
(UN)PRODUCTIVE USE OF PUBLIC DEBT IN KOSOVO

Lutfi Zharku*

Kadri Zeka University of Gjilan, Kosovo

Abstract: *The aim of this paper is to analyze how public debt is used in Kosovo and to find out if there is a direct link between public debt and public investment that has positive impact on economic growth. Since acquiring independence, Kosovo engaged in public investment on a large scale, mainly in developing road infrastructure. With the cash balance depleted, a growing budget deficit and facing liquidity difficulties due to ongoing large public investments and increasing wage & salary bill and social transfers, the Government of Kosovo had to start borrowing both abroad and domestically. However, public debt had continued to increase even though public investment had experienced a sharp decrease. Since the budget financial statements do not show any deficit composition, we have recalculated a special-purpose deficit, the so-called "regular" budget deficit, considering only regular receipts and outlays. By disaggregating the total public debt based on lenders and by tying the loans to specific capital projects, we came to the conclusion that only a small part of the public debt is directly tied with public investment, while the bulk of it is used to finance the budget deficit that was caused by a high increase in wage & salary bill and social transfers. The analysis confirms that the public debt is being used for unproductive purposes and therefore does not contribute to economic growth. All this was supported by a lack of legal infrastructure or fiscal rules for several years. There is extensive literature on both public debt and public investments as well as their impact on economic growth. The literature review method was adopted for this study, and our research was refined by including the selected papers that contained empirical and theoretical studies on these issues. This is a case study for Kosovo, and the research has been carried out using secondary research data drawn from Kosovo budget annual financial reports and annual bulletins on public debt. The implications of this paper may be of high importance for policymakers as well as for academics, as this happens to be one of the pioneering articles in this field in terms of studies conducted about Kosovo. Herein is presented a unique approach to the issues of public debt and public investment.*

Keywords: *budget deficit, fiscal rule, public debt, public investment.*

1. Introduction

Since attaining independence, the Kosovan government engaged in a large scale of public investments that were mainly focused on developing road infrastructure. Within a couple of years, the public investment to GDP ratio jumped from 4.45% (2007) to 11% (2011) (Kosovo's Ministry of Finance 2008; 2012). These investments were based on an initially high cash balance of the Treasury equal to 13% of GDP (2008), the balance of the privatization fund of Kosovo Trust Agency equal to about 12% of GDP and div-

* *Corresponding author:*

Banking and Finance Department, Economic Faculty, Kadri Zeka University of Gjilan, 60000 Zija Shemsiu Str., Gjilan, Kosovo

Email: lutfi.zharku@uni-gjilan.net

idents that were to be received from public companies (Kosovo's Ministry of Finance 2008). On the other hand, the GDP growth rate was expected to be kept at high levels (7–8% per year), and there was no public debt. Almost in parallel with the public investments, the wage & salary bill and social transfers had increased too, albeit on a lower scale. As these increases almost happened before or after the elections, they are widely considered to be politically motivated (IMF 2015). Thus, dealing with depleting cash balances and facing liquidity difficulties, the government resorted to public borrowing and cutting off public investments as the easiest solution. Public investment was cut off by 30% in 2013–2014 in order to make room for a politically motivated increase in wage & salary bill and social transfers. The new lower level of public investment at about 7% of GDP is still being kept.

On the side of public debt, Kosovo still feels no concern with its burden. Its actual total public debt to GDP ratio is only 16.6% (Kosovo's Ministry of Finance 2018), which is far below the thresholds above which public debt is considered to have negative impact on economic growth (Patillo & al. 2011; Reinhart & Rogoff 2010; Checherita & Rother 2010; Clements & al. 2003; Smyth & Hsing 1995). The debt portfolio was established on 2009 following membership in the International Monetary Fund (IMF) and World Bank (WB) and by agreeing to take over the debt inherited from ex-Yugoslavia (Kosovo's Ministry of Finance 2016). In fact, Kosovo made conducted its first real external borrowing on 2010 from IMF. From 2011 and onward, Kosovo started to borrow from other international financial institutions in order to finance specific projects (tied loans) in education, agriculture, health, road and rail infrastructure, waste and water treatment, central heating etc., which are all considered to be productive investments. With regard to internal debt, the Government of Kosovo started to issue 3-month treasury bills on 2012 in order to finance the budget deficit and replenish its cash balance. Due to increasing budget outlays, the government refinanced the internal debt by extending the maturity of the newly issued treasury bills. The short-term (3-month and 6-month) treasury bills were gradually replaced with treasury bills with a maturity of 12 months and 2 years; later, the government issued bonds with maturities of 3, 5 and, more recently, 7 years. Of total public debt, the external debt actually makes up for 42.4%, while the internal debt accounts for 57.6%. Kosovo regularly serviced external debt, while no principal was serviced for internal debt but only interest. Public debt is still considered low but sensitive to refinancing and fiscal shocks (European Commission 2016).

Although the internal (domestic) public debt grew in a constant manner and was caused by budget deficits, there is no evidence of a crowding-out effect on private investments. On the contrary, investments had increased, supported by decreasing interest rates as a result of higher bank savings deposits (CBK 2018). However, social spending pressures could crowd out productive spending (IMF 2018).

The Kosovan budget is run on a cash basis as a traditional form of government accounting (Irwing 2015) and there had been no legal restriction on either the budget or

on public debt up until July 2013. Yet, there was no legal clarification on what “budget deficit” means and how it should be measured. Thus, the government’s fiscal stance was followed based only on the cash balance (the difference between total receipts and total outlays) and it was publicly accepted as a budget deficit/surplus. However, this principle does not give us a real picture on public finance performance but is crucial for the government’s liquidity (Blejer & Cheasty 1991). Thus, both a lack of legal infrastructure (fiscal rules) and the government’s model of public debt management (applied in 13 EU countries, according to Redo 2017), allowed the government to use its internal public debt to finance budget deficits regardless of its causes. Since all budget outlay items had recorded high increases, it was difficult to distinguish the real cause of budget deficit and, consequently, what public debt is used for. However, by separately analyzing the behavior of each budget outlay item, we will show that the budget deficit was caused initially by public investment and was later followed by wage & salary bill and social transfers. This leads us to the conclusion that internal public debt was only initially used to finance public investment. At the later stage, public debt was used for financing the increased wage & salary bill and social transfers, which contradicts a prudent fiscal policy.

The rest of the paper will include a literature review on public debt and public investments and their impact on economic growth, followed by a section on the use of public debt, which includes an overview of issues related to methodology, general observations on public investment and debt and crowding out, the composition and the use of public debt. The paper is finalized with our conclusions.

2. Literature Review

According to Wagner (2005), a government can finance its activities by taxing, borrowing, creating money and generating revenue through its operation of enterprises. As borrowing and creating money are not options that differ from taxation but are instead different forms of taxation, borrowing, then, is simply deferred taxation. Hassan (2013) states that countries borrow for two broad reasons: to either finance higher investment or higher consumption and to circumvent hard budget constraint. This implies that countries borrow in order to enhance economic growth and ameliorate the living conditions of the people. He recommends that (external) borrowings should be channeled to the real sectors of the economy instead of social consumption. Following this reasoning, debt is classified into two kinds – productive debt, when a loan is obtained to enable the state or a nation to purchase some sort of assets, and dead weight debt, which is undertaken to finance wars and expenses on current expenditures (Oladokun 2015). Of the same opinion is Paul (2017), whose findings support *a priori* expectation, as external debt is expected to be either positively or negatively related to economic growth depending on the usage of such external debt. Also, Holtfrerich & al. (2016) state that only spending

for productivity-enhancing investments should be funded by borrowing, as it enlarges the pot from which debt is serviced.

Clements & al. (2003) agree that foreign borrowing has a positive impact on investment and growth up to a certain threshold level; beyond this level, however, its impact is adverse. There is an extensive debate on what threshold and debt limits are – if there are such at all – and for which countries. Debt limits vary substantially across countries and are mainly driven by differences in export ratios and the perception of the effectiveness of the government (Fournier & Béтин 2018). Debt limits for many OECD countries are two times GDP and crucially depend on fiscal behavior and hence can be increased by a good fiscal track record (Fournier & Fall 2015). Cordella (2015) states that the debt threshold is different throughout the various stages of economic development and even depends on the quality of policies and institutions. Nishimura & al. (2016) share the same view, stating that the relationship between debt and growth appears to be based on complex non-linear effects and is heterogeneous across countries. Reinhart & Rogoff's (2010) main finding is that across both advanced countries and emerging markets, high debt/GDP levels (90 percent and above) are associated with notably lower growth outcomes. But Égert (2012) considers that Reinhart and Rogoff's result of 90% is not a "magic number" and that the threshold can be lower (between 20% and 60% of GDP). Checherita & Rother (2010) state a non-linear impact of debt on growth with a turning point – beyond which a government's debt-to-GDP ratio has a deleterious impact on long-term growth – at about 90–100% of GDP for twelve euro area countries for about 40 years starting from 1970, yet a negative growth effect of high debt could already begin with levels of around 70–80% of GDP. Mencinger & al. (2014) point to a different threshold for "new" and "old" EU member states. According to them, the debt-to-GDP turning point, where the positive effect of accumulated public debt inverts into a negative effect, is roughly between 80% and 94% for the "old" member states and between 53% and 54% for the "new" member states. Clements & al. (2003) find that high levels of debt can depress economic growth in (55) low-income countries via its effect on the efficiency of resource use only after it reaches a threshold level that is estimated at around 50 percent of GDP for the face value of external debt. Patillo & al. (2011) suggest that a debt level beyond 35–40% of income might be detrimental to growth for (93) developing countries. Smyth & Hsing (1995), in their search of an optimal debt ratio for economic growth, find that the real GDP growth rate and its determinants have a long-run equilibrium relationship, and that the debt ratio maximizing economic growth amounts to 38.4% when the analysis uses the debt held by the public. On the other hand, Schclarek (2005) concludes that for developing countries, there is a negative and significant relationship between total external debt and economic growth, i.e., lower total external debt levels are associated with higher growth rates, while in the case of industrial countries, Schclarek did not find any robust linear and nonlinear relationship between gross government debt and economic growth. Contrary to the abovementioned thresholds, Holtfrerich & al.

(2016) state that it is not possible to define a set threshold percentage above which the government debt-to-GDP ratio negatively impacts economic growth, and that the cause-and-effect relationship is not clear. They conclude that the historical relationship between government debt ratios and growth rates does not support any obvious connection that would allow to identify a distinct threshold. In addition, an analysis of historical data by Pescatori & al. (2014) has highlighted that there is no simple threshold for debt ratios above which medium-term growth prospects are severely undermined. On the contrary, the association between debt and growth at high levels of debt becomes rather weak when one focuses on any but the shortest-term relationship, especially when controlling for the average growth performance of country peers. Furthermore, Kregždė (2012) states that the high volatility of the nominal GDP growth (in Lithuania) creates a big risk for a substantial increase in the relative amount of the debt in the short run.

Regardless of theoretical debates on relations between public debt and growth, it is known for a fact that debt in general – and external debt in particular – is a necessary evil that all economies survive with (Abdullahi & al. 2016). According to Smith & Hsing (1995), the relationships between economic growth, debt/GDP ratios and other relevant variables indicate that the real GDP growth rate and its determinants have a long-run equilibrium relationship. There is no ideal debt to GDP ratio; however, a country is considered stable when it is in a position to comfortably serve its foreign debt without harming its economic growth (Mweni 2016). Otherwise, the overindebtedness of a country leads to serious difficulties for the economy. High domestic government debt may result in reduced private credit flows, which would mean slower development on private enterprises and other economic initiatives, which could consequently lead to economic slowdown (Nuno & al. 2012). The debt overhang effect and the crowding out effect are the most mentioned ways through which external debt may affect economic growth (Cordella 2010; Clements & al. 2003; Serieux & Samy 2001; Ejigayehu 2013; Hassan 2013). The debt overhang creates a disincentive for private investment (because of fears of future taxes and/or debt-induced crises) that, through lower investment spending, leads to a slowdown in the rate of economic growth. The reduction in the rate of growth further reduces investment. As the economy slows, the debt-to-income ratio also increases, reinforcing the disincentive effect. Thus, slow growth, lower investment, and a heavy debt burden all tend to reinforce each other, leading, ultimately, to stagnation (Serieux & Samy 2001). The crowding out effect's concept assumes that a government in debt expends a greater part of its national savings meant for investment due to an increase in demand for savings, while supply remains constant; the cost of money, therefore, increases (Abdullahi 2016). The negative effects of a debt burden can also work through (i) an external account by the so-called "import compression" effect either through price rationing (currency devaluation/depreciation) or non-price rationing (import restrictions) and through (ii) its effect on human capital development by crowding out social investment spending (education, health etc.) that is likely to result in a slower rate of increase

in human capital (through reduced enrolment levels, slower growth in health and related productivity indicators etc.) (Serieux & Samy 2001).

In order to support the speedier growth of its economy, a government may undertake activities on fixed capital formation. These activities consist of financing public and profitable investments (in both physical infrastructures and human resources) through public spending and borrowing when it cannot finance them from regular taxation. Thus, the extent of growth of gross fixed capital formation affects the level of government debt (Swamy 2015). On the other hand, Hakhu & al. (2014), based on a panel cointegration analysis applied to fifteen EU countries over the sample period of years 1980 to 2013, state that increases in the ratio of capital expenditure to GDP cause reductions in the ratio of debt to GDP in the long run. Kellerman (2007) states – and what the golden rule supporters argue for as well – that debt financing of public investment creates incentives for providing public infrastructure projects that contribute to both growth in demand and increased productivity. In this context, only investment recorded in and financed from the budget qualifies as public (Välilä & Mehrotra 2005). Such a debt is sustainable if it is used to generate economic growth and benefits higher than the initial costs; otherwise, serious public finance issues are bound to appear (Nuno & al. 2012). As stated by Oladokun (2015), public debt is productive if used to enhance economic growth. Since there are two types of government expenditure – productive and unproductive – based on how a shift in the mix between the two alters the economy’s long-term growth rate, the public debt should be used to finance the productive one (Devarajan & al. 1996). Aschauser (1989) also distinguished between public consumption and public investment while stating that nonmilitary public investments have positive direct and indirect effects on private sector output and productivity growth. The productive expenditure or “public investment” are defined by Truger (2015) as any government action that creates benefits – in the widest sense – for more than one period. Thus, theoretically, public investment, especially if it focuses on “core” infrastructure like transport facilities (roads, railways, ports, airports), communication systems, as well as power generation and other utilities, should be productive and growth-enhancing. On the other hand, Fournier (2016) states that the effect of public investment is the highest in fields that are associated with large externalities, such as research and development or health, and it is the lowest in countries where the public capital stock is already high.

According to Warner (2014), a prominent feature of government economic programs across the world is the general idea that public capital and infrastructure will boost economic growth. This also has been supported by international financial institutions that have endorsed the idea that there is an infrastructure gap in less developed countries and that closing that gap can revive economic growth in the face of a declining demand from higher income countries. Even more, investment in public infrastructure capital has come to be seen as central to any sustained growth strategy in developed and developing countries alike (Adam & Bevan 2014). In a nutshell, this is based on the Solow growth model, which states that investment has a positive and direct effect on economic growth

(Ejigayehu 2013). Aschauser (1989a; 1989b) states that public investment induces an increase in the rate of return to private capital and can thereby be used to stimulate private investment expenditure. The direct effect on private sector output growth arises from the availability of public capital to support private production. Roads, highways and airports allow the distribution of goods and services throughout national and international markets, while the indirect effects evolve from the complementarity between private and public capital in private-sector productive activity; an increase in the stock of public capital raises the return to private capital, which, in turn, serves to spur the rate of the expansion of the private-sector capital stock. In addition, Misch & Wolff (2008) state the importance of public infrastructure for economic growth. According to them, public infrastructure has a distinct impact on labor productivity; it may also lower the adjustment cost and may lower the rate of the depreciation of private capital. On the other hand, public infrastructure likely enhances human capital, which is an input to private production and which augments social welfare. It may also have a positive impact on educational attainment and a sizable impact on health outcomes in developing countries. Besides the “conventional” channels through which public infrastructure may affect growth (a direct productivity effect on private production inputs and a complementarity effect on private investment), Agénor & Moreno-Dodson (2006) provide an overview of the “new” channels, which include an indirect effect on labor productivity, an effect on adjustment costs associated with private investment, an impact on the durability of private capital as well as an effect on education and health outcomes.

Holtfrerich & al. (2016) state that the extent of the effects of public investment depends on the quantity and quality of the existing infrastructure capital stock, and this is why the closing of infrastructure bottlenecks is of the utmost importance. Public investments also affect the sustainability of government debt, as they can increase the productivity of private sector activities and thus promote economic growth. According to Fournier (2016), the effect of public investment is large. Increasing the share of public investment in primary spending by one percentage point (offset by a reduction in other spending) would increase the long-term GDP level by about 5%. Moreover, Mourougane & al. (2016) state that a sustained investment stimulus of $\frac{1}{2}$ a percentage point of GDP is estimated to lead to average long-term output gains between 0.5 to 2% in the large advanced economies. Aschauser (1989) states that a one-percentage-point increase in the share of GDP devoted to public capital accumulation is associated with a 0.73-percentage-point rise in the labor productivity growth rate. A lower figure is estimated by Clements & al. (2003); for each 1 percentage point of GDP increase in public investment, the annual per capita growth rises by 0.2 percentage point. However, they warn that higher public investment that leads to larger budget deficits will not have a salutary effect on growth, given the adverse effects of deficits on economic activity.

With regard to Kosovo, there are only few articles dealing mainly with relationship and/or impact of public expenditures and economic growth, with different opinions.

There are no articles on the way of financing increasing public expenditures (through taxes or public debt). Thus, Balaj & Lani (2017), in analyzing 10 types of public expenditure categories (general expenditure, defense, order and public security, economic issues, environmental protection, housing and communities, health, recreation, culture and religion, education, social protection) conclude that none of the public expenditure areas has a significant impact on economic growth in Kosovo. The overall conclusion of the paper is that all public expenditures dealt with in the econometric model do not have any impact on the economic growth of Kosovo, so public expenditure for the period of 2000–2016 has had unproductive characteristics that did not have any direct effect on the economic growth of Kosovo but only the effect of internal consumption for non-economic purposes. Almost of the same opinion are Rexha & al. (2018): based on empirical analyses, they conclude that transfers have positive and significant effects on real GDP, while negative and significant effects have been observed to come from municipal expenditures. Further, expenditures on wages, capital and subsidies have a positive but no significant effect on growth, while expenditures for goods have negative but no significant effect on economic growth. Contrary to this, Pula & Elshani (2017) show that there is a long-run relationship between public expenditures and economic growth, whereas based on the Granger causality test, the economy of Kosovo showed evidence that economic growth is being caused by public expenditure. However, they found no evidence that economic growth causes any increased public expenditure. Pula & Elshani (2018) stated again that public spending positively affects economic growth and is a very important factor of Kosovo's economic development. They recommend policymakers to increase the level of public spending, in particular to increase investment in capital-productive products and decrease investment in unproductive expenditures.

The field of public debt remains completely unexplored by scholars, as it is considered not a matter of concern for the country having in mind its very young debt history and low debt-to-GDP rate, and therefore with its insignificant impact on economic growth. Public debt is treated only in official government reports and regular reports of international financial institutions, in particular those of the IMF. To the best of our knowledge, only the article authored by Kolgjeraj & Berisha-Vokshi (2017) empirically analyzed the impact of public debt on economic growth in Kosovo. They concluded that public debt has very small negative impact on economic growth but “with no visible effect on economy” for the period of 2009–2015.

3. The Public Debt and Its Use

3.1. Methodology Issues

This is a data-based applied type of research. By analyzing quantitative secondary research data from government reports on public debt and government expenditure, we

will show how the public debt is being used – on productive or unproductive spending. For this purpose, we will start from the general concept that public spending could be productive if used on fixed capital formation (public investments in both physical infrastructure and human resources) and unproductive if used for current government expenditure (public consumption). In this sense, the productive use of public debt will be considered if the debt is used for financing public investments, and unproductive if used for financing public consumption. To determine whether the public debt is used for productive or unproductive purposes, we will analyze in detail the composition of public debt, distinguishing between external and internal, and breaking it down in terms of whether it is tied or untied to a specific capital project. If there is clear tie of public debt to a specific capital project, it will be considered to have had productive use. On the other side if there is no clear tie of public debt to a specific capital project, it will be considered to have financed the budget deficit. But since there is no fiscal rule on budget deficit composition, it is not possible to quantify empirically the exact amount of debt used for public investment or public consumption. This is why we will analyze the cause of budget deficit. The determination of budget deficit cause will be based on the behavior of budget outlays (wage and salaries, goods and services, subsidies and transfers and capital investments). As a cause of budget deficit, we will consider the budget outlay that had underwent the main increase during the selected time period. Thus, the budget deficit cause will be a key factor for determining the use of public debt. Therefore, if the budget deficit is mainly caused by public investment, then public debt will be considered to have been productively used, while in the periods when the budget deficit is caused by public consumption, we will consider that the public debt had been put to unproductive use. This reasoning will lead us to a conclusion on the productive or unproductive use of public debt. Furthermore, because financial budget statements do not show the budget deficit (until 2014), we will use the so-called “regular” budget deficit as a difference between total regular receipts and outlays.

3.2. General Observations on Public Investment and Debt as well as Crowding Out

As shown in the literature review, the public investments, infrastructure in particular, are much needed for the economic development of a country. Following independence in 2008, the government of Kosovo engaged in a very ambitious program of public investment with the main focus on road infrastructure. In 2010, it started a new motorway project (a segment of Route 7) with a cost of 800 million EUR (excluding land expropriation), estimated about 20% of GDP, which was completed by the end 2013. Mid-2014, the government started another new motorway project: Prishtina – Hani i Elezit (on the border with Macedonia), a segment of Route 6, with an estimated cost of 650 million EUR or about 12% of GDP (excluding land expropriation), which is to be finished by

the end of 2018. As Table 1 shows us, public investments continued substantially to increase, both in absolute and relative terms, for several years, reaching their highest level on 2011–2012 (11% of GDP) (Kosovo’s Ministry of Finance 2013). This increasing trend was sharply lowered on 2014 as a consequence of a high increase in wage & salary bills as well as social transfers & subsidies, but still keeping the level slightly above 7% of GDP (Kosovo’s Ministry of Finance 2017).

Along with public investments, the public debt had increased steadily, too. Although the government’s statements always justified the increasing internal borrowing with the budget deficit caused by increasing public investment, the picture looks different when closer analyzing the figures. The public debt continued to increase though public investments and experienced a sharp cut in 2014 and on, as shown on Table 1 and Chart 1. Thus, linking of increasing public debt with public investment obviously could be misleading. As we will show later, the rising of public debt in the period of the shrinking public investment is directly linked with other budgetary outlays, in particular with wage & salary bills and social transfers.

TABLE 1. Public investments and public debt (million EUR).

	2009	2010	2011	2012	2013	2014	2015	2016	2017
Public investment	400.4	455.3	528.2	550.2	529.2	411.4	403.9	443.6	471.1
% of GDP	9.8	10.3	11.0	10.9	9.9	7.4	7.0	7.4	7.5
Public debt	249.0	260.4	253.6	409.9	476.3	582.9	749.0	852.7	996.4
% of GDP	6.1	5.9	5.3	8.1	8.9	10.6	13.1	14.6	16.6

Source: Annual Budget Financial Reports, Annual Bulletins on Public Debt

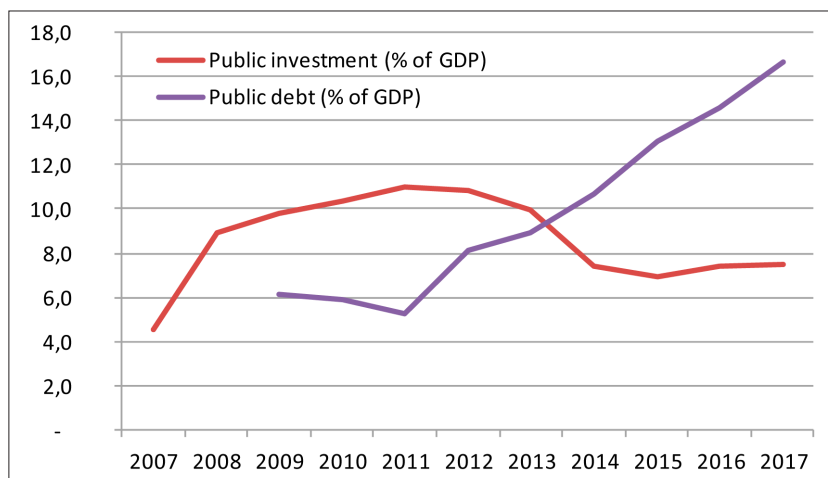


Chart 1. Public investments and public debt (% of GDP).

Kosovo's public debt history is very young, as is the country itself. Its external borrowing started in 2009, following its membership in IMF and WB, while the internal one began in 2012, although the recently begun public debt had an increasing trend with no specific destination of its use. As Table 1 shows, the actual ratio of public debt to GDP is 16.6% but there are an additional 295.81 million EUR of a contracted but not disbursed loan (Kosovo's Ministry of Finance 2018). Thus, the actual real total public debt to GDP ratio is 21.4%. Beyond this, there is a list of additional important infrastructure projects (Kosovo National Investment Committee 2016) that are to be financed through borrowing, which could easily push this ratio onto the legally determined limit of 30%.

TABLE 2. Total public debt (million EUR).

	2009	2010	2011	2012	2013	2014	2015	2016	2017
External Debt	249.01	260.42	253.60	336.60	323.76	326.35	371.17	373.77	422.15
Internal debt	-	-	-	73.31	152.51	256.52	377.78	478.97	574.27
Total debt	249.01	260.42	253.60	409.91	476.27	582.87	748.95	852.74	996.42
State guarantees	-	-	-	-	-	10.00	10.00	20.00	44.00
Debt/GDP (%)	6.12	5.92	5.27	8.10	8.94	10.65	13.07	14.58	16.63
GDP	4,070	4,402	4,815	5,059	5,327	5,567	5,807	5,598	6,256

Source: Annual Budget Financial Reports, Annual Bulletins on Public Debt, National Account Statistics

The other relevant development within the public debt is its external to internal ratio. The actual trend shows a high increase of internal public debt both in absolute and relative proportion compared to external one. Thus, while in 2012, the internal to external public debt ratio was 18:82, at the end of 2017, this ratio was 58:42. Although this change could be explained with both an easy way of borrowing domestically and a slow disbursement of already contracted external public debt, it in fact supports the unproductive use of public debt, as the internal one is not tied with to any capital project.

A steady increasing portion of the domestic to total public debt, as a consequence of increasing budget deficits, raise concerns regarding the crowding-out effect on private investment, since government borrowing is expansionary in the short run but contractionary in the long run. According to the neoclassical view, if private saving and capital inflows do not increase enough to fully offset government borrowing, interest rates rise over time. Consequently, investment is crowded out, and capital and output eventually decline, negating the short-run expansionary benefits. Thus, as Tram & Yang (2015) argue, many empirical studies have estimated the reduced form of the relationship between government debt (or deficits) and interest rates, and a positive relationship between the two variables is viewed as an evidence of crowding out. Aisen and Hauner (2008) find a highly significant positive effect of budget deficits on interest rates in the order of about 26 basis points per 1 percent of GDP. However, this effect varies by country group and

time period (larger and more robust in the emerging markets and in later periods than in the advanced economies and earlier periods), depends on interaction terms and is significant only under one of several conditions: when deficits are high, when they are mostly domestically financed, when they interact with high domestic debt and when financial openness is low. Moreover, the effect is greater when interest rates are more liberalized, and when the domestic financial sector is less developed. In Kosovo, the budget deficit is moderate and mostly financed by domestic debt (78% of total debt as direct payments to the budget). Table 3 shows the development of investment, bank deposit and credits and the interest rate.

TABEL 3. Internal debt, investment, bank deposits and credits, interest rate (million EUR).

	2012	2013	2014	2015	2016	2017
Internal debt	73.31	152.51	256.52	377.78	478.97	574.27
Gross capital formation	1,465	1,471	1,435	1,601	1,650	1,820
Bank deposits	2,279	2,449	2,538	2,703	2,898	3,095
Depositing interest rate (%)	3.6	3.4	1.1	0.9	1.0	1.0
Bank crediting	1,763	1,806	1,882	2,020	2,230	2,486
Crediting interest rate (%)	12.7	11.8	10.6	8.3	7.5	6.8

Source: Annual Bulletins on Public Debt, Kosovo National Account Statistics, KCB Annual Reports

Increasing domestic debt was followed with an increase in gross capital formation, i.e., investments. Total investment continued to grow, though public investment had shrunk significantly during 2014–2017, thus confirming the private investment taking over the lead in economic growth. The increasing domestic debt and investment did not push the interest rate up. On the contrary, the interest rate decreased steadily. The interest rate on the credits in 2017 was almost half of the interest rate as it was in the end of 2012. The drop of the interest rate on deposits was even steeper; it dropped only in 1% from 3.6%. However, the bank deposits continued to grow significantly despite the high decrease of the interest rate. Faced with increasing deposits and competition, the banks decreased the interest rate on crediting, which resulted in higher investment. Thus, no positive relationship of public debt and interest rate, along with increasing investment, exclude the crowding out effect.

3.3. A Closer Look at the Composition of Public Debt

We can see from Table 2 neither what for the public debt is used nor the reason of its high increase in such a short period of time. This is why we will analyze the composition of public debt from the aspect of the lenders and its relation to specific projects. The external public debt consists of credits from international financial institutions

based on loan agreements with the government of Kosovo for financing specific capital projects, the so-called “tied loans,” or as direct payments to the Kosovo consolidated budget (IMF stand-by agreements). The internal public debt consists of holders of treasury bills and bonds that were issued by the Kosovo government for financing the budget deficit. The funds of internal public debt are direct payments to the consolidated budget with no relation to any specific capital project. The holders of the internal public debt (Kosovo’s Ministry of Finance 2018) are domestic commercial banks (42%), pension funds (18%), public institutions (35%), insurance companies (4%) and other private companies (1%).

TABLE 4. Lenders of the external public debt (million EUR).

Lender	2009	2010	2011	2012	2013	2014	2015	2016	2017
IBRD	249.01	238.33	226.34	215.00	203.66	192.33	180.99	169.65	158.32
IDA	-	-	5.06	8.41	12.37	20.84	28.86	36.02	41.12
IMF	-	21.76	22.26	113.05	105.73	101.73	127.74	113.96	160.77
kfW	-	-	0.05	0.14	2.00	9.46	30.62	47.64	54.81
UniCredit	-	-	-	-	-	2.00	2.96	6.49	7.04
IDB	-	-	-	-	-	-	-	-	0.10
Total	249.01	260.09	253.71	336.60	323.76	326.36	371.17	373.76	422.16

Source: IV quarter 2017 data on total public debt, (2018), Ministry of Finance

Table 4 shows that the International Bank for Reconstruction and Development (IBRD) and the International Monetary Fund (IMF) are the main lenders to the Kosovan government, with $\frac{3}{4}$ of total external public debt. The IBRD loan is an agreement signed on 2009, following membership at the IMF and WB, to take over the debt inherited from ex-Yugoslavia in the amount of 381.21 million EUR as the Kosovo Consolidated Credit (KCC). Thus, this loan represents no real financing of any capital project or public consumption that could have a positive impact on the Kosovan economy. It is only a burden to the economy. The IMF loans represent direct payments to the Kosovan consolidated budget based on stand-by arrangements with the government with no limitation on its use nor destination to specific capital projects.

The rest of the external public debt, i.e., loans from the International Development Association (IDA), German Development Bank (KfW), UniCredit and the Islamic Development Bank (IDB), are based on agreements with the government of Kosovo for financing specific capital projects (tied loans) in public administration, agriculture, the financial sector and market infrastructure, education, road infrastructure, health, energy, water treatment etc., which are all considered productive investments (Cullison 1993; Bose & al. 2003; Devarajan & al. 1996; Fournier 2016).

3.4. The Use of Public Debt

Based on its use or destination for a specific capital project, the total public debt in Kosovo could be classified into three sections:

- Servicing the old debt from ex-YU (IBRD consolidated credit);
- Direct payments to the budget with no specific destination, the so-called “untied loans” (IMF loans and internal public debt – the Government of Kosovo issues of treasury bills and bonds);
- The financing of specific projects or tied loans (loans based on agreements with the IDA, KfW, UniCredit and IDB).

TABLE 5. Disaggregated public debt (million EUR).

	2009	2010	2011	2012	2013	2014	2015	2016	2017	% of total debt
Servicing debt from ex-YU	249.01	238.33	226.34	215.00	203.66	192.33	180.99	169.65	158.32	15.89
Payment to the budget (untied loans)	-	21.76	22.26	186.36	258.24	358.25	505.52	592.93	735.04	73.77
IMF	-	21.76	22.26	113.05	105.73	101.73	127.74	113.96	160.77	
Internal debt				73.31	152.51	256.52	377.78	478.97	574.27	
Specific projects (tied loans)	-	-	5.11	8.55	14.37	32.3	62.44	90.15	103.07	10.34
IDA	-	-	5.06	8.41	12.37	20.84	28.86	36.02	41.12	
kfW	-		0.05	0.14	2.00	9.46	30.62	47.64	54.81	
UniCredit	-	-	-	-	-	2.00	2.96	6.49	7.04	
IDB	-	-	-	-	-	-	-	-	0.10	
Total	249.01	260.09	253.71	409.91	476.27	582.88	748.95	852.73	996.43	100.00

Source: IV quarter 2017 data on total public debt, (2018), Ministry of Finance

Table 5 shows us that only a very small share (10.3%) of total public debt is purely used in productive government activities that contribute to economic growth. These are tied loans for specific projects in various sectors across the economy. On the other hand, the bulk of public debt (73.8%) is untied; these are direct payments to the Kosovo budget with no specific destination and no limitation on its use. Since there were neither legal restrictions nor any fiscal rule regarding the composition of budget deficit, the government could easily borrow to finance the budget deficit regardless of its cause. Therefore, the use of these borrowings is unclear as long as budget deficit causes are unclear. In order to determine the use of public debt and its relationship with public investment, we will analyze the behavior of the main budget outlays and the budget deficit, including its possible cause. Since there are no official data on the budget deficit until 2014, following Blejer & Cheasty’s (1991) reasoning on special-purpose deficit, Zharku (2018) calculated an

alternative measure of the budget deficit, the so-called “regular” budget deficit. For this purpose, both receipts and outlays had been “revised” and the budget deficit was defined as a difference between total “regular” receipts and outlays. The “regular” denotes the receipts and outlays that are permanent, non-discretionary, with no significant variation from year to year and on which the fiscal policy relies.

TABLE 6. Budget outlays and regular budget deficit (million EUR).

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Wage and Salaries	227.1	264.4	311.4	385.0	407.7	417.1	485.2	525.0	543.7	550.0
Goods and Services	158.1	171.0	182.2	176.9	190.9	215.5	205.0	205.5	202.1	226.0
Subsides and Transfers	209.8	256.9	252.7	256.2	280.1	312.9	361.2	418.1	474.7	506.3
Capital Investments	347.1	400.4	455.3	528.2	550.2	529.2	411.4	403.9	443.6	467.5
Regular Budget Deficit	-24.5	-166.4	-194.3	-148.5	-207.8	-250.6	-151.8	-122.3	-89.7	-84.7

Source: Annual Financial Reports for respective years, Government of Kosovo, Ministry of Finance; Zharku (2018)

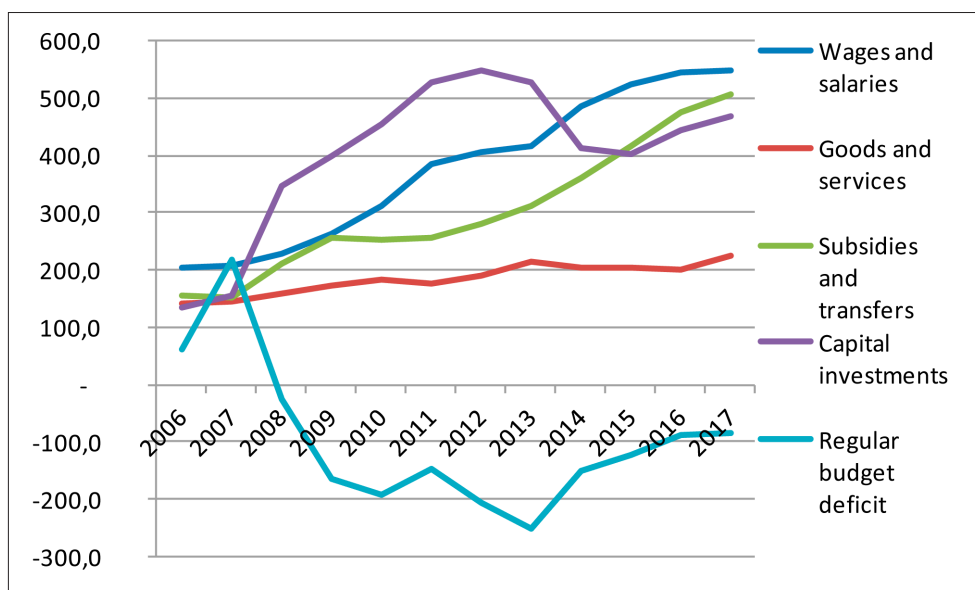


CHART 2. Budget outlays and regular budget deficit.

Table 6 shows that the government ran a permanent regular budget deficit. Like in other Western Balkan countries, the budget deficits in Kosovo are a consequence of a continuous discretionary increase of outlays that could not be met by receipts (Koczan 2015). Even more, when options for short-term increases in revenue have been exhausted, the area of spending likely to be reduced lies in public investment expenditure (Se-

rieux & Samy 2001). Chart 2 obviously shows us that goods and services were the only item with a stable and permanent increase. However, they had to be slightly cut (for 5%) during 2014–2016 due to the increases in wage & salary bill and social transfers. The outlays for public investment, wages & salaries and social transfers & subsidies showed high variations that could be explained by political budget cycles due to a large discretionary component. Public investments recorded the highest increase in the post-independence period of 2008–2013 (more than triple if compared to 2007) and could be considered as the main cause of the budget deficit, though wage & salary bills almost doubled during the same period. On the other hand, during the period of 2014–2017, public investments dropped significantly, while wage & salary bill and social transfers & subsidies recorded a sharp increase and thus could be considered the only cause of the budget deficit. The IMF also drew attention (2015) to the worsened composition of the budget. These developments in the fiscal sector had forced the government to adopt a fixed deficit rule (2% of GDP) in July 2013 (Kosovo’s Assembly 2013).

TABLE 7. Regular budget deficit and untied public debt (million EUR).

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Regular Budget Deficit	-24.5	-166.4	-194.3	-148.5	-207.8	-250.6	-151.8	-122.3	-89.7	-84.7
Public debt as direct payment to the budget	-	-	22.1	-	167.0	79.2	104.0	156.9	136.8	195.7
Internal debt – new issues	-	-	-	-	73.3	79.2	104.0	121.3	101.2	95.3
IMF disbursement	-	-	22.1	-	93.6	-	-	35.6	35.6	100.4

Source: Annual Financial Reports for respective years, Government of Kosovo, Ministry of Finance; Zharku (2018)

Table 7 demonstrates that public debt as direct payment to the budget (internal borrowings and IMF loans) recorded a permanent and steady increase since 2012. The timing of the rising public debt matches the high budget deficits run by the government (4.1% of GDP in 2012 and 4.7% of GDP in 2013). However, untied public debt is almost inexistent in the first post-independence period (2008–2011), while the budget deficit had recorded a continuous increase caused by large public investments mainly in road infrastructure. The explanation relies on high cash balances (13% of GDP in 2008) and “irregular” receipts that were used to finance these budget deficits. “Irregular” receipts, consisting of one-time privatization proceeds and dividends from public companies, amounted to 19.3% of the total budget receipts in 2009 and 12.4% in 2010 (Zharku 2018). On the other side, untied public debt continued to increase during the 2014–2017 period, yet the regular budget deficit was shrinking as a consequence of consolidating measures in order to comply with the fixed deficit fiscal rule. Thus, the untied public debt was used to finance both the budget deficits caused by high wage & salary bills and

social transfers and to replenish the Treasury cash balance (above 4.5% of GDP) based on the requirements set by the IMF.

It is clear from the above analysis that a direct link between public investments and public debt is very weak, thus leading to the conclusion of its unproductive use. Only a small part of total public debt (tied loans), which is based on agreements for financing specific projects (10.3% of total public debt) is directly linked with public investments. The largest part (73.8%) of total public debt (direct payment to the budget, untied loans) cannot be linked to public investment because it is used to finance the budget deficit. Moreover, budget deficits are caused by public investments only in the post-independence period. However, these deficits are mostly covered from cash balances and “irregular” budget receipts and only in smaller part from borrowing. During the second period, budget deficits were caused by high increases in wage & salary bills and social transfers & subsidies, while public investments were shrinking. The public debt raised during this period was used to finance the budget deficits and replenish cash balances that were depleted during the post-independence period. Therefore, public debt raised during the second period is used unproductively and with no positive effect to economic growth.

4. Conclusions

It has been shown that public debt in Kosovo is steadily increasing, while its use cannot be considered productive. By disaggregating the public debt based on lenders and its link to specific capital projects, we have come to the conclusion that only a small part of it (loans tied to specific capital projects, 10.3% of total public debt) has been used for productive purposes with a positive impact on economic growth. The largest part of total public debt (untied loans as direct payments to the budget, 73.9% of total public debt) is used to finance budget deficits caused by high increases in wage & salary bill and social transfers. This portion of public debt had unproductive use with no or very little positive impact on economic growth. The rest of public debt (15.9% of total public debt) is used for servicing inherited old debt the impact of which has negative impact on the economy.

Since internal public debt is used to finance budget deficits caused by an increase in wage & salary bill and social transfers, the continuous increase of its share within total public debt is a clear argument for its unproductive use in the situation of shrinking public investments. However, no evidence of crowding out was found – as total investments were increasing, while a steady decrease of interest rates was recorded. Therefore, the government should advance its 2% fixed deficit fiscal rule by setting additional restrictions in accordance with the capital borrowing rule – the so-called “golden rule” – that will allow the government to only run deficits if those deficits are used to finance investments in the public capital stock.

BIBLIOGRAPHY

Abdullahi, M. M., Bakar, N. A. and Hassan, S. B. (2016). Debt Overhang versus Crowding Out Effects: Understanding the Impact of External Debts on Capital Formation in Theory, *International Journal of Economics and Financial Issues*, Vol. 6, No. 1, p. 271-278

Adam, Christopher & Bevan, David (2014). Public Investment, Public Finance, and Growth: The Impact of Distortionary Taxation, Recurrent Costs, and Incomplete Appropriability, *IMF Working Paper*, No. 14/73, p. 1-43

Agénor, Pierre-Richard & Moreno-Dodson, Blanca (2006). Public Infrastructure and Growth: New Channels and Policy Implications, *World Bank Policy Research Working Paper*, No. 4064, p. 1-59

Aisen, A. & Hauner, D. (2008). Budget Deficits and Interest Rates: A Fresh Perspective, *IMF Working Papers*, No. 08/42, p. 1-19

Aschauer, David Alan (1989a). Is Public Expenditure Productive?, *Journal of Monetary Economics*, No. 23, p. 177-200

Aschauer, David A. (1989b). Public investment and productivity growth in the Group of Seven, *Federal Reserve Bank of Chicago, Economic Perspectives*, Vol. 13, No. 5, p. 17-25

Balaj, D. & Lani, L. (2017). The Impact of Public Expenditure on Economic Growth of Kosovo, *Acta Universitatis Danubius Oeconomika*, Vol. 13 (5), p. 401-412

Blejer, Mario I. & Cheasty, Adrienne (1991). The measurement of fiscal deficits: analytical and methodological issues, *Journal of economic literature*, Vol. XXIX (December 1991), p. 1644-1678

Bose, N., Haque, M. E., and Osborn, D. R. (2003). Public Expenditure and Economic Growth: A Disaggregated Analysis for Developing Countries, *Manchester School*, Vol. 75, No. 5, p. 533-556

Central Bank of Kosovo (2018), Annual Report 2017, p. 1-177

Checherita, Cristina & Rother, Philipp (2010). The impact of high and growing government debt on economic growth: An empirical investigation for the euro area. *European Central Bank Working Paper Series*, No. 1237, p. 1-42

Clements, B., Bhattacharya, R. and Nguyen, T. Q. (2003). External Debt, Public Investment, and Growth in Low-Income Countries, *IMF Working Papers*, No. 03/249, p. 1-24

Cordella, T., Ricci, L. A. and Ruiz-Arranz, M. (2010). Debt Overhang or Debt Irrelevance?. *IMF Staff Papers*, Vol. 57, No. 1, p. 1-24

Cullison, William E. (1993). Public Investment and Economic Growth, *Federal Reserve Bank of Richmond Economic Quarterly*, Vol. 79, No. 4, p. 19-33

Devarajan, S., Swaroop, V., and Zou, H. (1996). The composition of public expenditure and economic growth, *Journal of Monetary Economics*, No.37, p. 313-344

European Commission (2016), 2016 Economic Reform Programme of Kosovo, *Institutional Paper*, No. 028, p. 1-23

Égert, Balázs (2012). Public Debt, Economic Growth and Nonlinear Effects: Myth or Reality?, *OECD Working Papers*, No. 993, p. 1-35

Ejigayehu, Dereje Abera (2013). The Effect of External Debt on Economic Growth, *Södertörns University, Department of economics*, Stockholm, p. 1-50

Fournier, J. & Fall, F. (2015). Limits to Government Debt Sustainability, *OECD Working Papers*, No. 1229, p. 1-26

Fournier, Jean-Marc (2016). The Positive Effect of Public Investment on Potential Growth, *OECD Working Papers*, No. 1347, p. 1-24

Fournier, J. & Bétin, M. (2018). Limits to government debt sustainability in middle-income countries", *OECD Working Papers*, No. 1493

Hakhu, A. B., Piergallini, A. & Scaramozzino, P. (2014). Public Capital Expenditure and Debt Dynamics: Evidence from the European Union, *MPRA Paper*, No. 62827, p. 1-25

- Hassan, Shehu U. (2013). External Debt and Economic Growth: Evidence from Nigeria, *International Journal of Economics, Business and Finance*, Vol. 1, No. 10, p. 360-370
- Holtfrerich, C. L., Feld, L. P., Heun, W., Illing, G., Kirchgässner, G., Kocka, J., Schularick, M., Streeck, W., Wagschal, U., Walter, S., and Christian von Weizsäcker, C. (2016). Government debt: causes, effects and limits. *German National Academy of Sciences Leopoldina, National Academy of Science and Engineering, Union of the German Academies of Sciences and Humanities*, Berlin, p. 1-76
- International Monetary Fund. (2015). Republic of Kosovo Staff Report for the 2015 Article IV Consultation (no. 15/131), p. 1–66
- International Monetary Fund (2018). Republic of Kosovo Staff Report for the 2017 Article IV Consultation (no. 18/30), p. 1– 62
- Kellermann, Kersten (2007). Debt financing of public investment: On a popular misinterpretation of “the golden rule of public sector borrowing”, *European Journal of Political Economy*, No. 23, p. 1088–1104
- Koczan, Zsoka (2015). Fiscal Deficit and Public Debt in the Western Balkans: 15 Years of Economic Transition, *IMF Working Paper*, No. 15/172, p. 1-20
- Kolgeraj, A. & Berisha-Vokshi, N. (2017). Analysis on the Impact of Public Debt on Economic Growth Case of Republic of Kosovo, *Journal of Knowledge Management, Economics and Information Technology*, Vol. VII (1), p. 1 -18
- Kosovo’s Assembly. (2013) Law no. 04/L-194 on amendment and changes of the Law no. 03/L048 on management and accountability of public finances, 1–9
- Kosovo’s Ministry of Finance (2008). Annual Financial Report, Kosovo Consolidated Budget, For the Year Ended 31 December 2007, p. 1–89
- Kosovo’s Ministry of Finance (2012). Annual Financial Report, Kosovo Consolidated Budget, For the Year Ended 31 December 2011, 1–72
- Kosovo’s Ministry of Finance (2013). Annual Financial Report, Kosovo Consolidated Budget, For the Year Ended 31 December 2012, 1–73
- Kosovo’s Ministry of Finance (2016). Annual Bulletin 2015 on Public Debt, 1–15
- Kosovo’s Ministry of Finance (2017). Annual Financial Report, Kosovo Consolidated Budget, For the Year Ended 31 December 2016, 1–89
- Kosovo’s Ministry of Finance (2018). Annual Bulletin 2017 on Public Debt, p. 1–34
- Kregždė, Arvydas (2012). Government Debt Sustainability: The Lithuanian Case, *Ekonomika*, Vol. 91(3), p. 56-71
- Mencinger, J., Aristovnik, A. & Verbič, M. (2014). The Impact of Growing Public Debt on Economic Growth in the European Union, *Amfiteatru Economic*, 16 (35), p. 403-414
- Misch, Florian & Wolff, Peter (2008). The Returns on Public Investment Concepts, evidence and policy challenges, *German Development Institute Discussion Paper*, No. 25/2008, p. 1-38
- Mourougane, A., Botev, J., Fournier, J.M., Pain, N. & Rusticelli, E. (2016). Can an Increase In Public Investment Sustainably Lift Economic Growth?, *OECD Working Papers*, No. 1351, p. 1-37
- Mweni, Fredrick T. (2016). The Relationship Between Public Investment To GDP Ratio And External Debt Stocks In Kenya, *International journal of management and economics invention*, Vol. 2, No. 07, p. 671-680
- Nishimura, K., Nourry, C., Seegmuller, T., and Venditti, A. (2015). Growth and Public Debt: What Are the Relevant Tradeoffs?. *HAL Working Papers* , No. 06, halshs-01269945, p. 1-41
- Nuno, H., Ribeiro, R., Vaicėkauskas, T., and Lakštutienė, A. (2012). The Effect of Public Debt and other Determinants on the Economic Growth of Selected European Countries, *Economics and Management*, Vol. 17, No. 3, p. 914-922

- Oladokun, Oluremi Olayinka (2015). Causal Relationship Between Public Debts And Public Expenditure In Nigeria, *International Journal of Management and Applied Science*, Vol. 1, No. 8, p. 68-79
- Patillo, C., Poirson, H. and Ricci, L. A. (2011). External debt and growth, *Review of economics and institutions*, Vol. 2, No. 3, article 2, p. 1-30
- Paul, Ndubuisi (2017). Analysis of the Impact of External Debt on Economic Growth in an Emerging Economy: Evidence from Nigeria, *African Research Review*, Vol. 11 (4), No 48, p. 156-173
- Pescatori, A., Sandri, D., and Simon, J. (2014). Debt and Growth: Is There a Magic Threshold?, *IMF Working Paper*, No.14/34, p. 1-19
- Pula, L. & Elshani, A. (2017). The Relationship between Public Expenditure and Economic Growth in Kosovo: Findings from a Johansen Co-Integrated Test and a Granger Causality Test, *Ekonomika*, Vol. 97(1), p. 47-62
- Pula, L. & Elshani, A. (2018). Role of Public Expenditure in Economic Growth: Econometric Evidence From Kosovo 2002–2015, *Baltic Journal of Real Estate Economics and Construction Management*, Vol. 6, p. 74–87
- Redo, Magdalena (2017). High Public Debt Servicing Costs for the Agency Model of Debt Management in Poland, *The Journal of Kolegium Jagiellonskie Torunska Szkoła Wyższa*, Vol. I/2017, p. 42– 49
- Rexha, D., Bexheti, A. & Alili-Sulejmani, L. (2018). Empirical Approach of the Nexus between Public Expenditures and Economic Growth: Case of Republic of Kosovo, *Research Journal of Finance and Accounting*, Vol.9, No.12, p. 113-119
- Schclarek, A. (2005). Debt and Economic Growth in Developing and Industrial Countries. *Lund University, Department of Economics Working Papers*, No. 34, p. 1-40
- Serieux, John & Samy, Yiagadeesen (2001). The Debt Service Burden and Growth: Evidence from Low Income Countries, *UDU-WIDER Development Conference on debt relief*, 17-18 August 2001, Helsinki, p. 1-23
- Smyth, David J. & Yu Hsing (1995). In Search of an Optimal Debt Ratio for Economic Growth, *Contemporary Economic Policy*, Vol. 13, No. 4, p. 51-59
- Swamy, Vighneswara (2015). Government Debt and its Macroeconomic Determinants – An Empirical Investigation, *MPRA Paper*, No. 64106, p. 1-28
- Traum, N. & Yang, S.S. (2015). When Does Government Debt Crowd Out Investment, *Journal of Applied Econometrics*, Vol. 30 (1), p. 24-45
- Truger, Achim (2015). Implementing the Golden Rule for Public Investment in Europe: Safeguarding Public Investment and Supporting the Recovery, *WWWforEurope Policy Paper*, No. 22, p. 1-66
- Välilä, Timo & Mehrotra, Aaron (2005). Evolution and Determinants of Public Investment in Europe, European Investment Bank, *Economic and Financial Report 2005/01*, p. 1-37
- Wagner, Richard E. (2005). Debt, Money, and Public Finance in *Handbook of Public Finance (2005)*, Ed.: Juergen G. Backhaus and Richard E. Wagner, Kluwer Academic Publishers, Boston, p.195-216
- Warner, Andrew M. (2014). Public Investment as an Engine of Growth, *IMF Working Paper*, No. 14/148, p. 1-76
- Zharku, Lutfi (2018). Irregular receipts leading to budget deficit in Kosovo, *Baltic Journal of Real Estate Economics and Construction Management*, Vol. 6, p. 100-115. doi: 10.2478/bjreecm-2018-0008

Received May, 2018

Revised July, 2018

Accepted August, 2018