

FISCAL CONSOLIDATION COMPOSITION AND PUBLIC DEBT SUSTAINABILITY IN WESTERN BALKAN COUNTRIES: EVIDENCE FROM A STRUCTURED LITERATURE REVIEW

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Abstract: *This paper examines whether expenditure-based fiscal consolidation produces more favorable public debt sustainability outcomes than tax-based adjustment in Western Balkan countries. The analysis is based on a structured review of empirical studies dealing with fiscal consolidation, debt dynamics, and macroeconomic performance in Albania, Bosnia and Herzegovina, Montenegro, North Macedonia, and Serbia. In order to better interpret the regional experience, the paper also draws on selected comparative evidence from broader studies on transition economies and OECD countries. The reviewed literature suggests that the composition of fiscal adjustment matters considerably for debt sustainability outcomes. Consolidation strategies relying primarily on expenditure restraint appear to be associated with more durable debt reduction and lower macroeconomic costs than tax-based adjustments. By contrast, revenue-based or mixed packages often coincide with weaker debt stabilization effects, especially when implemented in fragile macroeconomic environments. The findings further indicate that expenditure-based adjustment is more likely to support debt sustainability when it targets inefficient or non-productive current spending while preserving public investment relevant for long-term growth. The paper also argues that the effects of fiscal consolidation in the Western Balkans cannot be understood independently of broader structural*

conditions. Initial debt levels, fiscal space, institutional quality, growth dynamics, and the composition of public expenditure all shape the final outcomes of consolidation efforts. The contribution of the paper lies in integrating fragmented empirical findings into a coherent analytical narrative that explains why expenditure-based consolidation appears to be the more suitable strategy for improving debt sustainability in small, open, and institutionally constrained economies of the region

Key words: *fiscal consolidation, public debt sustainability, expenditure-based adjustment, tax-based adjustment, Western Balkans*

JEL classification: E62, E65, H62, H63, O52

1. INTRODUCTION

Public debt sustainability has become one of the most important policy concerns in the Western Balkans over the past two decades. The global financial crisis, the sovereign debt tensions in Europe, and the fiscal consequences of the pandemic all intensified pressures on already vulnerable public finances. In such an environment, governments have repeatedly faced the challenge of reducing fiscal imbalances while preserving macroeconomic stability and avoiding

excessive harm to economic growth (Bartlett & Prica, 2018; Kamberi & Bexheti, 2025).

In the literature on fiscal adjustment, a central question is whether the composition of consolidation matters for the success of debt reduction. More specifically, scholars have long debated whether expenditure-based consolidations are more effective than tax-based adjustments in restoring fiscal balance and placing public debt on a more sustainable path. This issue is especially relevant for Western Balkan countries, where fiscal policy is conducted under conditions of limited fiscal space, modest growth potential, institutional fragility, and strong exposure to external shocks (Alesina et al., 2019; Bartlett & Prica, 2018).

Although a substantial international literature examines the relative performance of expenditure-based and tax-based consolidation, evidence for the Western Balkans remains more fragmented. Existing studies differ in country coverage, time span, methodology, and analytical depth. Some focus on individual countries, while others analyze the region as a whole or use broader comparative frameworks that include transition or advanced economies. Because of this fragmentation, there is clear analytical value in bringing these findings together and assessing whether a common pattern can be identified across selected Western Balkan countries (Kamberi & Bexheti, 2025; Krajišnik et al., 2019; Đurović-Todorović & Đorđević, 2015).

Against this background, the aim of this paper is to examine whether expenditure-based fiscal consolidation generates more favorable public debt sustainability outcomes than tax-based adjustment in selected Western Balkan countries. Rather than offering a new econometric estimation, the paper relies on a structured review of the available empirical literature. The objective is to identify common conclusions, compare country experiences, and explain the mechanisms through which different forms of fiscal adjustment affect debt dynamics. Particular attention is devoted to the interaction between fiscal consolidation, economic growth, expenditure structure, and institutional constraints.

2. METHODOLOGY

This paper is based on a structured review of empirical literature dealing with fiscal consolidation and public debt sustainability in the Western Balkans. The underlying research logic is guided by the question of whether spending cuts and tax increases generate different debt sustainability outcomes. The final synthesis presented here focuses on Albania, Bosnia and Herzegovina, Montenegro, North Macedonia, and Serbia, in order to maintain a more consistent

comparative framework. Studies with broader regional coverage are used only when they offer relevant contextual or comparative insights for interpreting the evidence on the selected country group (Kamberi & Bexheti, 2025; Bartlett & Prica, 2018).

The studies included in the discussion were assessed according to several dimensions: country coverage, period of analysis, type of fiscal consolidation, debt sustainability outcomes, and macroeconomic implications of different adjustment strategies. Particular attention was paid to whether a given study allowed a meaningful comparison between expenditure-based and tax-based adjustment, either directly or indirectly through country-specific findings. In addition, broader comparative works were retained when they offered robust insights into the mechanisms linking consolidation composition and debt dynamics (Alesina et al., 2019; Mirdala, 2013).

The purpose of the review is not to conduct a formal meta-analysis, but to synthesize the available evidence in a structured and interpretative manner. This is especially important in a field where the number of strictly comparable studies remains limited and where the effects of fiscal consolidation are strongly conditioned by country-specific circumstances. For that reason, the analysis places equal emphasis on empirical outcomes and on the contextual factors shaping them, including initial debt levels, growth conditions, institutional capacity, and the composition of public expenditure (Kamberi & Bexheti, 2025; Bartlett & Prica, 2018).

3. LITERATURE BACKGROUND AND ANALYTICAL FRAMEWORK

The broader literature on fiscal consolidation suggests that not all adjustment strategies have the same macroeconomic consequences. A significant part of the debate has focused on whether the reduction of public expenditure produces smaller output costs than increasing taxes, and whether this difference translates into more favorable debt dynamics. Comparative international evidence repeatedly shows that expenditure-based consolidations tend to be less contractionary and more successful in stabilizing or reducing debt-to-GDP ratios than tax-based plans. This broader literature provides an important analytical foundation for interpreting the Western Balkan experience (Alesina et al., 2019; Mirdala, 2013).

For the Western Balkans, the relevance of consolidation composition is even greater because these economies are small, open, and structurally vulnerable. Their room for fiscal maneuver is limited, capital markets are relatively shallow, and growth often depends on fragile domestic demand,

external financing, and political stability. Under such conditions, the macroeconomic cost of tax increases may be especially pronounced, while the effectiveness of spending cuts depends crucially on what types of expenditure are reduced (Bartlett & Prica, 2018; Kamberi & Bexheti, 2025).

The analytical framework of this paper therefore rests on a simple but important premise: fiscal consolidation affects debt sustainability not only through the arithmetic reduction of deficits, but also through its impact on the broader macroeconomic environment. If a certain type of adjustment reduces deficits but significantly harms output, employment, or private investment, the resulting deterioration in GDP may offset the expected improvement in the debt ratio. Conversely, if consolidation is designed in a way that minimizes growth losses and strengthens confidence in fiscal policy, debt sustainability may improve more durably even when the immediate budgetary effect is similar (Alesina et al., 2019)

Table 1. Overview of Selected Empirical Studies on Fiscal Consolidation

Study	Countries studied	Time period	Research focus
Kamberi & Bexheti (2025)	Albania, Bosnia and Herzegovina, Montenegro, North Macedonia, Serbia	2000-2023	Public debt impact and consolidation effects on growth
Bartlett & Prica (2018)	Albania, Bosnia and Herzegovina, Montenegro, North Macedonia, Serbia	~2008	Debt evolution in EU super-periphery context
Mirdala (2013)	10 European transition economies (not specific Western Balkans)	2000-2012	Tax vs expenditure-based consolidation lessons
Alesina et al. (2019)	16 high-income OECD economies	Late 1970s-2014	Expenditure vs tax-based austerity effects
Đurović-Todorović & Đorđević (2015)	Serbia	Not specified (recent years)	Fiscal consolidation results in Serbia

Krajišnik et al. (2019)	Albania, Bosnia and Herzegovina, Croatia, Montenegro, North Macedonia, Serbia	2004-2016	Fiscal consolidation effects on growth in Western Balkans
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Source: Authors

4. FISCAL CONSOLIDATION PATTERNS IN WESTERN BALKAN COUNTRIES

The reviewed literature shows that fiscal consolidation strategies in the Western Balkans were far from uniform. Different countries adopted different combinations of expenditure cuts and revenue increases, and these differences were closely related to the eventual outcomes of adjustment. Regional studies identify clear variation in both the composition and intensity of consolidation measures across the observed economies (Kamberi & Bexheti, 2025; Krajišnik et al., 2019).

Among the countries covered in the reviewed studies, Serbia and Bosnia and Herzegovina stand out as cases more strongly associated with expenditure-based consolidation. In Serbia, fiscal adjustment is generally discussed as relying heavily on expenditure-side correction, while Bosnia and Herzegovina is also frequently linked with stronger reliance on spending restraint. Albania and Montenegro, by contrast, are more often described through mixed packages, whereas North Macedonia appears more closely associated with revenue-oriented adjustment. These distinctions matter because the literature consistently suggests that the composition of consolidation influences both the short-run macroeconomic cost and the long-run implications for debt sustainability (Krajišnik et al., 2019; Đurović-Todorović & Đorđević, 2015; Kamberi & Bexheti, 2025).

Another important point emerging from the literature is that expenditure-based consolidation cannot be treated as a single uniform category. Its effects depend on which spending items are reduced. Cuts in inefficient current expenditure, poorly targeted transfers, or politically motivated spending may have very different consequences from cuts in public investment, infrastructure, or other growth-enhancing expenditures. For that reason, the empirical superiority of expenditure-based consolidation should be interpreted as conditional rather than automatic. It appears most convincing when the structure of spending cuts remains compatible with medium-term growth and

institutional credibility (Alesina et al., 2019; Kamberi & Bexheti, 2025).

Although the available domestic literature on fiscal consolidation is most developed in the case of Serbia, these studies provide a useful analytical reference for understanding broader fiscal consolidation patterns in the Western Balkans. Serbia represents one of the most relevant regional examples of post-crisis fiscal adjustment, as it faced rising public debt, persistent fiscal deficits and the need to restore fiscal credibility after the global financial crisis. In this context, Petrović and Brčerević (2014) argue that fiscal consolidation was a necessary precondition for avoiding a public debt crisis and establishing a more stable basis for future economic growth. Similarly, Arsić (2012) emphasises that fiscal consolidation was necessary to prevent further public debt growth, while also warning that adjustment measures should not

undermine the core functions of the state. The Serbian experience is therefore not treated as fully representative of all Western Balkan countries, but as an illustrative case that helps explain the common fiscal challenges faced by the region: high post-crisis deficits, increasing public debt, limited fiscal space and the need to balance stabilisation objectives with growth and social considerations. Petrović, Brčerević and Minić (2017) further show that the success of fiscal consolidation depended not only on planned fiscal measures, but also on favourable external conditions and stronger-than-expected revenue collection. Arsić (2013) also points out that economic recovery alone was not sufficient to ensure fiscal consolidation, which is particularly relevant for Western Balkan economies where growth is often volatile and strongly dependent on external conditions.

Table 2. Overview of Fiscal Consolidation Episodes and Measures

Country	Consolidation type	Magnitude (% of GDP)	Timeline	Specific measures
Albania	Mixed approach	Revenue +3.71%, expenditure -4.34%	2014-2016, 2018-2019	Both revenue increases and spending reductions
Bosnia and Herzegovina	Spending-based	Expenditure -6.12%; - 1.8 pp decrease	2012-2014, 2016-2017	Spending reductions
Montenegro	Mixed approach	Revenue +5.25%, expenditure -3.53%; - 0.2 pp decrease	2017-2019	Revenue increases and spending reduction
North Macedonia	Revenue-based	Revenue +4.47%; expenditure -0.3 pp	2012-2014, 2017-2019	Revenue increases
Serbia	Spending-based	Expenditure -4.73%, revenue +0.9%; -1.4 pp decrease	2014-2016, 2017-2019	Expenditure reductions with minimal revenue adjustments

Source: Author's compilation based on official data published by the ministries of finance of the selected countries

The identified episodes of fiscal consolidation (Table 2.) in the Western Balkan countries show that the approaches differed not only in terms of intensity and timing, but, more importantly, in the structure of the measures through which adjustment was achieved. The table indicates that some countries relied primarily on expenditure-based consolidation, others on revenue-based adjustment, while a third group applied a mixed approach. This distinction is important from the perspective of economic logic, since the composition of consolidation largely determines its effects on economic activity, social stability, and the long-term sustainability of public finances.

In Bosnia and Herzegovina and Serbia, expenditure-based consolidation appears to have been the dominant strategy, suggesting that fiscal adjustment was pursued mainly through restraining public spending. In the literature, this type of approach is often regarded as more conducive to durable fiscal correction, as it directly targets the sources of fiscal pressure and may contribute to debt stabilization without significantly increasing the tax burden. At the same time, its effectiveness depends on the composition of expenditure cuts. If the adjustment is concentrated on inefficient or non-productive spending, its long-term effects may be favorable; however, if it affects development-oriented or socially sensitive expenditures, it may

weaken aggregate demand and slow economic growth.

By contrast, North Macedonia relied more strongly on a revenue-based approach, indicating that fiscal correction was primarily achieved through strengthening government revenues rather than through deeper expenditure restraint. The economic rationale behind such a strategy usually lies in preserving public spending, especially when governments seek to maintain social transfers or development-related expenditures. Nevertheless, revenue-based consolidation may face important limitations if it depends mainly on higher tax burdens, as this can discourage investment, reduce private consumption, and weaken incentives for economic activity.

Albania and Montenegro display the characteristics of a mixed approach, combining revenue increases with expenditure reductions. From the perspective of fiscal policy, such a model often reflects an attempt to distribute the burden of adjustment across both sides of the budget, thereby avoiding excessive reliance on a single instrument. Mixed consolidation may be particularly useful in situations of pronounced fiscal imbalance, as it provides broader room for deficit correction. However, its effectiveness depends on the quality of the specific measures adopted: revenue-side adjustment tends to be more sustainable when based on broadening the tax base and improving tax collection, while expenditure-side correction is more credible when it focuses on rationalizing inefficient spending rather than reducing productive public investment.

From a comparative perspective, the table suggests that there was no single fiscal consolidation pattern across the Western Balkans. Instead, strategies were shaped by country-specific fiscal constraints, institutional capacities, and broader macroeconomic conditions. For that reason, the economic logic of these measures cannot be understood solely through their size, but rather through the question of how fiscal correction was implemented and what structural consequences it produced for public finances and economic performance.

5. DEBT SUSTAINABILITY OUTCOMES AND CROSS-COUNTRY DIFFERENCES

The available evidence suggests that countries relying more heavily on expenditure-based consolidation generally recorded more favorable debt sustainability outcomes than those relying predominantly on tax increases or mixed approaches. Serbia is one of the clearest examples in the literature, where stronger expenditure restraint is associated with a more successful correction of fiscal imbalances. Bosnia and

Herzegovina also appears comparatively more favorable, while Montenegro and North Macedonia are discussed less positively in settings where the structure of adjustment was weaker or more revenue-oriented. Albania occupies a more mixed position, with evidence of debt correction but less uniform assessment of overall consolidation success (Krajišnik et al., 2019; Kamberi & Bexheti, 2025). What is especially important here is that the reviewed studies do not assess success solely through the short-run reduction of deficits. Instead, they connect fiscal correction to broader debt dynamics, the durability of adjustment, and the macroeconomic conditions under which consolidation was implemented. This is crucial because a country may improve its headline fiscal position temporarily, yet still fail to achieve durable debt stabilization if consolidation is accompanied by weak growth, social pressures, or renewed fiscal slippages (Bartlett & Prica, 2018; Kamberi & Bexheti, 2025).

The broader comparative literature reinforces these conclusions. International studies show that expenditure-based adjustment typically produces smaller output losses than tax-based consolidation and therefore creates a more favorable environment for debt stabilization. This matters directly for debt sustainability because the debt-to-GDP ratio depends not only on fiscal deficits and borrowing needs, but also on the path of GDP itself. If tax-based adjustment generates a deeper recession, the denominator effect may weaken or even reverse the intended improvement in debt indicators (Alesina et al., 2019).

Table 3. Debt Dynamics, Consolidation Outcomes and Sustainability Indicators

Country	Debt-to-GDP changes	Consolidation success	Sustainability indicators
AL	73.32% to 69.92%	Not successful in 2016	0.7 pp expenditure decrease
BiH	Not specified	Successful and expansive in 2015	1.8 pp expenditure decrease
MNE	Not specified	Not successful nor expansive in 2014	0.2 pp expenditure decrease
MK	Not specified	Not successful or expansive	Threshold at 52-55% of GDP
SRB	Decrease by 15%	Successful and expansive in	1.4 pp expenditure

Country	Debt-to-GDP changes	Consolidation success	Sustainability indicators
		2015	e decrease

Source: Authors

6. WHY EXPENDITURE-BASED ADJUSTMENT APPEARS MORE EFFECTIVE

One of the main contributions of the reviewed literature is that it does not stop at reporting different outcomes, but also offers explanations for why expenditure-based consolidation tends to perform better than tax-based adjustment. The first explanation relates to growth effects. Spending cuts, especially when concentrated in less productive expenditure categories, are often found to be less harmful to economic activity than tax increases. Tax hikes directly affect households and firms by reducing disposable income, profitability, and incentives for consumption and investment. In economies with already fragile private sectors, such as those in the Western Balkans, these effects may be especially strong (Alesina et al., 2019; Bartlett & Prica, 2018).

A second mechanism concerns expectations and credibility. Expenditure-based consolidation may signal a more durable commitment to fiscal discipline, particularly when it is perceived as correcting structural weaknesses in public finances rather than merely extracting additional revenue from a narrow tax base. This can matter for borrowing costs, market confidence, and broader perceptions of fiscal sustainability. In that sense, the composition of adjustment affects not only the fiscal balance directly, but also the environment in which debt is financed and rolled over (Krajišnik et al., 2019; Alesina et al., 2019).

A third explanation concerns the structure of the state itself. In several Western Balkan countries, public expenditure has historically included components that are inefficient, politically driven, or weakly connected to development priorities. In such settings, consolidation through selective expenditure rationalization may serve a dual purpose: it reduces fiscal pressure and improves the quality of spending. This point is important because it shifts the debate away from the simplistic idea that all spending cuts are beneficial. The more defensible conclusion is that expenditure-based consolidation is more effective when it is selective, institutionally credible, and designed to protect productive expenditure

(Kamberi & Bexheti, 2025; Bartlett & Prica, 2018).

This also helps explain why mixed or revenue-oriented strategies often underperform. If governments raise taxes without simultaneously addressing expenditure rigidities, the immediate fiscal gain may be offset by weaker private-sector activity and persistent structural weaknesses on the spending side. In that case, debt sustainability improves less than expected, and the political cost of adjustment may become harder to sustain over time (Alesina et al., 2019; Mirdala, 2013).

7. THE IMPORTANCE OF INITIAL CONDITIONS AND STRUCTURAL CONSTRAINTS

The literature also makes clear that the success of fiscal consolidation depends heavily on the conditions under which it is implemented. Policy composition matters, but it does not operate in a vacuum. Initial debt levels are one important determinant. Countries starting from moderate debt positions may have more room to implement gradual consolidation without destabilizing growth, while countries facing already elevated debt burdens may be under pressure to adjust more aggressively. At the same time, higher debt often makes consolidation more difficult because macroeconomic conditions are less favorable and fiscal credibility may already be under strain (Kamberi & Bexheti, 2025).

Growth conditions matter as well. Consolidation implemented during periods of recovery may be less damaging than consolidation introduced in deep downturns. This is one reason why the literature does not interpret all expenditure-based consolidations as universally expansionary. Their relative success depends on timing, composition, and the broader phase of the business cycle. Even so, the reviewed evidence suggests that, when a choice must be made, spending-based consolidation tends to be less damaging than tax-based alternatives (Alesina et al., 2019; Mirdala, 2013).

Institutional quality is another key factor. The Western Balkans are often described as economies with limited administrative capacity, uneven policy credibility, and political economy constraints that complicate the implementation of durable fiscal reform. In such settings, the technical design of consolidation may be sound, but the political capacity to implement and sustain it may be weak. This helps explain why some consolidation attempts fail to deliver lasting debt improvements even when the nominal measures appear substantial on paper (Bartlett & Prica, 2018).

Finally, structural economic features of the region amplify the risks of poorly designed adjustment. Small domestic markets, external dependence, shallow financial sectors, and relatively weak productivity growth all limit the space for absorbing contractionary fiscal measures. This makes the composition of consolidation especially important. Measures that undermine domestic demand too strongly may quickly produce negative spillovers across the economy, while measures aimed at rationalizing public expenditure may generate more balanced outcomes if designed carefully (Bartlett & Prica, 2018; Kamberi & Bexheti, 2025).

8. DISCUSSION

Taken together, the reviewed literature supports a relatively clear conclusion: expenditure-based fiscal consolidation tends to produce more favorable public debt sustainability outcomes in selected Western Balkan countries than tax-based adjustment. However, this conclusion should not be interpreted mechanically. The literature does not suggest that any reduction in expenditure will automatically improve debt sustainability, nor that tax measures are always ineffective. What it does show is that, under the structural conditions typical of the Western Balkans, debt reduction is more likely to be durable when fiscal adjustment is centered on the expenditure side, particularly when it targets inefficient current spending and preserves development-relevant investment (Alesina et al., 2019; Krajišnik et al., 2019; Kamberi & Bexheti, 2025).

This conclusion is important for two reasons. First, it highlights that fiscal consolidation should not be assessed solely through its immediate budgetary effect. A strategy that narrows the deficit in the short run but generates a deeper downturn may fail in terms of long-run debt stabilization. Second, it shows that public debt sustainability is ultimately a dynamic concept. It depends not only on fiscal effort, but on the interaction between fiscal effort, economic growth, institutional credibility, and the quality of public spending (Alesina et al., 2019; Bartlett & Prica, 2018).

The Western Balkan cases underline this interaction well. Where consolidation relied more heavily on expenditure restraint and where the adjustment appeared more credible and structurally grounded, debt outcomes were generally more favorable. Where adjustment relied more on taxes or on mixed measures without a convincing correction of expenditure rigidities, the results were weaker, less durable, or more costly in macroeconomic terms. From a policy perspective, this suggests that fiscal consolidation in the region should be designed less as a short-run revenue

extraction exercise and more as a broader restructuring of public finances (Krajišnik et al., 2019; Kamberi & Bexheti, 2025).

CONCLUSION

This paper set out to examine whether expenditure-based fiscal consolidation produces more favorable public debt sustainability outcomes than tax-based adjustment in selected Western Balkan countries. The review of the available literature suggests that the composition of fiscal adjustment is not a secondary issue, but one of the key factors shaping the final outcome of consolidation efforts.

The overall picture that emerges is that expenditure-based consolidation tends to offer more favorable prospects for debt stabilization than adjustment based primarily on revenue increases.

This does not mean that every spending cut automatically leads to success, nor that tax measures are always ineffective. Rather, the evidence indicates that consolidation is more likely to support debt sustainability when it is built around a careful reduction of inefficient current expenditure, while preserving those public expenditures that are important for growth, investment, and longer-term development.

At the same time, the paper shows that debt sustainability cannot be improved through fiscal tightening alone.

The effects of consolidation depend on the broader economic and institutional environment in which it is implemented. Initial debt levels, weak growth, structural vulnerabilities, and limited institutional capacity can all reduce the effectiveness of adjustment, even when the selected measures appear appropriate in principle. For that reason, the success of fiscal consolidation in the Western Balkans should be understood as the result of both policy composition and policy context.

Viewed more broadly, the findings suggest that sustainable fiscal adjustment in the region requires more than short-term deficit correction. It requires a consistent and credible restructuring of public finances, a clearer distinction between productive and unproductive expenditure, and a policy approach that takes into account the balance between fiscal discipline and economic development. In that sense, expenditure-based consolidation appears to be the more suitable route for improving public debt sustainability in selected Western Balkan countries, particularly where governments aim to restore fiscal stability without imposing unnecessarily high costs on economic activity.

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