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The Management of Public Debt in the Economy and the Assessment of Its Sustainability: The Case of the Republic of Kosovo

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Abstract

Considering that developed countries face a planned and developed macroeconomic economy where almost nothing is missing, as if all countries in the world had this possibility of macroeconomic development, but there are countries that still face an economy that requires a more detailed macroeconomic restructuring and development, where in these states people are faced with high unemployment, with a fiscal and monetary policy in development, where the state is forced to take on debt, whether internal or external, where the latter is more favored. The purpose of this paper is to show through this analysis the effect that public debt has on private consumption with special emphasis on countries in transition, where the factors that will affect private consumption will be explained, the types of debt that the state takes into account. The countries of the region will be analyzed in more detail, which countries face this problem the most. Also, our country Kosovo will be analyzed in detail, what relationship exists between public debt and private consumption. The realization of this research will be done with the STATA statistical software, as dependent variable is Private Consumption, while as independent variables are: Government Debt, Gross Fixed Capital Formation, Foreign Direct Investments, Consumer Price Inflation, Export of Goods and Services and GDP Growth. This paper is a compilation of information from multiple sources in order to provide a description of the reality that countries in transition face when taking on debt.

Subject Areas

Accounting, Business Management, Business Research Methods

Keywords

Public Debt, Government Debt, Foreign Direct Investments, Consumer Price Inflation and Export of Goods

1. Introduction

As developed economies faced systemic problems in their banking systems that then spilled over into the real economy, the financial sectors in the Western Balkans and Albania remained largely insulated due to exposure. Banks and financial institutions in the region have not been as active in the international financial arena, and the countries' stock markets do not match the size of their counterparts in more developed countries. However, the crisis has not completely bypassed the region.

The transmission effects, the speed, and the depth of the crisis took hold in various ways, owing in part to the heterogeneity of regional economic structures. Many of the crisis effects arrived through decreases in domestic demand and consumption, as a result of the tightening of available credit in the region, constricting the domestic demand which served as one of the principal factors in regional growth in recent years (Shera, Adela Ledjon Shahini, Bernard Dosti, 2015) [1].

Knowing that public debt as state debt is totally different from private debt, since in the case of public debt it is not the individual who entered the debt, but the state as a whole, the level of responsibility in decision-making in the case of public debt is much higher. Through public debt, the state aims to regulate the economic situation of citizens, while the main aspect on the basis of which the economic situation of individuals is regulated is consumption. Countries that are in transition find it more difficult to repay the debt because they are faced with an unenviable economic situation, and not surprisingly, developed countries are characterized as countries with a high level of consumption.

Private consumption as one of the main indicators of the economic development of a country should definitely be paid attention to, as it is the main driver of economic growth. In this study, we will try to understand the importance and purpose of public debt as a tool and as a method for economic growth, judging by the stimulation of consumption as a key alternative for achieving macroeconomic goals.

The research questions that this paper aims to answer are:

1) What is the effect of public debt on private consumption?

2) What is the optimal level of public debt in countries in transition?

3) What are the factors that affect the public debt?

2. Analysis of Public Debt

To understand the effects and consequences of the national debt, one must know what role the national debt plays in an economic cycle. To this end, we are now presenting a simplified economic cycle. First we are assuming a closed economy, that is, an economy without external relations, later we will change it. The following considerations show, based on simple accounting relationships, how an economy basically works. It is important that these relationships are of a factual and logical nature and always apply, *i.e.* viewed in retrospect.

The starting point for all considerations is gross domestic product, the value of all goods and services produced in an economy over a period. First, it can be considered what a country uses these goods for: Some of the goods will be consumed by citizens immediately, *i.e.* consumption, another part of the goods will be claimed by the state, *i.e.* government spending, and some production, investment, will not be consumed immediately, but will be used for later periods (ie the products are either placed in storage or, for example, used as new machines in later periods for the production of other goods

There is a growing concern that current debt trajectories in several economies around the world are not sustainable implying risks to long-term growth and stability. For example, at the end of 2011, Japan's debt-to-GDP of 233% was the highest debt-to-GDP ratio among the world's developed countries. The US debt-to-GDP ratio reached 102% after the government's debt ceiling was lifted, and in Europe, the prime example is Greece with a 165.3% debt-to-GDP ratio. GDP ratios look even worse, especially when one takes into account expected future age-related spending. (Andros Kourtellos, Thanasis Stengos, Chih Ming Tan, 2012) [2].

Another way for a country to temporarily live beyond its means is to borrow money abroad to recover foreign savings. To do this, we must include other countries in our official considerations. The equation applies respectively to the so-called open economy, an economy with foreign trade. What do we need to change if we want to consider domestic and international relations? Actually only two things: We now use part of our production not to consume or store it, but to sell it abroad. Sales of goods abroad are exports, which we must add to the equation on the use side. But what we have to deduct are the goods we get from abroad, *i.e.* imports. These are goods that we consume but did not produce ourselves. The new usage equation will be:

Gross domestic product = consumer spending + government spending + investment spending + (exports – imports).

The difference between exports and imports gives a country's foreign trade balance. But when is a state bankrupt? With individuals and private companies, this is easy to determine: as soon as a company (or a private individual) is no longer able to repay its (or their) debts (*i.e.* pay the interest) or repay them, is unable to pay. But if you think about it for a moment, you realize that there is a fundamental difference between companies, private individuals and states: a state can generate new revenue at any time. If a company cannot repay its debts, it is because its profits are insufficient to meet its repayment obligations. She simply cannot increase her income. A state, on the other hand, can create new revenue in case of doubt by raising taxes, which represent its revenue. Taxes are payments to the state without the right to compensation from the state. In this way, a state cannot become insolvent: if it needs more money to pay its debts, it can simply raise taxes.

However, the last sentence is not quite accurate if the state is in debt to foreign countries. If the state borrows money from its citizens, it does so in the same local currency in which its taxes are paid. So: The state borrows money from its debtors in the domestic currency, and if it has to pay it back, it can raise taxes that the citizens also pay in the domestic currency, and the state pays its debts with tax revenues. This type of government debt is called domestic debt. However, if the government borrows in foreign currency (this form is called external debt), it will be more difficult to repay the debt. Argentina, for example, often borrowed dollars abroad and, of course, had to repay this debt in dollars, but could not collect it directly from its citizens through higher taxes. If a country cannot repay its debt to foreign countries, it is as bankrupt as companies or private individuals who cannot pay their debts.

This reveals an important difference between external and internal debt: the state can eliminate external debt either by paying off the debt to creditors or by refusing to pay (state bankruptcy). On the other hand, it can reduce domestic debts through fiscal reforms that reduce the state's future expenditures or increase its future revenues. This distinction between internal and external debt (or internal and external debt) is important when considering the consequences of public debt and the ways out of debt. Mainly it is the external public debt that makes waves in the public, because then a country has to explain to the world public that it will not repay its debts to the states. State bankruptcy is the end of a long journey, which, like many long journeys, begins with a first step, namely the annual statement of the state budget. State revenues and expenditures are recorded there, and the difference between revenues and expenditures is the budget deficit if expenditures are higher than revenues. Of course, the state's income can also be greater than its expenses, then we talk about a budget surplus. As a rule, however, expenditures exceed revenues and the budget deficit must be financed with loans, *i.e.* new debts. It is not unusual for this game to be repeated every year.

The budget deficit and the debt level are closely related: the debt level is the sum of all budget deficits accumulated over the years. In other words, the debts of a country that increase each year (net) are added to the debts of previous years and result in the debt level.

But what does a state generate? If we take, as is customary internationally, the value of all goods and services produced in the country in a year, called national product or gross domestic product (GDP), as an indicator of a country's economic performance, then it takes the quantities most popular that can be used to measure a country's performance.

3. Factors Affecting Public Debt

GDP measures the monetary value of final goods and services, that is, those that are bought by the final user, produced in a country in a given period of time (say a quarter or a year). It counts all of the output generated within the borders of a country. GDP is composed of goods and services produced for sale in the market and also include some nonmarket production, such as defense or education services provided by the government. An alternative concept, gross national product, or GNP, counts all the output of the residents of a country. So if a German-owned company has a factory in the United States, the output of this factory would be included in U.S. GDP, but in German GNP (Callen, 2020) [3].

GDP is not just a statistical measure. It represents a way of organizing society. It is not a neutral number, but an important political tool. Its origins and development were deeply intertwined with the most fundamental political struggles of the last century. It was originally used as a "war machine" in World War II, allowing the US to assess the projected capacity of its economy and wage war on two fronts without reducing domestic consumption. It was then used as a propaganda device during the rivalry between capitalism and the Soviet empire. At the time, achieving sustainable levels of economic growth meant more than simply expanding industrial production: it was promoted as building a better way of life. On the one hand, the Soviet Union rejected the GDP measure and adopted a different model of economic accounting, derived mainly from Marxist economic theory.

Understanding GDP is a video game with increasing difficulty levels. The public debate about the economy is constantly linked to GDP.

A consumer's expenditure is a company's income, when in the aggregate, these corresponding cash flows must be balanced for the entire economy.

$$\text{GDP} = C + I + G + (X - M)$$

GDP is the sum of everything that has been spent in the national economy. Expenses are divided into several categories. These are C, consumption (by private individuals or households); I, investment (by enterprises); G, government spending (on goods and services, but not transfer payments such as welfare or pensions); and X − M, exports less imports. Each can be further divided into subcategories, such as spending on food, or investment in buildings, or government spending on education. (Fernando, Gross Domestic Product (GDP): Formula and How to Use It 1-2, 2022) [4].

3.1. Inflation

Some comments may make the definition of inflation more precise.

1) The definition states what inflation is not; that is, it is not a one-time or short-run increase in the general price level. Similarly, one cannot label as inflation price increases during the recovery phase of the business cycle that are rescinded through price reductions during the recession. Only when price increases

are irreversible can one speak of inflation without qualification.

2) One must emphasize that inflation does not concern increases in the prices of individual commodities; it refers to an increase in the general price level, the weighted average of all prices.

3) One should hesitate to label as inflation increases in the general price level at a rate of less than 1 percent per year. The rate of increase in the general price level that merits the title "inflation" depends on the sensitivity of economic agents to inflation. This is necessarily a subjective criterion.

Inflation is an increase in money income or money income, either overall or per capital (Frisch, 2010) [5].

Inflation is an increase in the price level with additional characteristics or conditions: it is not fully expected, it leads (through cost increases) to further growth, it does not increase employment and real spending, it is faster than a "safe" rate, arises "from the side of money". It is measured on the basis of prices minus indirect taxes and subsidies.

Inflation is a decline in the external value of money, measured by exchange rates, by the price of gold or traded by excessive demand for gold or foreign currency at official rates. Inflation is measured using movements in the exchange rate, a method for open economies under certain conditions (Martin Bronfenbrenner, Franklyn D. Holzman, 1963) [6].

Inflationary processes in which the price increase does not exceed 2 - 3 percent and in which there is no significant expectation of inflation can be described as "boring" inflation. Higher rates of price increase are called "moderate". A further acceleration of price growth deserves the nickname "galloping". However, you cannot draw a precise line between these two categories. Extremely high rates of price increase, which are also generally accelerated, can be described as "hyperinflation". In case of hyperinflation, money loses its function as a store of value and at least partially as a medium of exchange. In the period after the First World War, hyperinflation occurred in various countries of Europe: Countries such as Germany, Poland, Austria, Russia and Hungary. After the Second World War, it appeared in some countries of South America (Frisch, 2010) [5].

In the theory of economic development, it is said that, in order to accelerate economic development faster than the current material factors (accumulation-investments), the state (Government) can consciously promote contained inflation of 3% - 5%. Therefore, in order to realize this goal, the state in an organized manner through politics made inflation consciously, which is otherwise called pressure inflation. Pressure inflation represents the slow and gradual increase in the amount of money in circulation (M), which affects the slow increase in prices, on the one hand, while at the same time it raises investment activity (increases accumulation), thus affects the growth of the production of economic entities, on the other hand (Ziberi, Besime, and Merita Avdiu., 2020) [7].

3.2. Investments

The landscape of investment promotion is a dynamic one. Not only do the needs of investors change continuously, which affects the demands that IPAs and their competitors face, but so do those of the governments which they interact with and sometimes depend on. Consequently, new agencies are being established and existing ones are undergoing deep organizational change: they may acquire or lose mandates, merge or de-merge with other organizations, and open new offices at home and abroad. When the entrepreneur buys a car, when someone builds a rental house, when bridges and shops are built, the same process is always repeated economically: capital values are "invested", invested so that (as opposed to consumption) it returns to the investor later in the form of uses (Christian Volpe Martincus, Monika Sztajerkowska, 2017) [8].

In this sense, the concept of investment does not only include the purchase of business capital goods. Including services, it extends to the broadest definition, "as a series of payments, some of which are positive and some of which are negative," meaning that an investment includes two streams of value, one of which comes from the investor and the other flows back to the investor.

This term includes the purchase of mechanical equipment, as well as the provision of transportation services and the use of labor. After all, buying stocks, buying bonds and investment banking are investments.

It is important to distinguish between the two types of investments. On the one hand the purchase of a machine, on the other hand a savings deposit. With the car, the flow rate is poured directly by the investor into the property to be used and invested in. Likewise (later) at the end of the investment, the flow value is immediately returned to the investor. With a savings deposit, the investor usually does not know where the value of his profit stream will be used. It flows only indirectly, for example through a bank, to the investment property and vice versa. The investor is now only involved in the financial side of the investment, while when buying a car he also tries to take care of the real side of his capital investment.

Investments whose values flow directly between the investor and the investment object are called Real Investments. Investments whose values derive only indirect values between the investor and the investment object are called financial investments. Equity markets are seen as a prerequisite for corporations to get access to capital they need for innovation, value creation and growth. This is particularly important in the aftermath of the financial crisis when national economies seek more long-term corporate investment. Compared to other institutional investors, many PPRFs have a relative certainty of the asset base as well as amount and timing of future cash flows. For example, the Canadian Pension Plan Investment Board (CPPIB) is not expected to use any investment income to help pay benefits until 2021. Hence, PPRFs are not forced, in theory, to seek the short-term returns that many other market participants must achieve due to their investment objectives, yield requirements or business models, nor are they driven by short-horizon market dynamics. On the other hand some PPRFs may be subject to political pressure, directly influencing their asset allocation decisions. (OECD, 2013) [9].

4. The Impact of Inflation on Private Consumption in Kosovo

Despite the drop in the prices of the main goods in the international markets, the prices in Kosovo have increased. This increase in prices started in the last quarter of 2018 and continued in the first half of 2019, slowing down in the second half of the year. The increase in prices in the country has been attributed to a tax measure of 100 percent on goods imported from Serbia and Bosnia and Herzegovina, and especially the increase in food prices. Until December 2019, the average annual inflation rate expressed through the consumer price index (CPI) was 2.7% (Central Bank of the Republic of Kosovo, 2020) [10].

The Consumer Price Index (CPI), namely the Harmonized Index of Consumer Prices (CPI) is a relative indicator that represents the dynamics of changes or the movement of retail prices for the most representative items and services consumed by households in a given period of time included in groups and subgroups classified according to the international nomenclature called COICOP (Classification of individual consumption according to purpose). The Consumer Price Index (CPI), namely the Harmonized Index of Consumer Prices (CPI) as a statistical parameter or the Cost of Living Index is also taken as a parameter for measuring Inflation. This publication is also the result of the creation of time series on price dynamics and comparability. This statistical parameter has a special importance for the economic and financial flows of the country, the development of financial policies, the measurement of the standard of living, the harmonization of personal income, the commercial circulation and others. The Consumer Price Index (CPI), namely the Harmonized Index of Consumer Prices (CPI) is built according to European methodologies and standards and these data are regularly used by local and international institutions.

The Kosovo HICP, produced by the Kosovo Statistics Agency (KAS), is compiled according to the methods of the Harmonized Index of Consumer Prices (HICP). Eurostat has defined the HICP as the European standard for consumer price indices. The calculated index and their results are presented through the Classification of Individual Consumption by Purpose (COICOP), an international classification that classifies consumption in Divisions, Groups and Classes of articles. According to COICOP, KAS has divided 91 defined consumption classes (at 4-digit level) into 410 products (elementary aggregates). KAS has determined weight for each aggregating element and collects prices for each elemental aggregate every month.

All monetary purchases made in the country (Domestic) by the household sector are defined as total annual consumption expenditures. This definition corresponds to the LLK category called Final Monetary Consumption of Household Economies (HFMC) and implies that the weights should include the value of consumption of own products and the cost of housing by the owner himself. Until December 2014, the weights included expenses for resident consumers only, while from January 2015, expenses for non-resident consumers are also included.

The overall harmonized index of consumer prices in the country in 2019 was higher by an average of 2.7 percent compared to 2018. This is mainly explained by the increase in consumer prices in COICOP subgroups: Bread and cereals (11.1%) with an impact of 1.1 percent. Meat (3.8%), vegetables (11.1%) that each sub-group influences with 0.4 percent; milk, cheese and eggs (2.8%) with an impact of 0.2 percent. Coffee, tea and cocoa (6.2%), alcoholic beverages (1.9%), tobacco (3.2%), goods and services for the usual maintenance of the household economy (2.8%), purchase of vehicles (1.4%), the use of equipment for personal transport (1.5%), each subgroup affecting 0.1 percent. Sugar and confectionery (1.6%), home maintenance and repair (2.3%), crockery, cutlery and kitchen utensils (1.4%), organized holidays (3.2%), hotel services (0.9%), accommodation services (5.7%), personal belongings (3.4%), insurance (3.3%), with a combined impact of these subgroups of 0.2 percent on HIPC-it. While the drop in prices is observed in the subgroups of COICOP: Trees (−4.6%), transport services (−3.7%), (decrease in prices of airplane tickets) that each subgroup affects by −0.1 percent in IHÇK (Statistics Agency of Kosovo, 2020) [11].

The consumer price index registered a slowed growth of 1.1 percent in Q1 2020, compared to the same quarter of 2019 when it had grown by 3.2 percent. The highest increase was recorded in the prices of health services, hotels, household furnishings as well as other goods and services, which contributed 0.48 percentage points to the general inflation. Other categories recorded a slower increase in prices, *i.e.* a decrease. The prices of food and non-alcoholic beverages recorded significantly lower growth in Q1 2020 (1.6 percent) compared to the same period of 2019 (6.4 percent), however, due to the large weight in the consumer basket, they contributed positively by 0.67 points percentage in general inflation. In Q1 2020, core inflation turned out to be 0.4 percent, or 0.7 percentage points lower than general inflation. Due to the high dependence of Kosovo's economy on imports, the dynamics of the Kosovar consumer basket are mainly determined by the movement of import prices, which in Q1 2020 recorded an average decrease of 0.6 percent (3.4 percent increase in Q1 2019). In addition to import prices, production prices were also characterized by a decrease of 0.2 percent, but this rate of decrease was lower compared to import prices. (Central Bank of the Republic of Kosovo, 2021) [12].

5. GDP as an Indicator of Private Consumption in Kosovo

The increased uncertainties in the external environment during 2019 have not been reflected in the dynamics of the country's economy, since the real GDP growth is estimated to have marked an acceleration of growth (4.2 percent) compared to the previous year (3.8 percent). The acceleration of economic growth was mainly attributed to the improvement of the net exports position, while domestic demand recorded a lower positive contribution compared to 2018.

Despite the weakening of external demand and lower prices of metals in international markets, exports of goods have recorded accelerated growth in 2019, while import of goods has been characterized by slowing growth. This has caused net exports in real terms to mark a decrease in the trade deficit of about 0.8 percent (14.4 percent increase in 2018). The official quarterly data published by KAS suggested an increase in the value of investments by 5.7 percent and an increase in consumption by 2.3 percent, an activity mainly supported by the increase in financial intermediation in the country, the increase in remittances, compensation of workers as well as the positive impulse egati. The dynamics in 2020 changed completely, after the rapid spread of the COVID-19 virus and the announcement of the pandemic state by the WHO. In order to manage the pandemic and the health crisis, similar to governments around the globe, the government of Kosovo has taken restrictive measures in March 2020 in terms of movement, travel, public and non-public activities, activities in some business services, etc.. The prioritization of agate health and restrictive measures has translated into a decline in economic activity in the country. Domestic demand is expected to shrink, while net exports are expected to deepen the trade deficit and consequently increase the positive contribution to GDP. Estimates for the growth of economic activity in the third quarter have decreased slightly due to ongoing supply disruptions and the new wave of infections with the so-called "Delta" variant of the corona virus, representing factors that were reflected in slower economic growth of 3.7%. For 2021, the ECB's projection for real GDP growth has been revised by 0.4 percentage points, from 4.6% as it was in June 2021 to 5.0% in September 2021 (Central Bank of the Republic of Kosovo, 2021) [12].

6. Empirical Data Analysis and Study Findings

The Sources conducted in this paper consist on the Kosovo Statistics Agency revolving the Harmonized Index of Consumer Prices (HICP) for April 2017, which unlike the Consumer Price Index (CPI) (**Table 1**).

Based on the GMM Model, we can see that the significance was only in two cases below 0.05 (5%), the other independent variables were above 0.05 (5%) (**Table 2** and **Table 3**).

If General Government Debt (X_1), Gross Fixed Capital Formation (X_2), Foreign Direct Investment (X_3), Consumer Price Inflation (X_4), Exports of Goods and Services (X_5), and GDP Growth (X_6), are constant or (0.000) then Final consumption expenditure will be 81.94796% (unit). This statement is correct because the significance value is within the confidence interval (0.000 < 0.05).

If Final Consumption Expenditures increases by 1 unit then Final Consumption Expenditures will increase by 0.2771462% (units) keeping constant General

Government Debt, Gross Fixed Capital Formation, Foreign Direct Investments, Consumer Price Inflation, Exports of goods and services and GDP growth. This statement is not correct because the level of significance is above its standard level (0.105 > 0.05).

Table 1. Average annual changes of CPI-CPI in percentage by COICOP groups, 2010-2019.

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total HICP -CPI	3.5	7.3	2.5	1.8	0.4	−0.5	0.	1.5	1.1	2.7
Food and non-Alcoholic Drinks	4.7	12.2	0.9	2.1	−0.2	0.4	−0.4	1.6	1.5	5.4
Alcoholic Drinks, Tobacco	1.9	5.4	7.5	7.2	4.4	6.5	7.9	3.3	2.5	2.6
Clothing and Shoes	−0.1	3.0	2.5	2.9	2.8	1.8	2.7	0.9	−0.6	0.3
Housing, water, electricity, gas and fuel	4.3	1.2	8.4	0.4	4.1	1.6	−2.2	4.5	−2.8	0.1
Furniture, home appliances and maintenance	0.2	2.5	2.1	1.4	0.6	1.2	1.5	−0.2	−0.3	1.2
Health	0.3	1.5	1.4	0.7	0.2	1.4	2.3	0.5	−0.4	0.07
Transport	7.6	10.5	3.7	−1.9	−2.1	−7.5	−1.8	2.7	4.0	0.8
Means of communication	−1.2	−0.5	−4.0	−1.0	−0.9	−0.2	−0.1	8.4	−1.0	0.2
Recreation and culture	−0.2	3.1	4.6	2.6	−0.3	−0.5	0.0	−1.4	−1.5	0.4
Education	3.7	0.4	0.0	0.0	−7.0	−22.6	−0.1	0.5	0.0	−0.7
Restaurants and hotels	−0.6	3.0	1.4	1.8	1.1	−2.1	0.6	0.9	2.2	1.4
Goods and services	2.7	2.3	2.7	9.2	3.3	1.1	0.9	0.7	0.4	1.6

Source: Kosovo Statistics Agency.

Table 2. GMM model.

Shpenzimet e konsumit final	Coef.	Std. Error	t	P > |t|	95% Conf. Interval	95% Conf. Interval
Shpenzimet e konsumit final LI.	0.2771462	0.1710935	1.62	0.105	−0.0581908	0.6124833
Borxhi i qeverisë së përgjithshëm	−0.046099	0.0453428	−1.02	0.309	−0.1349693	0.0427712
Formimi i kapitalit fiks bruto	−0.4013045	0.1380008	−2.91	0.004	−0.6717811	−0.1308279
Investimet e huaja direkte	0.0076571	0.0197314	0.39	0.698	−0.0310158	0.0463299
Inflacioni i çmimit konsumues	0.0764958	0.0547215	1.40	0.162	−0.0307564	0.183748
Eksporti i mallrave dhe sherbimeve	−0.2944557	0.0928695	−3.17	0.002	−0.4764765	−0.1124349
Rritja e PBB-së	0.1558184	0.1157907	1.35	0.178	−0.0711273	0.382764
_cons.	81.94796	18.69207	4.38	0.000	45.31218	118.5837

Table 3. Econometric results.

Variablat	Linear Regression	Fixed – Effects Regression	Random Effects – GLS Regression	GMM Model
Shpenzimet e konsumit final	-	-	-	0.2771462 (0.105)
Borxhi i Qeveris së Përgjithshëm	0.4470887 (0.000)	−0.0221073 (0.638)	−0.0006407 (0.989)	−0.046099 (0.309)
Formimi i Kapitalit Fiks Bruto	1.698857 (0.001)	−0.5221767 (0.000)	−0.5005291 (0.000)	−0.4013045 (0.004)
Investimet e Huaja Direkte	0.0895719 (0.712)	−0.0056275 (0.810)	−0.0054579 (0.817)	0.0076571 (0.698)
Inflacioni i Çmimit Konsumues	−0.3865401 (0.313)	−0.0693754 (0.172)	−0.0720413 (0.155)	0.0764958 (0.162)
Eksporti i Mallrave dhe Sherbimeve	−0.2812974 (0.002)	−0.3747793 (0.000)	−0.3623835 (0.000)	−0.2944557 (0.002)
Rritja e PBB-së	−1.350885 (0.173)	−0.0502668 (0.641)	−0.0502784 (0.641)	0.1558184 (0.178)
Const.	40.57312 (0.003)	111.0208 (0.000)	109.6636 (0.000)	81.94796 (0.000)
R Suare	0.3015	0.0270	0.0353	–

Source: Calculation by the author using the statistical program STATA.

If the General Government Debt increases by 1 unit then Final Consumption Expenditure will decrease by −0.046099% (unit) keeping constant Gross Fixed Capital Formation, Foreign Direct Investments, Consumer Price Inflation, Exports of Goods and Services and GDP growth. This statement is not correct because the level of significance is above its standard level (0.309 > 0.05).

If Gross Fixed Capital Formation increases by 1 unit then Final Consumption Expenditure will decrease by −0.4013045% (unit) keeping constant General Government Debt, Foreign Direct Investments, Consumer Price Inflation, Exports of Goods and Services and GDP growth. This statement is correct because the level of significance is below its standard level (0.004 < 0.05).

If Foreign Direct Investment increases by 1 unit then Final Consumption Expenditure will increase by 0.0076571% (unit) keeping constant General Government Debt, Gross Fixed Capital Formation, Consumer Price Inflation, Exports of Goods and Services and Growth of GDP. This statement is not correct because the level of significance is above its standard level (0.698 > 0.05).

If Consumer Price Inflation increases by 1 unit then Final Consumption Expenditure will increase by 0.0764958% (unit) keeping constant General Government Debt, Gross Fixed Capital Formation, Foreign Direct Investment, Exports of Goods and Services and Growth of GDP. This statement is not correct because the level of significance is above its standard level (0.162 > 0.05).

If Exports of goods and services increases by 1 unit then Final Consumption Expenditure will decrease by −0.2944557% (unit) keeping constant General

Government Debt, Gross Fixed Capital Formation, Foreign Direct Investment, Consumer Price Inflation and GDP growth. This statement is correct because the level of significance is below its standard level (0.002 < 0.05).

If GDP Growth increases by 1 unit then Final Consumption Expenditures will increase by 0.1558184% (units) holding constant General Government Debt, Gross Fixed Capital Formation, Foreign Direct Investment, Consumer Price Inflation and Exports of goods and services. This statement is not correct because the level of significance is above its standard level (0.178 > 0.05).

The equation used in this paper is:

$$Y_t = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + b_6X_6$$

Y_t (Consumer Expenditure) = b_1X_1 (General Government Debt) + b_2X_2 (Gross Fixed Capital Formation) + b_3X_3 (Foreign Direct Investment) + b_4X_4 (Consumer Price Inflation) + b_5X_5 (Export of Goods and Services) + b_6X_6 (GDP Growth) + ε

- Y_t, represents the dependent variables (explanatory variable), in our research case as a dependent variable is consumption expenditure.
- b_1, b_2 and b_3 are defined as evaluation parameters or coefficients; where b_1 is the constant parameter, while b_2 and b_3 are the independent variable estimation parameters.
- X_1 – X_6, represents the independent variable, in our case the independent variables are: general government debt, gross fixed capital formation, foreign direct investments, consumer price inflation, export of goods and services and GDP growths.
- E, is the term of the statistical variable or error, it contains all the factors or variables that are not predicted in the model and is a random and unprotected variable that takes positive and negative values. The statistical error indicates that there are other factors that influence the dependent variable consumption expenditure. This indicates that the complete variable is not explained or does not give us information from the independent variables. Otherwise, the statistical component represents the unexplained part of the model.

7. Conclusions and Recommendations

The government as one of the main pillars of a state, whose goal is to increase social well-being definitely, has the duty to maintain this well-being, here the state is definitely forced to maintain this debt, where this debt can change depending on who belongs.

This type of problem that every country faces whether developed or developing differs in the way countries approach it, on the basis of the Maastricht treaty, which foresees how the optimal level of debt should be in order to have a stable economic growth. Based on the authors' empirical findings in their works, where one has analyzed the relationship between public debt and economic growth, it has been concluded that the institutions of a state have a certain level of quality, then public debt has the effect of economic decrease, if a country's institutions are developed, then public debt has the effect of neutral economic growth. While the other author has come to the conclusion that developed countries are more capable of managing public debt in relation to developing countries because the latter suffer from poor management and poor institutions.

The public debt in the countries of the Western Balkans continues to be one of the main issues of the discussions on EU integration. However, it is worth noting that despite the high level of public debt, the countries of the Western Balkans are characterized by a stable fiscal level. The increase in consumption has been driven by high public spending and family loans, putting sustainable economic growth in the region into question.

The level of public debt in Kosovo is within the legal limits with the rate of 18.17% of GDP compared to the countries of the region. However, this ratio of the level of debt is increasing as a result of the advancement of the state debt. According to the IMF, structural issues such as low labor force participation, high unemployment, widespread informality and weak external competition constitute obstacles to Kosovo's growth potential. The current structure of the state debt of the Republic of Kosovo consists of internal debt 11.85%, international debt 5.76% and state guarantees 0.56%. Foreign investment is known to play such a role in encouraging and supporting a successful transition. Foreign investments in transitional economies are used as an effective tool for several reasons such as: the potential to make investments, transfer of knowledge, and increase in productivity, improvement of managerial ability and labor force and use of the trade balance. FDI in Kosovo reached the value of 112.0 million euros, which is 60.5%. The increase in prices started in Kosovo at the end of 2018 and continued until the first half of 2019 as a result of the 100% tax on Serbian and Bosnia and Herzegovina products, with special emphasis on food products.

Based on the results obtained from the statistical analysis through the STATA program, where the data were obtained from the World Bank of 22 countries that are in transition for 6 years, from 2014 to 2019. Including: Albania, Armenia, Belarus, Bosnia and Herzegovina, Georgia, Kosovo, North Macedonia, Moldova, Montenegro, Serbia, Ukraine, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic and Slovenia. Based on the results, we can see only the variables the formation of gross fixed capital and the export of goods and services are significant, that is, they affect the final consumption expenses, here it is worth noting that the debt of the general government with the linear regression method is significant, while most other methods do not. So, the formation of gross fixed capital otherwise the internal investments that have been made in countries are destined and have influenced the final consumption of the consumer as well as the other variable the export of goods and services have influenced the growth of the GDP and at the same time the growth of the final consumption.

The recommendations in this research are:

States must respect the rules of the Maastricht treaty regarding public debt.

Better management of public debt by the state.

It is also worth noting that Kosovo, which is in a better ratio in terms of public debt at 18.17% compared to the countries of the region, definitely has the possibility of increasing the public debt, so that the money received is destined for the increase of welfare.

Conflicts of Interest

The authors declare no conflicts of interest.

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