious deviations both in the output level (close to the potential) and in the government's fiscal measures. In the period 2014–2016, restrictive measures are observed, although the economy performed below its potential. These measures are mainly associated with the postponement of a large share of capital expenditures (World Bank Group, 2017) relative to the increase in current expenditures (mainly concentrated in the increase in labour costs and social expenditures). The fiscal impulse fluctuated within in a very narrow band of about 1 to 2 percentage points, which is one of the reasons why Kosovo maintained low sovereign debt. Kosovo's

fiscal stance in 2017 can be described as neutral rather than pro- or counter-cyclical.
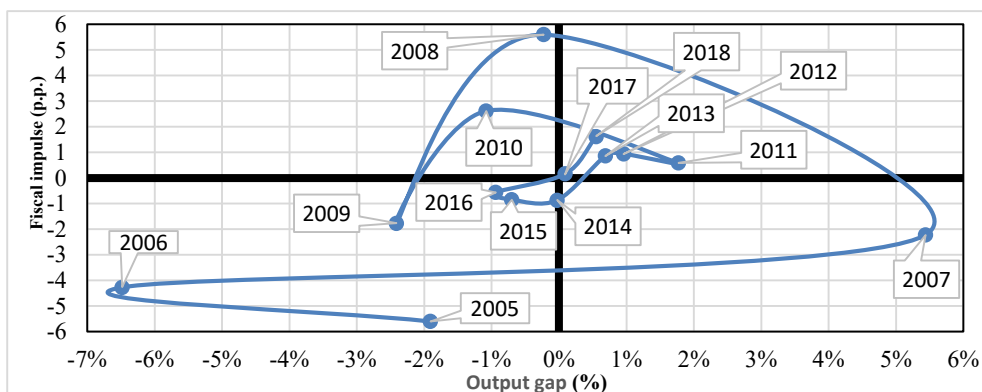
Source: authors' calculations.

Figure 8. **Kosovo's fiscal stance**

Slovenia's cyclically adjusted primary budget balance is much more balanced than those of the other countries. An exception to this conclusion is 2013, when the country reported a large deficit as a result of fiscal actions taken. The balanced cyclically adjusted budget balance is also reflected in the value of the fiscal impulse, which ranges from -3 to +3 percentage points. However, Slovenia's economy was not quite stable over time, especially at the beginning of the global economic crisis. Figure 9 shows that during half of the period 2005 –2018 Slovenia's government pursued a restrictive fiscal policy, and during the other half - an expansionary one. Like most of the Balkan countries reviewed so far, the government of Slovenia also preferred a pro-cyclical fiscal stance.
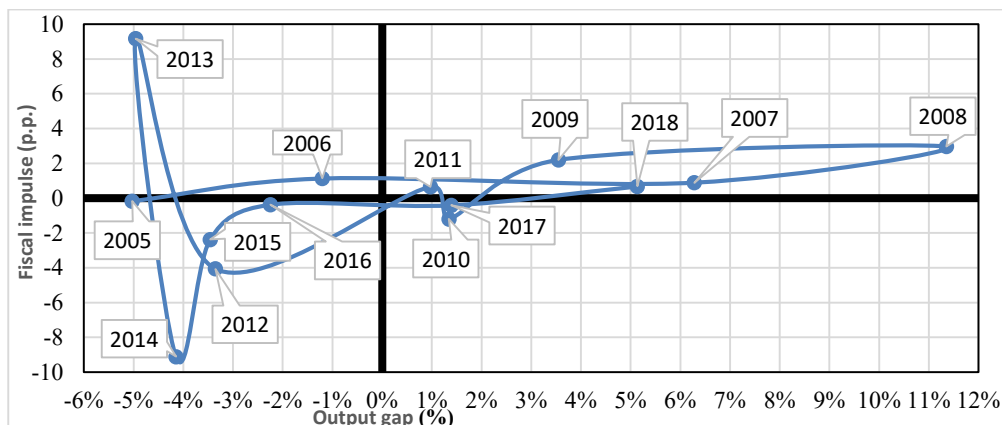
Source: authors' calculations.

Figure 9. **Slovenia's fiscal stance**

On the surface, Albania's fiscal policy is predominantly expansionist (Figure 10). The value of its CAPB/PGDP ratio, although negative during the analysed period, does not change rapidly, and this leads to a relatively lower value of its fiscal impulse.
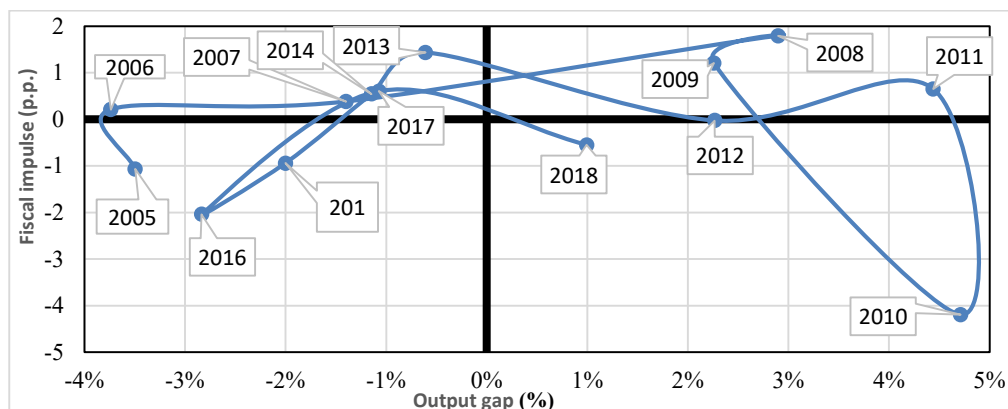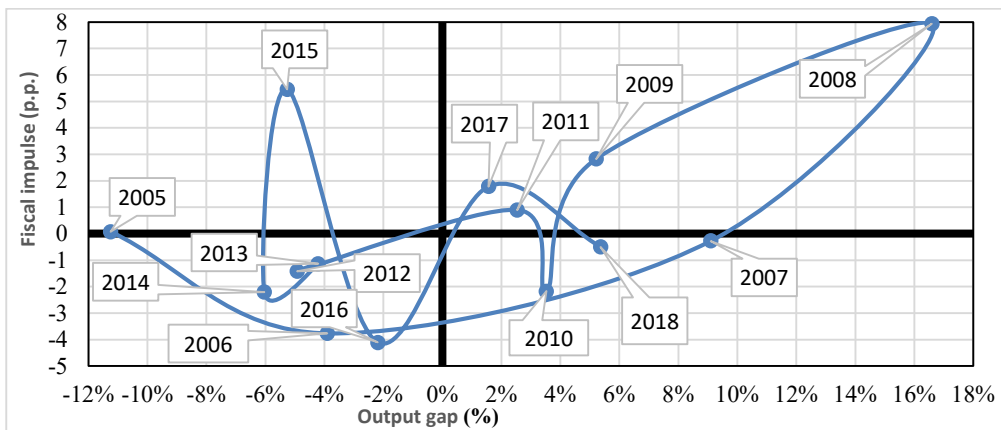

Source: authors' calculations.

Figure 10. Albania's fiscal stance

The only more significant deviation in the value of the fiscal impulse was in 2010 and was due to shrinking government spending and increasing budget revenue, i.e. improving the value of the budget balance in 2010 compared to the previous year. The deficits in the actual budget balance and the cyclically adjusted budget balance was halved, while the cyclically adjusted primary budget balance was even in surplus. In the fiscal position of Albania, as in most Balkan countries, there is an alternation of years with counter-cyclical fiscal measures and years of pro-cyclical measures.

Montenegro's economy developed rapidly in the period 2005–2008, reaching levels above its potential (Figure 11). With the onset of the global economic crisis, Montenegro's economy started overheating and its growth rate was decreasing gradually. During the crisis and in the first post-crisis years, the country followed a pro-cyclical fiscal policy. Initially, this policy was expansionary, but the emerging and growing deficit leads to fiscal consolidation aiming to reduce the deficit in subsequent years.
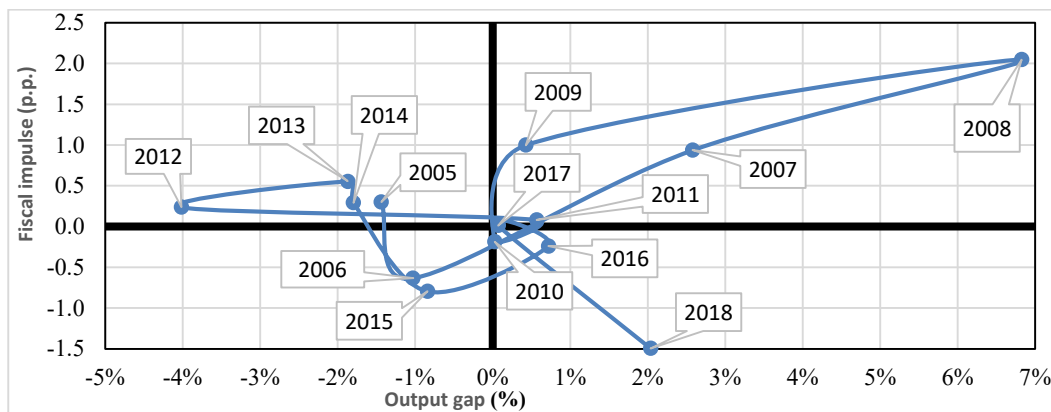
Source: authors' calculations.

Figure 11. **Montenegro's fiscal stance**

In 2017, Montenegro's public spending was significantly higher compared to its level in 2016. This fiscal impulse can be seen as a positive factor for the country's economy, which in 2016 was below its potential, while in 2017 the trend was reversed. In 2018, the actual GDP of Montenegro was higher than the estimated potential GDP resulting in a positive output gap. The economy performed above its potential, but the country was already following a counter-cyclical fiscal stance, to prevent further overheating of its economy.

North Macedonia is the Balkan country with the smallest spread of its fiscal impulse dynamics in the period 2005-2018. Except in 2008, when there was a pro-cyclical expansionary fiscal stance with a fiscal impulse of 3 percentage points, its impulse fluctuated between -1 and +1 pp. throughout the whole period. However, the country has been generating persistent budget deficits since 2008, leading to an increase in its overall debt.

Source: authors' calculations.

Figure 12. **North Macedonia's fiscal stance**

Deficits were mainly due to discretionary measures of the government, and not so much to automatic budget stabilizers. The government's fiscal policy from 2007 to 2009 and from 2011 to 2014 was expansionistic. In 2010, 2011 and 2017, the fiscal stance of North Macedonia was neutral. From the point of view of its fiscal stance in relation to the changes in the economic development, the data in Figure 12 show a balance in time, with a pro-cyclical stance in the period 2006-2009 and in 2015 and a counter-cyclical stance in 2005, 2012, 2013, 2014, 2016 and 2018.

While the economies of almost all Balkan countries gradually shifted from performance below to performance above their potential during the first years of the analysed period, the trend in Turkey was reverse. In 2005 and 2006, Turkey's economy performed far above its potential with a gradually declining growth rates and a significant decline of the country's economic development during the crisis. Despite the serious fiscal measures of the Turkish government, the resulting significant negative output gap in 2009 and 2010 is clearly seen in Figure 13.
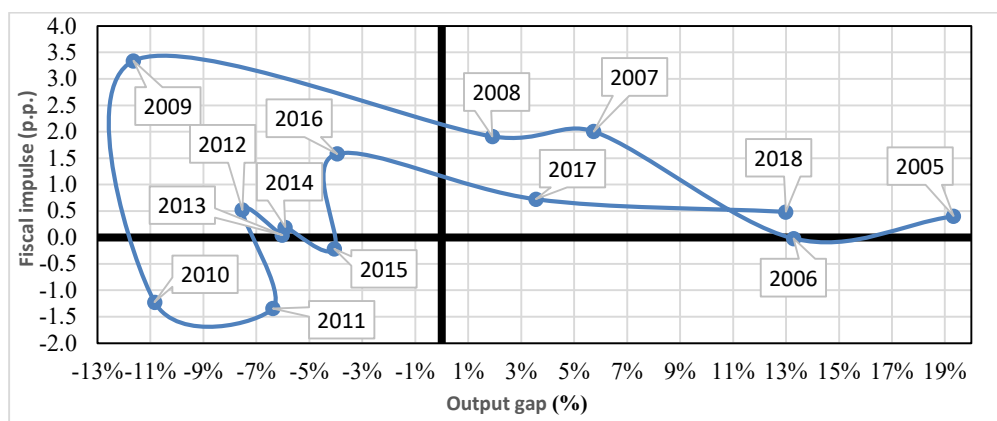
Source: authors' calculations.
*Figure 13. **Turkey's fiscal stance***

The country follows a predominantly expansionistic fiscal policy, with certain more drastic fiscal restrictive measures only in 2010 and 2011. After 2011, the economy began to recover gradually towards its potential, but at a rather slow pace. Between 2011 and 2015, the Turkish government followed a fiscal policy that allowed a somewhat balanced budget balance to be maintained, with the cyclically adjusted primary budget balance covering almost all interest payments on the outstanding sovereign debt.

Conclusuion

The fiscal positions of the Balkan countries show some similarities over time, especially when it comes to the EU member states among them. Observing the supranational regulations of the EU for public finance management and financial sustainability, the latter took certain measures and implemented a number of reforms over the period to prevent further disturbances in the public sector. The other countries, which are not yet members but are potential candidates for accession to the EU, also tried not to deviate significantly from the imposed course of fiscal management set by the European institutions. However, during the global economic crisis and the post-crisis years, certain deviations from the planned path of public finance management can be observed. The governments of some of the countries implemented some unusual measures which were based both on purely expert opinions, but also on purely populist reasons. Such measures can both contribute to improving the fiscal discipline and sustainability and aggravate the problems in the future, especially when combined with future local or global political and economic crises.

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Exhibit 1

Country	Показател	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Bulgaria	CAPB/PGDP (%)	5.56	3.92	3.71	1.17	2008	-4.4	-2.62	-1.95	0.32	1.16	-3.17	0.12	1.41	1.74	1.83
	FI (p.p.)		1.63	0.22	2.54	0.08	4.47	-1.77	-0.67	-2.28	-0.83	4.33	-3.29	-1.29	-0.33	-0.09
Greece	CAPB/PGDP (%)	-4.89	-2.22	-1.51	-1.59	1.09	-9.37	-4.49	-2.71	-4.11	-9.68	-0.28	-2.54	3.31	3.94	4.97
	FI (p.p.)		-2.66	-0.72	0.08	-4.39	4.98	-4.89	-1.78	1.39	5.57	-9.4	2.26	-5.86	-0.62	-1.03
Croatia	CAPB/PGDP (%)	-1.6	-1	-1.5	-1.6	2.8	-4.5	-4.3	-5.4	-2	-1.7	-1.2	0.7	2.4	3.3	2
	FI (p.p.)		-0.62	0.5	0.13	-2.9	1.6	-0.21	1.1	-3.36	-0.28	-0.52	-1.88	-1.73	-0.91	1.37
Romania	CAPB/PGDP (%)	-0.26	-0.19	-1.63	-1.69	3.62	-7.05	-5.48	-4.03	-2.18	-0.62	0.07	0.63	-1.41	-1.27	-1.33
	FI (p.p.)		-0.07	1.44	0.06	-3.41	3.65	-1.57	-1.45	-1.84	-1.56	-0.69	-0.56	2.04	-0.14	0.06
Slovenia	CAPB/PGDP (%)	1.43	1.6	0.47	-0.42	1.72	-5.59	-4.39	-5.05	-0.99	-10.16	-1.04	1.33	1.71	2.12	1.45
	FI (p.p.)		-0.17	1.13	0.89	-3.39	2.2	-1.2	0.66	-4.06	9.17	-9.11	-2.38	-0.38	-0.41	0.67
Montenegro	CAPB/PGDP (%)	1.47	1.39	5.16	5.43	2.96	-5.33	-3.15	-4.05	-2.63	-1.5	0.71	-4.75	-0.64	-2.42	-1.93
	FI (p.p.)		0.08	-3.76	-0.27	-2.5	2.83	-2.18	0.9	-1.42	-1.13	-2.21	5.45	-4.11	1.78	-0.49
Northern Macedonia	CAPB/PGDP (%)	1.73	1.43	2.06	1.12	7.93	-1.93	-1.74	-1.82	-2.06	-2.62	-2.91	-2.11	-1.87	-1.89	-0.39
	FI (p.p.)		0.3	-0.63	0.94	-0.93	1	-0.18	0.08	0.24	0.55	0.29	-0.79	-0.24	0.01	-1.49
Turkey	CAPB/PGDP (%)	7.92	7.52	7.54	5.54	2.05	0.28	1.51	2.85	2.33	2.29	2.1	2.31	0.73	0.01	-0.47
	FI (p.p.)		0.4	-0.02	2	3.63	3.34	-1.23	-1.34	0.52	0.04	0.19	-0.21	1.58	0.72	0.48
Serbia	CAPB/PGDP (%)	1.25	2.11	-0.02	-1.1	1.91	-3.45	-3.28	-3.32	-4.66	-2.86	-3.44	-0.46	1.7	3.64	2.78
	FI (p.p.)		-0.86	2.13	1.08	-2.01	1.45	-0.17	0.04	1.34	-1.8	0.58	-2.98	-2.16	-1.94	0.86
Bosnia and Herzegovina	CAPB/PGDP (%)	1.67	2.43	3.19	1.9	0.91	-3.52	-1.78	-0.5	-1.38	-1.63	-1.47	1.38	1.98	3.28	3.13
	FI (p.p.)		-0.76	-0.77	1.29	-0.84	2.69	-1.74	-1.29	0.88	0.25	-0.17	-2.85	-0.6	-1.3	0.15
Kosovo	CAPB/PGDP (%)	-6.42	-0.82	3.45	5.66	2.74	1.83	-0.79	-1.38	-2.33	-3.19	-2.33	-1.49	-0.92	-1.08	-2.71
	FI (p.p.)		-5.6	-4.27	-2.22	0.06	-1.77	2.62	0.59	0.95	0.86	-0.87	-0.84	-0.56	0.16	1.62
Albania	CAPB/PGDP (%)	-1.35	-0.28	-0.5	-0.88	5.6	-3.88	0.31	-0.34	-0.32	-1.75	-2.3	-1.36	0.68	0.07	0.62
	FI (p.p.)		-1.07	0.22	0.38	-2.67	1.21	-4.19	0.65	-0.02	1.44	0.55	-0.94	-2.04	0.6	-0.55

75

ECONOMIC ARCHIVE

YEAR LXXIII, BOOK 4 – 2020

CONTENTS