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ROLE OF FISCAL POLICY IN STIMULATING THE ECONOMIC RECOVERY OF THE WESTERN BALKAN COUNTRIES

ДОМЕТИ ФИСКАЛНЕ ПОЛИТИКЕ У ПОДСТИЦАЊУ ЕКОНОМСКОГ ОПОРАВКА ЗЕМАЉА ЗАПАДНОГ БАЛКАНА

Summary: *The crisis caused by the coronavirus pandemic has raised the question of the role and possibilities of fiscal policy in mitigating its current effects and accelerating post-pandemic recovery. This issue is relevant for all economies without exception, bearing in mind that aid packages to the population and the economy are predominantly based on fiscal stimulus. For this reason, the issue of the efficiency of expansionary fiscal policy has been raised again, taking into account the specific macroeconomic circumstances in which most economies find themselves. Therefore, the subject of this paper is the analysis of the optimal structure of the expansionary fiscal policy, with particular emphasis on the Western Balkans region, in the context of resolving the current macroeconomic consequences of the crisis and the possibility of providing both short and medium-term growth. Based on the analysis of specific macroeconomic circumstances in the countries of the Western Balkans, conclusions were reached as to which fiscal policy instrument can be used to achieve the previously described goals.*
Keywords: *expansive fiscal policy, public spending, public investment, fiscal multiplier, public debt*
JEL Classification: *E62, H54, H6*

Резиме: *Криза изазвана пандемијом корона вируса отворила је питање домета и могућности фискалне политике у ублажавању њених текућих ефеката и убрзавању постпандемијског опоравка. Ово питање је релевантно за скоро све економије без изузетка имајући у виду да су пакети за помоћ становништву и привреди доминатно ослоњени на фискалне стимулансе. Из тог разлога је опет актуелизовано питање ефикасности експанзивне фискалне политике уважавајући специфичне макроекономске околности у којима се налази већина економија. Стога је и предмет интересовања овог рада анализа оптималне структуре експанзивне фискалне политике, с посебним акцентом на регион Западног Балкана, у контексту санације тренутних макроекономских последица кризе и могућности обезбјеђивања како краткорочног тако и средњерочног раста. На основу анализе специфичних макроекономских околности у земљама Западног Балкана дошло се до закључака о томе посредством ког инструмента фискалне политике је могуће остварити претходно описане циљеве.*
Кључне ријечи: *експанзивна фискална политика, јавна потрошња, јавне инвестиције, фискални мултипликатор, јавни дуг.*
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INTRODUCTION

Due to its simultaneity and uniformity of manifestation in all parts of the world, the economic crisis caused by the coronavirus pandemic represents a kind of call and a crying need for state intervention to initially mitigate the effects and then accelerate recovery, returning economies to the economic growth path. The source and type of shock that economies have faced launched to the orbit of scientific and practical interest questions about policies that could achieve the mentioned goals. Thus, the dilemma of the effectiveness of fiscal policy and the specific macroeconomic circumstances that determine that effectiveness is created. Following the aspiration to find answers to these questions and focusing mainly on the WB region, this paper is structured so that its first part describes the extent of the crisis in the WB countries. Through a retrospective of theoretical concepts and a review of empirical studies, the paper answers the question of what form of expansive fiscal policy in the WB countries can provide both short-term mitigation of the crisis and subsequent long-term growth.

1. THE SCALE OF THE RECESSION IN THE WESTERN BALKANS

Recessions in the WB countries were rarely sensationalist news and seldom had the character of economic news. Therefore, situations in which this region could describe its economic decline as "sharing the fate of the whole world" would be considered a first-class rarity. The crisis caused by the coronavirus pandemic made this exception, which confirms the rule, happen in economic reality.

Perhaps for the first time, the optics of perceiving the recession in the WB required a global review of trends in the world economy as a critical trigger for the crisis before analysing the internally generated causes. Therefore, the entire region, perhaps too accustomed to movements "different from the rest of the world", has experienced globally manifested problems due to the economic vortex initiated by the coronavirus epidemic.

According to the World Bank forecasts, the expected decline in GDP in the Western Balkans in 2020 is 4.8%. The impact of the recession has not hit all countries in the region with equal force. Countries having a high share of the service and the dominant tourism sector in their structure experienced a deeper recession due to the disproportionate exposure to the impact of the crisis. Thus, Montenegro and Albania, with the tourism participation in the structure of GDP of over 20%, ended 2020 with a decline of 12.4 and 8.4%. The predicted decline in other WB countries is somewhat milder and is on average smaller than the one of European economies.

Table 1 Projected GDP growth for 2020

Country	Growth rate in 2020
Serbia	-3.0
Bosnia and Herzegovina	-3.2
Montenegro	-12.4
Albania	-8.4
North Macedonia	-4.1
Kosovo*	-8.8

Source: World Bank 2020

The slightly milder decline compared to the European average is not because the economic structures of WB economies are immune to external shocks. It is a result of these economies being dominated by lower value-added activities. Also, the production ratio of tradable and non-tradable goods is a valid argument for explaining the recorded tendencies of either growth or decline of economic activity. The classification of produced goods and services according to the criterion of exchangeability indicates the prevalence or high share of non-exchangeable goods. By observing the placement of the so-called domestic goods, we see that the cessation of transport and trade led to the opening of the domestic market for domestic producers without the pressure of foreign competition.[1]

2. KEY DETERMINANTS OF RECESSION IN THE WESTERN BALKANS

The common factors determining the recessionary course of economic activity in the analysed region are tipping in the private consumption favour. Due to the decline in disposable income, this component of aggregate demand led to a contraction in household consumption. The slight increase in public spending failed to compensate for the drop in private consumption. Note that the growth of transfers as part of fiscal measures to mitigate the effects of the crisis on household income managed to significantly absorb the impact on disposable income. Transfers to the population in the form of a linear income boost and transfers to the economy in the form of compensation for workers' wages were a barrier to accelerated income erosion.

[1] Due to the possibility of being the subject of international exchange, some goods have an exchangeable character. However, because of their properties and quality, such products only have placement in the less demanding domestic market.

Table 2 Share of public spending in GDP

Country	2019	2020
Serbia	42.3	47.0
Bosnia and Herzegovina	41.5	46.6
Montenegro	46.2	53.0
Albania	29.3	35.1
North Macedonia	33.3	35.0
Kosovo*	29.5	34.5

Source: World Bank 2020

The transmission of external shocks to economic conditions in the WB countries took place through two channels. The first channel was export, which decreased in all countries due to weakened export demand. Countries whose export is dominated by services rather than goods were particularly affected. Bear in mind that the export structure in the countries covered by the analysis is essentially related to foreign companies located at the end of the production chain. In that way, it was not possible to reorient to the domestic market, considering that for the most part, the production of export companies from the region is in the form of production components and semi-finished products.

Table 3 Export trends in 2020

Country	Export growth rate in 2020
Serbia	-5.7
Bosnia and Herzegovina	-2.7
Montenegro	-23.1
Albania	-12.6
North Macedonia	-4.2
Kosovo*	-8.3

Source: World Bank 2020

The second channel through which the crisis spilt over was the contraction of foreign remittances, traditionally a significant part of disposable income in all WB countries. Note that foreign remittances were the shock absorber of the current account deficit, and in the disposable income, they reached the level of participation of up to 20%. Therefore, consumption suffered a strong slam through this channel.

Table 4 Foreign remittances as a percentage of GDP

Country	2019	2020
Serbia	5.8	4.2
Bosnia and Herzegovina	8.4	7.4
Montenegro	4.0	3.6
Albania	5.2	4.4
North Macedonia	1.7	1.7
Kosovo*	12	14.1

Source: World Bank 2020

According to the basic macroeconomic laws, investments represent the component of aggregate demand with the most significant variability in times of crisis. The alteration in this macroeconomic variable and the forecasts of its movement are the most credible indicators of future economic growth trends. The change in the level of investment is a kind of imprint of the expectations of crucial macroeconomic entities concerning future economic trends. Due to its pro-cyclical nature, the decline in investment coincides with the recession itself. Uncertainty about future trends and falling demand lead to a process of giving up on investment. In the worst-case scenario, a prolonged crisis and an inadequate reaction of the holders of economic power activate the process of disinvestment, which can lead to economic depression. Namely, the decline in investment combined with the cyclically lagging growth of unemployment can trigger a negative spiral where a decline in demand leads to a decline in investment and employment.

Table 5 Investment growth rate

Country	2019	2020
Serbia	3.0	-1.4
Bosnia and Herzegovina	/	-4.7
Montenegro	0.8	-9.3
Albania	5.2	4.4
North Macedonia	2.1	-1.0
Kosovo[*]	1.7	-4.6

Source: World Bank 2020

Consequently, their decline further accelerates the process of disinvestment. For this reason, it is crucial to reverse economic trends and prevent a negative spiral from forming financial policy measures that will result in the formation of optimistic expectations of key macroeconomic entities: companies and consumers.

3. TRANSMISSION MECHANISM OF FISCAL POLICY IMPLEMENTATION TO ECONOMIC GROWTH

Expansive fiscal policy, both theoretically and operationally, can be conducted in two forms: tax cuts and growth in public spending. Tax cuts should target the disposable income growth, which leads to an increase in consumption. The intensity of demand growth driven by expansion in household consumption depends on the responsiveness of consumption to changes in disposable income. In the circumstances of a pronounced marginal propensity to consume, the desired transmission of the reduction in the tax on aggregate demand growth is achieved, activating the multiplier effect due to the subsequent time adjustment of aggregate supply to the impulse of aggregate demand growth. In addition to the marginal propensity to spend, the possibility of "locking" the effects of these measures within the national economy is crucial for implementing this form of expansionary fiscal policy on economic growth. The marginal propensity to import determines the ability to maintain the effects of these measures within the national economy. Namely, the consumption does not have to and is not focused only on domestic products but also on the imported ones. Therefore, the size of the "import gap" has a decisive influence on the degree of transmission of this expansive fiscal instrument to economic growth. Another aspect that should be taken into account when observing the efficiency of reducing the tax on economic growth are the expectations of households as macroeconomic entities regarding the future fiscal policy of the country. Namely, in the spirit of Ricardian equality, citizens can connect the reduction of taxes, which results in the budget deficit and the growth of public debt to cover it, with the inevitable increase of taxes in the future. In that way, the generated debt would be repaid, and people would not increase their spending. Such uncertainty about future fiscal consolidation affects the intertemporal reallocation of current disposable income growth, which reduces this expansive fiscal measure effect on demand and income growth. The mentioned effects can be achieved by excluding the "crowding out" effect, i.e. by the reduction of interest rate sensitive expenditures generated by rising interest rates due to higher government borrowing in the domestic financial market.

Another way to pursue expansionary policies is to increase public spending. Bearing in mind that public spending is an integral part of domestic absorption, the mechanism of this expansionary fiscal instrument is realized by an immediate increase in aggregate demand. Although a seemingly flexible tool, its effectiveness in academic circles still causes numerous controversies. Namely, out of the squeezing effect limits, the Keynesian assumption of generating effective demand through the growth of public spending is partially challenged by the supporters of Real Business Cycles (RSC) and the New Keynesians themselves. Namely, they do not measure the effect of expansive fiscal policy on economic growth by the demand-side but by the substitution labour supply-side effect. In the circumstances of the perception of the household following Ricardian equality, the increase of public spending can cause the activation of the substitution effect that increases labour supply and reduces consumption. The growth of the real interest rate as a reaction to monetary policy following Taylor's rule leads to an undesirable time allocation of consumption, which reduces the current consumption of the population. (Deleidi, Iafrate, and Levrero, 2020). It implies that the extent of the effect of increasing government spending on GDP, or fiscal multiplier, is usually between 0 and 1, and it depends on the elasticity of labour supply and the intertemporal elasticity of spending (Hall 2009).

The efficiency of fiscal policy in stimulating economic growth has been the interest of one of the world's most prominent macroeconomists, Olivier Blanchard. This interest was expressed both at the scientific and operational level, given that from the position of the IMF's chief economist during the 2008 crisis, through recommended measures for countries that have concluded an arrangement with the IMF, he could influence economic policies, primarily the fiscal one.

Partly due to the effects of recommended fiscal consolidation in developed economies, which proved to be a cure worse than the disease itself, the substantial impact of fiscal policy on economic growth has been studied since the crisis to determine its actual contribution to economic recovery. For this reason, the analysis focused on the relationship between the projected value of fiscal multipliers and the level of their genuine, subsequently determined value. Essentially, through the change in the value of the fiscal multiplier, the contribution of fiscal policy to economic growth is determined which, in a crisis, corresponds to the contribution to economic recovery.

In different macroeconomic circumstances, expansionary fiscal policy yields different results. In other words, the variability of fiscal multipliers is mostly determined by certain macroeconomic assumptions in the monetary policy domain. The fundamental knowledge based on empirical research is related to the values of multipliers in the period when monetary easing results in a zero interest rate.

The 2008 crisis was one of the cases in which these assumptions were met. Therefore, it was interesting to make an empirical introspection into the movement and value of fiscal multipliers in earlier cases when the reference interest rate tended to be zero. A historical review showed that only a few studies have dealt with this phenomenon. All of them came to the same conclusions, which indicated that in cases of monetarily relaxed circumstances, the fiscal multiplier exceeds the unit value, reaching 1.6 and 1.7 in the specifically analysed periods (Blanchard and Leigh 2013).

The use-value of these analyses is that they initiated debates on the soundness of fiscal consolidation policy, which was the dominant recommendation during the 2008 crisis. Both The speed rate of recovery and the recession length were potential immediate consequences of the impact of these measures. This trend can be explained by the fact that low levels of income and output, in an underdeveloped financial system, imply that consumption is more dependent on current than future income and that investment is more dependent on current than future profit (Eggertsson and Krugman 2012). Both of these effects consequently lead to fiscal multiplier growth.

In the case of the Western Balkans, these empirical findings are relevant for two reasons. The first refers to the sustainability of the economic activity of companies with a dominant orientation to the domestic market. Namely, due to the weakening of economic activity and falling income, consumption as the primary source of growth is experiencing its contraction. Without measures supporting economic growth through fiscal stimulus, the recession abyss would be plunging and the probability of recovery uncertain. The second reason is related to investments. Due to the profits fall that goes hand in hand with the recession, there is an investment spike that associates the economic recovery in the more optimistic version to the long term, and in the more pessimistic one, it makes it completely uncertain.

Export-oriented companies integrated into global production chains would, on the other hand, enjoy the positive externalities of expansionary fiscal policy in developed countries, the effect of which will be prompt due to the fact that quantitative monetary easing has reduced the reference interest rate to almost zero. It indicates the more immediate impact of fiscal policies on income, consumption and investment growth.

Therefore, we can summarize that the above findings suggest that the instruments of expansionary fiscal policy can be the basis for maintaining consumption and investment, and the effect of these measures on the expectations of economic entities is crucial for a speedy recovery from the crisis caused by COVID 19.

Namely, specific research has shown that the effect of expansive fiscal policy essentially depends on the formed expectations of economic entities on the policy. Such expectations are formulated depending on the timing and instruments used. The positive or negative effects of expansionary fiscal policy on economic activity are determined by expectations, economic opportunities, and the level of public debt (Bi, Huixin; Leeper, Eric; Leith, Campbell, 2013). The importance of these preconditions for the effectiveness of these fiscal measures is found in empirical studies which claim that the effect of public spending growth on output is more significant in times of expansion compared to recession and in times of stable economic conditions compared to periods of high uncertainty (Alloza 2018).

One way to measure the level of trust of key macroeconomic entities is to analyse the eagerness of households for intertemporal choice. Namely, if the government measures enjoy the trust of the population, their readiness for intertemporal exchange will be higher, which leads to an increase in current demand.

Since public spending consists of public procurement, transfers and public investments, the selection or arrangement of expansionary fiscal policy measures will determine whether there will be positive or negative expectations. Bachmann and Sims (2011) conducted an empirical analysis in an attempt to answer the question: whether the transmission of fiscal policy depends on the degree of change in trust of consumers and businesses, i.e. to what extent the effectiveness of fiscal policy depends on the credibility of the government and its measures. They found that fiscal stimulus during a recession has a positive and long-term effect on productivity growth, while such impact on productivity in normal conditions is minor. They also determined the supremacy of public investments concerning public procurement in terms of their effect on the formation of optimistic expectations of companies and consumers and subsequent economic growth.

4. THE IMPACT OF PUBLIC DEBT ON ECONOMIC GROWTH

A critical limiting factor for implementing an effective expansionary fiscal policy, which has proven to be an effective anti-crisis remedy, is the state borrowing power. Under normal circumstances, the state's borrowing power is limited by macroeconomic parameters that define its capacity to adequately service its future debt obligations. From the investors' point of view, these relevant decision-making data are in the country's credit rating.

However, the nature of the crisis that has hit the world economy due to coronavirus has significantly altered the perception of government borrowing opportunities. Due to the simultaneous and identical impact on all economies, the countries mostly followed the same patterns in an attempt to mitigate the effects of the crisis. Liberalization of monetary requirements and the application of expansive fiscal instruments represent an economic and political category possibly retaining all applied measures. For this reason, there has been an atypical increase in demand for credit funds claimed by developed countries. The combination of monetary policy based on monetary relaxation has neutralized the possibility of increased government borrowing to activate the crowding-out effect.

The previous claim is supported by data on the movement of world public debt in 2020. It shows that the world public debt reached a historical maximum in 2020.

Table 6 Public debt as % of GDP

	2019	**2020**
World	83	98,7
Developed economies	105,3	125,5
EU	84	101,1
Developing countries	52,6	62,2
USA	108,7	131,2
Great Britain	85,4	108
Japan	238	266,2
Undeveloped countries	43,3	48,8

Source: IMF 2020a

The total value of indebtedness at the global level approached the annual world GDP. What is also indicative of the subject of interest of this paper is the accelerated borrowing of developed economies compared to underdeveloped and developing countries. Although the relaxation of conditions has increased the availability of capital, such occurrences on the world market could, viewed from the angle of timely borrowing, represent a particular type of credit restriction for developing countries. The importance of emphasizing this argument lies in the fact that the impact on changing the expectations of essential macroeconomic entities depends on the timing and scope of state-interventionist action. The inability to respond promptly significantly undermines the credibility of government policy.

In a particular doctrinal and practical aspect, intensive borrowing to encourage recovery may clash with the opposite economic-political approach. In a significant part of the public in the WB countries, due to endemic corruption and the non-transparency of all institutions, the belief that growth can be generated through public debt is quite fragile. When institutional shortcomings are combined with recent studies on the relationship between public debt and growth, there is a dilemma that can lead to wrong conclusions and consequently to inadequate crisis response.

Research on the connection between public debt and economic growth is quite considerable, especially entering the zenith of scientific interest and the sphere of concrete interest of the bearers of economic power during the 2008 crisis. Namely, due to the escalation of debts in some countries and an assertive initial financial crisis, the focus of measures to curb the crisis shifted to the segment of stabilizing public debt. The fiscal consolidation that emerged as a widespread measure to mitigate and neutralize the crisis was the logical result of the described tendencies.

However, those who were ardent advocates of this approach, seeing its effects, retreated in their views[2]. The research focus of analysis of the relationship between public debt and economic growth predominantly determined the level of public debt compared to GDP. It was a turning point to which the public debt growth had a positive impact on economic growth, and after which the growth of the public debt share would result in a weakened economic growth. The essential mechanisms of the negative effect of public debt growth on economic growth are related to the reduced availability of credit funds that increase the risk of premiums by raising interest rates and reducing investments and capital accumulation. Due to the reduction of capital accumulation, there is a decline in labour productivity, which generates a potential drop in output.

What those transmission mechanisms have in common is the impact of the negative expectations on the state's ability to service public debt. For this reason, the choice of public spending components which pursue an expansive fiscal policy is crucial. This is especially important in underdeveloped and transition countries. The growth of public debt and expectations coupled with subsequent adjustments also eliminate the current effect of expansionary fiscal policy. Due to negative expectations, they contribute to the realization of pessimistic forecasts.

Several studies are trying to determine the turning point in the relationship between public debt and GDP, after which the growth of that ratio would harm economic growth. Using a sample of 36 countries, 31 of which belonged to the OECD group, Mencinger et al. (2015) found that the turning point in the share of public debt in GDP of developed countries ranges from 90 to 94%, while this range for developing countries is lower and ranges between 44 and 45%. Fetai et al. (2020) investigated the marginal impact of public debt on the economic growth of European transition countries in the period from 1995 to 2017. The results indicated that the crucial ratio of public debt and GDP for the countries of Central Europe is 81.60%, for the countries of Eastern Europe 71.90%, and the region of the Western Balkans 58.20%.

Considering the described mechanism of public debt transmission to growth, such a turning point, to which public debt growth has a positive impact on economic expansion and after which the growth of public debt in GDP has a negative effect, is an empirical plane that concretizes the importance of expectations for the success of the expansionary fiscal policy. Namely, it is necessary to choose a component of public spending that generates positive expectations and triggers a positive spiral of growth in public spending and economic development.

Considering the situation caused by the coronavirus, the choice of fiscal policy instruments is of great importance for the WB region. They will mitigate the effects of the crisis and speed up the recovery. Regarding the externalities that are transferred to the economic situation in the WB region from Europe and the world, it is necessary to adjust fiscal policy to these circumstances.

[2]We have already mentioned the case of Olivier Blanchard in previous papers.

Table 7 Overview of fiscal measures according to the time dynamics of the crisis

Fiscal measures	Lockdown period	Gradual re-opening	Post-pandemic recovery
Population income support	Intensive application to help the self-employed and the poor	Transition to targeted support for those in need	Strengthening the social safety net
Unemployment support	Extending the scope and duration	Support for returning unemployment to pre-crisis levels	Reforming and strengthening the social safety net
Employment support	Support for the retention of existing jobs	Program reduction and support for labour mobility	Transition to an active labour market
Public investment	Planning the following phases of public investment	Strong support for job creation through public investment and green recovery	Raising the quality of investments with sustainable financing
Tax measures	Protecting cash flows by deferring tax payments	Targeted tax deferral	Progressive taxation

Source: adapted from IMF 2020a

Obviously, the intensity of the application of fiscal stimuli changes with the time deviation from the critical impact. Growth in the post-pandemic period will depend on the credibility and effects of the implemented measures, determined by subsequent fiscal adjustment. Note that the growth of transfers as a component of public spending during the lockdown provided partial protection of income and employment. Given the weakened international trade, this has primarily ensured the closure of effects in national economic frameworks.

Table 8 Overview of monetary and financial measures according to the time dynamics of the crisis

Monetary and financial measures	Lockdown period	Gradual re-opening	Post-pandemic recovery
Monetary policy	Quantitative easing and other unconventional monetary policy instruments	Monetary policy accommodation	Adjusting monetary policy to monetary objectives (inflation targeting)
Capital market liquidity support	Providing support to market functioning and liquidity	Preparing for the central bank to exit the support system	Gradual withdrawal of support
Liquidity support for financial institutions	Support for institutions that pass the liquidity stress test	Preparations for return to normal functioning	Providing liquidity support only when required by the monetary adjustment
Financial support to businesses	Credit guarantees	Targeted support to solvent firms	Support withdrawal
Restructuring of debts of the population	Moratorium	Reconsideration of the necessity of the moratorium and its termination or extension	Debt restructuring of companies in order to reduce their exposure

Source: adapted from IMF 2020

On the other hand, the ability to create expectations based on productive public spending that will generate growth from which can service the public debt without rising tax burdens and interest rates is crucial to the success of the expansionary fiscal policy. For WB countries, reliance on public investment as a component of public spending is a road for creating positive expectations. The arguments supporting this claim are numerous.

If we begin from a slightly broader context, following the countries in transition experiences, to which the WB countries also belong, we see that the marginal effect of public investment on economic growth is more significant than direct public procurement and transfers. Ilzetzki et al. (2009) found that public investment has a more significant impact on output growth in developing countries than in developed economies. Thus, it was estimated that in developing countries, a \$1 increase in public investment leads to a \$0.6 increase in production in the first quarter ("current multiplier"), and this increase reaches nearly \$1 in the medium term. It is very different from the effect that the growth of current public spending has on the production boost: -0.19 in the first quarter and 0.37 cumulatively. Therefore, if they want to stimulate economic activity, developing countries should increase public investment and not current public spending. It is precisely the path that developing countries should follow. They should prevent the growth of current public spending in the medium term and possibly stimulate production through faster public investments growth (Mlinarević 2013).

Research on the effects of public investment on output growth shows that public investment growth increases output both in the short and long term. It also stimulates the growth of private investment and reduces unemployment. Several factors shape the macroeconomic effects of public investment. In the conditions of monetary ease, the impact of public investments on demand is more powerful and, on the other hand, leads to a decline in the ratio of public debt and GDP. Also, the effect of public investments on growth depends on the efficiency of the investments themselves and the way they are financed. Namely, in countries with high efficiency of public investments, one-per cent growth of public investments in relation to GDP results in 2.6% growth after four years. However, in countries with low efficiency of public investments, this effect does not exceed 0.7% in the medium term. Public investments tend to be higher when financed from borrowing than when budget-neutral. Government projects financed through debt have a more potent expansionary effect than budget-neutral projects funded by increasing taxes or reducing other forms of public spending. Also, the macroeconomic effects of public investment are different depending on the economic situation. Namely, during the low growth period, public investments increase output by about half a per cent in the first and about 3% in the medium term, while during high growth rates, the effect of public investments is almost zero. These findings are consistent with rich academic material on the impacts of fiscal policy during times of recession and expansion. (Abiad et al. 2015).

Bearing in mind the previous findings of the studies, it turns out that the WB region must pursue a medium-term expansionary fiscal policy through the public investments channel. Monetary easing and financing of investments through public debt will cumulatively result in production and private investments growth, thus reducing unemployment. Note that the level of public investment in the WB region amounted to an average of 4.8% of GDP (Randjelovic 2019) in the 2001-2018 period. There is room for public investment in public infrastructure, where the WB region seriously lags behind the average of European countries. However, effective investment management should be a safeguard against the permutation of assets and objectives, i.e. investments from production support funds should not become their own pursuit. In addition to public infrastructure, through the construction of a national innovation system, public investments can have a positive impact on the country's competitiveness growth in the context of the desired functional specialization.

5. CONCLUSION

The frequency of implementation and the importance of fiscal policy as a pillar of anti-crisis interventionism have raised the need to analyse its effectiveness. The majority of the analyses followed an approach rich in form and poor in essence. Namely, the form that shaped the dominant part of the mentioned studies observed the interdependence between fiscal stimuli and economic growth at a purely statistical level. They were naturally followed by an analysis of the relationship between the level and movement of public debt and economic growth. The starting point of these approaches was the quantification of links through multiplier values and public debt thresholds. The essence of these approaches was to describe the transmission channels of expansionary fiscal policy to economic growth and to explain the mechanisms of how the transmission is achieved. We have seen that the effectiveness of fiscal policy is contextualized in a system of assumptions that include the state of the monetary sphere, the impact on the expectations of key macroeconomic subjects and the level of public debt. In that sense, following the empirical hints, the connections between monetarily eased conditions and the stronger contribution of fiscal stimuli to output growth were established, as well as the different impact of the application of certain components of public spending on the formation of positive expectations of consumers and investors. It turned out that the increase of public spending through the growth of public investments financed from public debt, in conditions of low growth and with efficient management, is a key channel through which it is possible to influence the expectations of consumers and investors resulting in the boost of consumption and investment. Due to the high multiplier of public investments in monetarily eased conditions, a higher rate of output growth concerning the interest rate leads to a decline in the public debt ratio in relation to GDP. The growth of outputs with the accompanying reduction of employment and the decline of this ratio prolongs the effects of expansive fiscal instruments, creating the basis for sustainable growth. These findings are extremely important for shaping fiscal policy in the WB region and determining the level at which its achievements in the economic convergence process will be quite significant. The presence of room for the realization of public investments, along with raising their efficiency, eliminates the subsequent pressure of public debt on the necessity of later fiscal consolidation and the related exhaustion of the effects of fiscal policy on economic growth. A well-designed expansionary fiscal policy can mitigate the ongoing effects of the coronavirus crisis and significantly shorten the recovery period.

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