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THE IMPACT OF CURRENT AND CAPITAL EXPENDITURES ON THE BUDGET DEFICIT IN WESTERN BALKAN COUNTRIES

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Abstract: This paper examines the impact of public expenditure structure on the budget deficit in Western Balkan countries over the period 2008–2023. Particular attention is given to the differentiated effects of current and capital expenditures, which are considered key drivers of fiscal (im)balance in the region. Using panel regression analysis, a comparative evaluation of three models—Pooled OLS, REM, and FEM—was conducted. Based on the results of the Breusch-Pagan LM and Hausman tests, the random effects model (REM) was identified as the most appropriate. The findings indicate that current expenditures have a negative and statistically significant effect on the budget deficit, while capital expenditures do not demonstrate a significant association. These results highlight the need to rationalize current spending and shift toward investment-oriented expenditures as a mechanism for achieving long-term fiscal sustainability.

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1. Introduction

In the context of growing uncertainty and significant fiscal pressures globally, the issue of budgetary balance has become one of the key challenges in the economic policies of all developing countries. As a main generator of fiscal imbalance, the budget deficit comes into focus as an indicator of long-term fiscal stability. Although the budget deficit is often analyzed in the context of total expenditures and revenues, less attention is paid to the structure of the revenue and expenditure

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sides of the budget, particularly the distinction between current and capital expenditures. In the Western Balkans, fiscal policy often has a pro-cyclical character, which further complicates efforts to maintain fiscal sustainability.

The aim of this paper is to empirically examine whether and to what extent current and capital expenditures affect the budget deficit in the countries of the Western Balkans during the period from 2008 - 2023. Using panel regression analysis, the paper seeks to determine whether capital and current expenditures have a statistically significant impact on the dynamics of the budget deficit and evaluate their regressive power. The obtained results can serve as a basis for more precise definition of fiscal policy and rationalization of public spending in the Western Balkans region.

2. Literature Review

The budget deficit, as a component of public debt sustainability, represents a central issue in contemporary economic discussions within the field of public finance. The empirical trend of shortening economic cycles in recent decades has significantly intensified public spending during recession phases to preserve economic activity. This trend has created a clear need to explore the determinants of the budget deficit, particularly its dependence on the structure of public spending. Contemporary fiscal debates focus on whether all forms of public expenditures equally affect fiscal balance, and within this context, research on how the budget deficit reacts to changes in current and capital expenditures.

In order to more precisely assess the fiscal position of a country, modern public finance theory segments the budget deficit into three key forms - nominal, cyclical, and primary - which somewhat complicates its study. However, leading international institutions (IMF, World Bank, European Commission) increasingly emphasize the need for qualitative restructuring of the expenditure side of the budget and evaluating the impact of its components on the deficit, all in the aim of achieving long-term fiscal sustainability.

According to Blanchard & Johnson (2013), the difference between the nominal and primary deficit lies in the fact that the primary deficit excludes interest payments on public debt from total budgetary expenditures, thus measuring the actual fiscal effort of the state, independent of the burden of previous borrowing. On the other hand, the cyclical deficit represents the difference between public revenues and expenditures in conditions where economic activity is at its potential level, i.e., when the effects of the economic cycle (recession or expansion) are eliminated. Fiscal sustainability does not depend solely on the existence of a deficit, but on the relationship between interest on debt and GDP growth (r - g), as well as the level of the primary deficit. If the interest-growth differential is negative ($r < g$), and the primary deficit is low or moderately positive, the debt can be sustainably serviced without the need for fiscal contraction. Also, the cyclical deficit does not jeopardize fiscal stability as long as it results from temporary measures and as long as in prosperous economic phases the cycle can generate a surplus that compensates for it.

Looking at the European Union countries, it can be concluded that fiscal authorities are more inclined to implement consolidation measures in conditions of rapid public debt growth, with the primary surplus often functioning as a response mechanism to fiscal pressures (Afonso & Hauptmeier, 2009). A similar conclusion was reached by Bohn (1998), examining the fiscal consolidation processes in the United States. A key finding of this research is that fiscal authorities use the primary surplus as a response to changes in the debt situation, where reduction of spending and increased revenue serve as a corrective factor to rising borrowing. In its 2012 report, the OECD emphasized that the fiscal consolidation process predominantly involves reducing public expenditures, with the most affected budgetary areas being social protection, healthcare, pensions, and infrastructure, while only a third consists of tax increases (OECD, 2012). This structure of consolidation measures indicates that most countries aim to achieve long-term fiscal sustainability primarily through expenditure rationalization, rather than increasing tax burdens. It should be noted that the success of consolidation measures can be significantly limited due to the discontinuous and pro-cyclical relationship between structural deficits and traditional indicators (Carnot & De Castro, 2015).

Kukaj (2023) finds that the budget deficit has a positive impact on economic growth in the countries of the Western Balkans, which the author associates with the stimulative effects of fiscal expansion in line with Keynesian theoretical frameworks. These findings were confirmed by regression analyses with fixed and random effects, including the Hausman-Taylor model. However, it should be noted that the countries of the Western Balkans exhibit a pronounced tendency to increase public spending when budget revenues rise, which further complicates efforts to achieve fiscal sustainability. As pointed out by Koczan (2015), growing cyclical revenues and one-time privatization revenues increased the appetite for spending, particularly during election periods, leading to significant increases in expenditures on public sector wages, pensions, and infrastructure projects. Such behavior indicates a dominant pro-cyclical approach to fiscal policy, where fiscal surpluses during growth periods are used to increase spending, rather than to reduce the deficit and stabilize public finances. Econometric analysis confirms that public expenditures in the Western Balkan countries showed lower sensitivity to macroeconomic conditions and debt levels compared to EU member states, and that a larger portion of expenditure was the result of discretionary decisions that cannot be explained by business cycles. This fiscal pattern contributes to the structural deepening of the deficit and complicates the implementation of stabilization measures in recession phases.

With regard to institutional mechanisms for fiscal discipline, particular attention should be paid to fiscal rules as instruments for long-term control of the budget deficit and public debt. The study by Kikoni et al. (2019) indicates that while the countries of the Western Balkans have adopted fiscal rules (except for North Macedonia), they have only managed to adhere to them in slightly more than half of the cases. Limited understanding of fiscal rules among citizens further reduces political pressure to enforce them. The authors specifically highlight that countries with high levels of debt, such as Albania and Montenegro, will need to demonstrate greater fiscal discipline and frequently implement measures that go beyond the minimum required by deficit rules. Greater transparency, simplification of rules in comparison with the complex EU frameworks, and improvement of public financial management are recommended to make fiscal rules a more effective instrument for fiscal stability in the region.

Based on the analysis of relevant literature, it can be concluded that the structure of public spending plays a crucial role in shaping fiscal balance, with current and capital expenditures having a differentiated impact on the budget deficit. Although theoretical and empirical findings point to the need for greater share of productive (capital) expenditures in total spending, fiscal policies in the Western Balkans are often characterized by pro-cyclical patterns and the limited effectiveness of fiscal rules. Insufficient fiscal discipline, low transparency, and politically motivated spending further complicate efforts to achieve sustainable budgetary policies. For these reasons, there is a clear research need to empirically examine the impact of various components of public expenditure on the budget deficit in this region, which represents the primary objective of this paper.

3. Methodological Approach to Research

The aim of this research is to examine how current and capital expenditures of the government affect the budget deficit in the countries of the Western Balkans. The sample includes five countries from this region, according to the OECD classification: Serbia, Montenegro, North Macedonia, Bosnia and Herzegovina, and Albania (OECD, n.d.), and the observation period covers the years from 2008 to 2023. The selected group of countries shares a similar institutional frameworks and fiscal constraints, and each of the observed countries faces limited access to international capital markets and encounters identical exogenous economic challenges, making them suitable for panel data regression analysis (Baltagi, 2021). The panel dataset consists of 80 observations (N = number of countries x number of years), and the analysis was conducted using **SPSS** and **Excel** software packages.

The panel data include budget deficits and capital and current expenditures of the observed countries, expressed as a percentage of nominal GDP. The data used in this research were collected from the official websites of the Ministries of Finance of Serbia, North Macedonia, and Albania, while data for Montenegro and

Bosnia and Herzegovina were gathered from the official websites of their respective governments. According to the nature of the research, the budget deficit is used as the dependent variable in the model, while current and capital expenditures are treated as regressors.

Based on the theoretical framework and previous research, the following hypotheses were formulated in this paper:

- **H0 (null hypothesis)** - Capital and current expenditures have no statistically significant impact on the budget deficit.
- **H1 (alternative hypothesis)** - Capital and/or current expenditures have a statistically significant impact on the budget deficit.

The functional form of the regression model applied can be represented as follows:

$$\mathbf{Deficit_{i,t,} = \beta_0 + \beta_1 * Capital_{i,t} + \beta_2 * Current_{i,t} + \mu_{i,t}} \quad (1)$$

where:

• k - country index

• t - year index

• β - regression parameter coefficients

• $\mu_{i,t}$ - error term

In the research, three panel regression models were applied: the pooled model (**Pooled OLS**), the random effects model (**REM**), and the fixed effects model (**FEM**). Pooled OLS represents the starting framework of the analysis, allowing the estimation of the total impact of the regressors without controlling for country-specific characteristics. In the REM model, the assumption is integrated that individual country specifics are random and uncorrelated with the regressors, whereas the FEM model is designed to control for time-invariant characteristics of individual countries. The selection of the most appropriate model in the research was conducted based on **Breusch-Pagan LM and Hausman tests**. The Breusch-Pagan LM test was used to examine the justification for applying the Pooled OLS or REM models, whereas the Hausman test was performed to select the appropriateness of applying the REM or FEM model.

4. Model Analysis and Conducted Tests

This chapter presents the results of the panel data regression analysis for five countries of the Western Balkans region: Serbia, Montenegro, North Macedonia, Bosnia and Herzegovina, and Albania. The research covers the period from 2008 to 2023 and is based on annual indicators, overcoming the methodological drawbacks of quarterly series, which are characterized by high volatility, frequent ex post revisions, and limitations in controlling autoregressive patterns.

The aim of the research was to examine whether capital and current expenditures have a statistically significant impact on the budget deficit in the observed countries, as well as to quantify the direction and intensity of that impact within different panel regression models. The research included three standard approaches in panel data regression: the pooled model (Pooled OLS), rthe andom effects model (REM), and the fixed effects model (FEM), with the selection of the most appropriate model being conducted through the Breusch-Pagan LM and Hausman tests.

As an initial step in the research, the pooled model (Pooled OLS) was conducted to examine all observations without accounting for the individual specifics of the countries in the observed group. The application of this model allows for determining the basic effect of capital and current expenditures on the budget deficit, considering the sample of countries as a homogeneous entity. The results of the conducted pooled model (Pooled OLS) are presented in **Table 1**.

Table 1 – Results of the Pooled OLS Regression

Variable	Coefficient (B)	Std. Error	t-value	p-value
(Constant)	-0.449	0.725	-0.619	0.538
Capital_Expenditures	0.063	0.134	0.474	0.637
Current_Expenditures	-0.139	0.032	-4.305	0.000
R^2	0.197			
Number of observations	80			

Source: Calculated by the author

Table 1 shows that the coefficient of determination is $\mathbf{R^2 = 0.197}$, indicating that the applied pooled regression model (Pooled OLS) explains approximately 20% of the variation in the budget deficit caused by the impact of capital and current expenditures.

The model confirms that current expenditures are a statistically significant regressor **(p-value = 0.000)** and are negatively correlated with the budget deficit expressed as a percentage of GDP ($\boldsymbol{\beta} = \mathbf{-0.139}$). In other words, current expenditures are a key determinant of fluctuations in the budget deficit in the observed countries, where an increase in current expenditures by 1 percentage point leads to a rise in the budget deficit by **0.139** percentage points (ceteris paribus), which aligns with economic logic.

On the other hand, capital expenditures were not statistically significant variable in this model (**p-value = 0.637**), which can be explained by the existence of a *time lag*, off-budget financing of capital projects, or appropriate selection of capital projects that results in nominal GDP growth outpacing the increase in the budget deficit (caused by capital spending).

Although it provides certain insights into the direction and intensity of the expenditure-deficit relationship, the pooled model (Pooled OLS) does not control for heterogeneity among countries.

For this reason, the analysis proceeds with the application of the random effects (REM) and the fixed effects model (FEM), which enable a more robust and reliable economic interpretation of the results.

To improve the validity of the obtained results, the next step involves applying the random effects model (REM), which allows for control of country-specific characteristics that do not change over time and are not explicitly included in the model. This model assumes that the country-specific effects are uncorrelated with the independent variables, thereby enabling a more efficient estimation of the parameters while retaining both the time and spatial dimensions of the data. The results of the random effects model (REM) are presented in **Table 2.**

Table 2 – Results of the REM Regression

Variable	**Coefficient (B)**	**Std. Error**	**t-value**	**p-value**
(Constant)	5.425	2.445	2.219	0.070
Capital_Expenditures	-0.083	0.161	-0.517	0.606
Current_Expenditures	-0.408	0.097	-4.217	0.001

$R^2 = 0.341$

Number of observations = 80

Source: Calculated by the author

From **Table 2**, it can be concluded that the random effects model (REM) provides a better explanation of the relationship between the defined regressors and the dependent variable compared to the pooled model (Pooled OLS), given that the coefficient of determination in this model is **R^2 = 0.341**. This means that the REM explains 34.1% of the variation in the budget deficit. As in the previous model, current expenditures proved to be a statistically significant (**p = 0.001**) and negatively correlated variable (**β = -0.408**). This finding further confirms that current expenditures are a key factor contributing to the deterioration of fiscal balance in the observed countries. On the other hand, the coefficient for capital expenditures is **-0.083** and not statistically significant (**p = 0.606**), suggesting that even in this model there is insufficient evidence of their direct impact on the deficit.

As an additional step in evaluating the robustness and precision of the model, fixed effects regression (FEM) was conducted. Unlike the random effects model (REM), the FEM explicitly controls for all time-invariant characteristics of countries—such as institutional frameworks, fiscal rules, or political stability. This model assumes that country-specific characteristics are correlated with the explanatory variables and is appropriate when there is a valid concern that these characteristics influence the dependent variable. The results of the fixed effects model (FEM) are presented in Table 3.

Table 3 – Results of the FEM Regression

Variable	**Coefficient (B)**	**Std. Error**	**t-value**	**p-value**
(Constant)	9.762	2.617	3.731	0.000
Capital_Expenditures	-0.151	0.156	-0.966	0.337
Current_Expenditures	-0.565	0.113	-4.997	0.000
R^2	0.410			
Number of observations	80			

Source: Calculated by the author

From **Table 3**, it can be concluded that the fixed effects model (FEM) has the highest coefficient of determination, with R^2 equal to **0.410,** indicating that the model explains 41% of the variation in the budget deficit. Given that this model controls for all unobserved differences between countries that remain constant over time, the results can be considered particularly reliable for measuring the within-country effect of expenditures on the deficit.

As in the previous two models, the fixed effects model (FEM) shows that current expenditures are statistically significant (**p = 0.000**) and negatively correlated (**β = -0.565**) with the budget deficit, further confirming their central role in determining the volume and dynamics of the budget deficit. Similarly, capital expenditures were not statistically significant in this model either (**p = 0.337**), which is consistent with previous findings and implies that determining their role in budget deficit movements requires a more complex and long-term research framework.

It is also worth noting that the constant in this model was statistically significant (**p = 0.000**), suggesting that a certain level of budgetary imbalance exists in the observed countries even under conditions of zero influence from the examined regressors.

To assess the justification for applying the pooled (Pooled OLS) or random effects (REM) model, a Breusch-Pagan LM test was conducted using a simplified formula, in line with econometric literature (Baltagi, 2021, pp. 81–82):

$$\mathbf{LM} = \frac{N*T}{2*(T-1)} * \left(\frac{\sigma_\mu^2}{\sigma_\mu^2+\sigma_\varepsilon^2}\right)^2 \quad \mathbf{(2)}$$

Where:

- **LM** – Value of the LM test
- **N** – Number of panel units (countries)
- **T** – Number of years
- **σμ²** – Variance of the random intercept
- **σε²** – Residual variance

The results of the applied test are presented in **Table 4.**

Table 4 – Results of the Breusch-Pagan LM Test

N	**T**	σ_ε^2	σ_μ^2	$N * T$	$2 * (T - 1)$	$\frac{\sigma_\mu^2}{\sigma_\mu^2+\sigma_\varepsilon^2}$	$\left(\frac{\sigma_\mu^2}{\sigma_\mu^2+\sigma_\varepsilon^2}\right)^2$	**LM Test**
5	16	3.9156	8.1947	80	30	0.676672	0.457885	1.221026

Source: Calculated by the author

Based on **Table 4**, it can be concluded that the value of the LM test is 1.221026, which is below the critical value for $\chi^2(1)$ at the 5% significance level, approximately 3.84. Statistically, in this research, the alternative hypothesis regarding the greater adequacy of the random effects model (REM) should be rejected, and the null hypothesis should be accepted.

However, despite the fact that the conducted LM test favors the application of the pooled model (Pooled OLS), in cases where models with random and fixed effects have a better explanatory power (higher R^2) and when there is a valid suspicion that the use of these models more adequately reflects heterogeneity among entities and improves the validity of the results, the professional literature and econometric practice suggest abandoning the pooled model (Pooled OLS) in favor of the remaining two models (Wooldridge, 2010, pp. 264-265, Hsiao, 2014, pp. 10-13). This approach is especially desirable when it is expected that country-specific effects are to be related to the dependent variable but are not explicitly modeled.

The results of the Hausman test will be presented next, in order to examine whether it is methodologically more justified to apply the random effects (REM) or fixed effects (FEM) model.

The Hausman test was conducted using the formula taken from Baltagi (2021), with a simplified representation of components by regressor. The formulaic form of the Hausman test is as follows:

$$\boldsymbol{H} = \Sigma \frac{(\boldsymbol{\beta_{RE}} - \boldsymbol{\beta_{FE}})^2}{\boldsymbol{Var}(\boldsymbol{\beta_{FE}}) + \boldsymbol{Var}(\boldsymbol{\beta_{RE}})} \quad \textbf{(3)}$$

Where:

- **H** – Value of the Hausman test
- **B_{RE}, β_{FE}** – Estimated coefficients from the Random and the Fixed effects models
- **Var(β_{FE})** – Squared standard error from the FEM model
- **Var(β_{RE})** – Squared standard error from the REM model

The results of the conducted Hausman test are presented in **Table 5**.

Table 5 – Results of the Conducted Hausman Test

Variable	$\boldsymbol{\beta_{RE} - \beta_{FE}}$	$\boldsymbol{(\beta_{RE} - \beta_{FE})^2}$	$\boldsymbol{Var(\beta_{FE})}$	$\boldsymbol{Var(\beta_{RE})}$	$\boldsymbol{Var(\beta_{FE}) + Var(\beta_{RE})}$	**Hausman**
Capital expenditures	0.067748	0.00459	0.0244113	0.025855	0.050266	0.09
Current expenditures	0.1564	0.024461	0.0127692	0.009373	0.022143	1.10
					H < 5.991	1.1960
					Model	**REM**

Source: Calculated by the author

Based on the calculated value of the test H = 1.196, which is less than the critical value of 5.991 for $\chi^2(2)$ distribution with two degrees of freedom at the 5% significance level, the null hypothesis regarding the consistency of the REM model is not rejected.

This indicates that there is no statistically significant difference between the random effects (REM) and fixed effects (FEM) models. Therefore, taking into account the higher efficiency of the REM estimates, the random effects model (REM) is adopted in this research as the most adequate framework for analyzing the impact of expenditure components on the budget deficit in the Western Balkan countries.

Based on the results of the panel data regression analysis, a conclusion can be drawn about confirming or rejecting the proposed hypotheses.

In all panel regression models (Pooled OLS, REM, FEM), current expenditures were found to be a statistically significant regressor ($p < 0.01$), consistently showing a negative relationship with the budget deficit. In contrast, capital expenditures were not statistically significant in any of the applied models.

Therefore, the null hypothesis (H0) is partially rejected, as there is evidence of a significant impact of current expenditures, while no such finding was confirmed for capital expenditures.

Thus, the findings support the alternative hypothesis (H1) with respect to current expenditures, while additional research is needed regarding capital expenditures.

5. Interpretation of Results from the Perspective of Fiscal Policy

The results of this research confirm that different forms of public expenditures can have a differentiated impact on the volume and dynamics of the budget deficit in the Western Balkan countries. Current expenditures showed a statistically significant and negatively correlated impact on the budget deficit, positioning them as one of the key determinants of its fluctuation. On the other hand, the conducted research did not provide sufficient evidence that capital expenditures have an immediate and statistically supported impact on the movement of the budget deficit in the short term. This chapter focuses on the economic interpretation of the findings from the perspective of fiscal policy and define the potential course of action for fiscal authorities in these countries.

In modern fiscal systems, current expenditures represent a dominant component of the structure of public spending. Current expenditures include salaries of public sector employees, pensions, social benefits, subsidies, and interest on public debt. The key feature of this category of expenditures has a high degree of structural rigidity, as obligations serviced by current expenditures are mostly defined by law and contracts. Furthermore, reducing current expenditures is a politically sensitive issue and often requires facing significant public resistance, especially when it comes to reducing social benefits and public sector wages. Therefore, it is crucial for fiscal policymakers to pay special attention to measures concerning current expenditures, as, in crisis situations, there is limited room to reduce them in the direction of achieving fiscal balance.

The negative correlation of current expenditures with the budget deficit confirms that this form of public expenditure encourages the growth of the budget deficit and leads to larger fiscal imbalances. This result is justified from the economic logic standpoint, as components of current expenditures often do not contribute to productive effects. In other words, current expenditures do not play a significant role in generating higher rates of GDP growth, but rather involve immediate consumption. This, in turn, leads to a distinction between public revenues and public expenditures, ultimately contributing to a higher budget deficit.

From the perspective of fiscal policy, these results clearly indicate the importance of fiscal consolidation for the Western Balkan countries, not through increasing taxes, but through rationalizing the structure of current expenditures. This could involve:

- Controlling wage growth in the public sector (introducing "pay grades"),
- Pension system reform towards sustainability,
- Digitization and optimization of public administration,
- Better planning of social benefits to avoid wasteful budget spending.

Strengthening fiscal discipline in the area of current consumption should be a priority for fiscal policy in the observed countries, especially in the context of limited access to international capital markets and growing obligations related to servicing public debt.

In contrast to current expenditures, capital expenditures represent the investment component of the budget. This segment of public expenditure includes allocations for infrastructure, education, digitalization, energy efficiency, road construction, schools, hospitals, and similar development-oriented projects. Therefore, it is crucial that capital expenditures are strategically planned and provide an adequate return in the long run through increased productivity and GDP growth.

In this study, capital expenditures did not show a statistically significant impact on the budget deficit in any of the applied models (Pooled OLS, REM, and FEM), which may be due to the influence of several interrelated factors:

- The effects of capital investments often manifest with a time lag, and models based on annual aggregates may fail to capture their full dynamics.

- The financing of infrastructure projects outside the central budget through public-private partnerships, donor funds, or development loans, which are common in this region, can reduce the direct effects on the reported budget deficit.

- Proper selection of projects covered by capital expenditures through increased consumption can contribute to GDP growth and thus neutralize potential negative effects on fiscal imbalance.

Although they are not statistically significant in this model framework, capital expenditures should not be subject to fiscal contraction to the same extent as current expenditures. On the contrary, fiscal policy should favor restructuring public spending in favor of capital investments that generate multiplicative effects in the medium and long term. Increasing the share of capital expenditures in total spending, especially if sustainably financed and highly efficient, can contribute to increasing fiscal space, promoting growth, and reducing the structural deficit.

In this context, it is recommended that the Western Balkan countries adopt program budgets that clearly separate investment from operational expenditures, while simultaneously implementing ex ante and ex post evaluations of public investments to increase their efficiency and transparency.

6. Conclusion

The research presented in this paper aimed to evaluate the impact of capital and current expenditures on the budget deficit in the Western Balkan countries using panel data regression methods for the period from 2008 to 2023. The analysis included a pooled model (Pooled OLS) and models with random (REM) and fixed (FEM) effects, and the selection of the most adequate model was made based on the Breusch-Pagan LM test and Hausman test.

The results indicate a clear differentiation in the impact of the two categories of expenditures: current expenditures showed a statistically significant and negatively correlated effect on the budget deficit, implying that an increase in current expenditures deepens fiscal imbalances. In contrast, capital expenditures did not show a statistically significant impact on the deficit during the analyzed period, which could be due to the time lag of effects, off-budget financing, or efficient allocation of investments.

Based on the results of the Hausman test (H = 1.196), which did not indicate a significant difference between the random (REM) and fixed (FEM) effects models, the random effects model (REM) was adopted due to its greater statistical efficiency and interpretability.

The findings of this research have clear implications for fiscal policy in the Western Balkan countries. Future fiscal consolidation efforts should focus on rationalizing current expenditures, while maintaining or increasing efficient capital investments. Establishing a more balanced structure of public spending in favor of developmental expenditures can represent a sustainable model for reducing the deficit without jeopardizing economic growth.

Although the results point to consistent patterns in the region, it should be emphasized that future research could further enrich the existing analytical framework by introducing additional variables, time-lagged effects, as well as evaluating the impact of institutional and political factors on fiscal performance.

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UTICAJ TEKUĆIH I KAPITALNIH RASHODA NA BUDŽETSKI DEFICIT U ZEMLJAMA ZAPADNOG BALKANA

Sažetak: Ovaj rad istražuje uticaj strukture javne potrošnje na budžetski deficit u zemljama Zapadnog Balkana tokom perioda 2008–2023. godine. Poseban fokus stavljen je na diferencirani efekat tekućih i kapitalnih rashoda, koji se posmatraju kao ključni faktori fiskalne (ne)ravnoteže u regionu. Korišćenjem panel regresione analize, sprovedena je komparativna evaluacija tri modela – Pooled OLS, REM i FEM – pri čemu je na osnovu Breusch-Pagan LM testa i Hausman testa kao najprikladniji identifikovan model sa slučajnim efektima. Rezultati istraživanja ukazuju da tekući rashodi imaju negativan i statistički značajan uticaj na budžetski deficit, dok kapitalni rashodi nisu pokazali značajnu povezanost. Ovakvi nalazi ukazuju na potrebu za racionalizacijom tekuće potrošnje i većim oslanjanjem na investicione rashode kao mehanizam dugoročne fiskalne održivosti.

Ključne reči: Budžetski deficit, tekući rashodi, kapitalni rashodi, Zapadni Balkan.

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