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Review

Public Debt and Economic Growth, Case of Albania

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After many debates in the recent days about the considerable increase of public debt in Albania, mainly after the change in law where as borrowing from third parties won't be necessary to pass through the parliament, there exist many comments if the debt caused positive or negative effects on the economic development of our country. The purpose of this paper is to determine if there exist a correlation between economic growth, where the economic growth will be considered as the increase in GDP, and the public debt. Through this paper I will tend to define an economic model which can effect positively on the economic growth of our country. The results of the linear correlation model of GDP for a period of time 1991 – 2012 as a dependent variable and the public debt as an independent variable on the same period of time.

Key words: Public debt, Economic growth, Gross Domestic Product

INTRODUCTION

From the global crisis now the government debt is a top priority for many countries. Not only Albania but even Europe Commission is reconsidering the limit of government debt as a percentage of GDP. Our budget is already suffering from a considerable increase of the government debt after the government expenditure on the Durres-Morine road.

There are many factors that effect the economic development of a country in different directions as: fiscal policy, government expenditure, monetary policy, foreign direct investments international trade agreements etc.

Despite all this the economic development in long run remains a variable that depends on government budget debt. As we now new low fiscal policy is not a free lunch (National Tax Journal, Vol 52 no. 1 (March 1999) pp. 113-28). The effect of recent fiscal policy in Albania was the rate on 10% in revenue taxes. On the other hand the need for government to build high standard infrastructure made for the decision makers a tough choice. The last statistics of government debt reaches 59.3 % of the GDP in Albania. Even it is within the limit of European Commission Standards (60% OF THE GDP) any economist and citizen known that this is a burden in the future period. The government debts in this paper refer to the public guaranteed debt. It includes the long-term obligations of public debtors as national government, public agencies, autonomous public bodies or private debtors that are guaranteed by public entity.

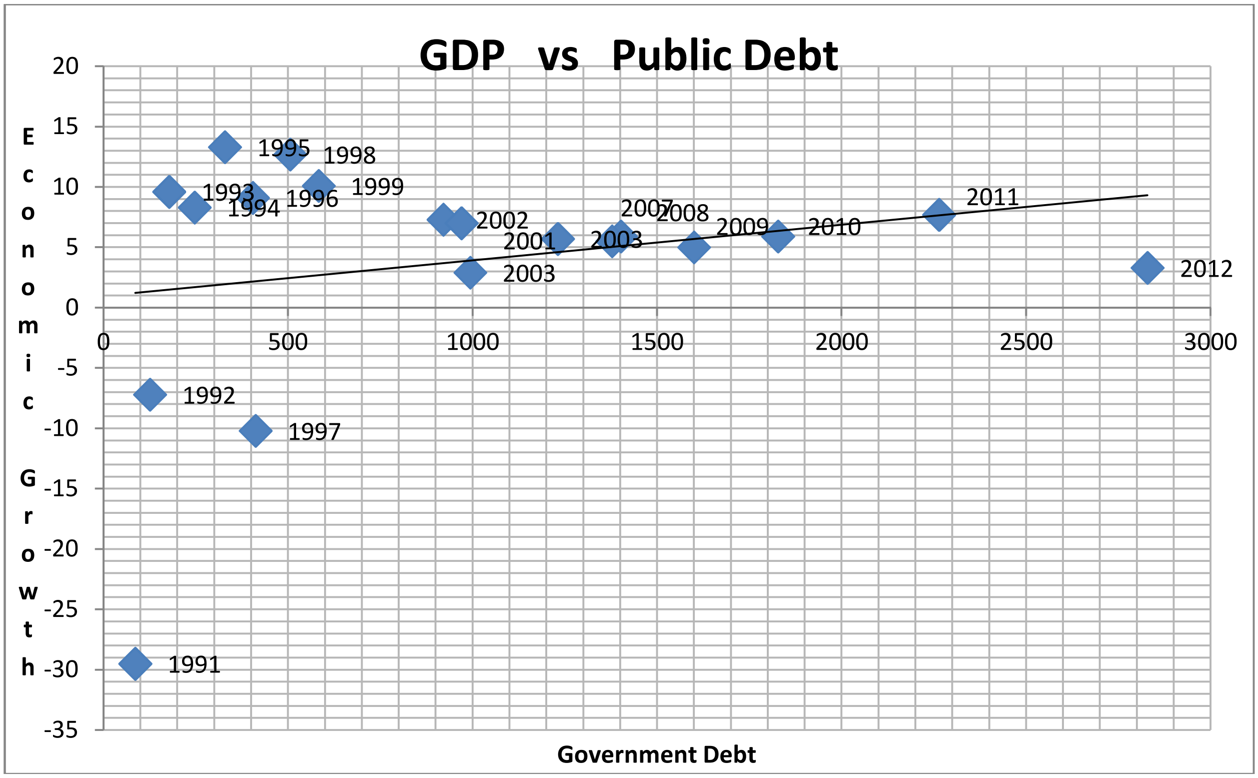

Table 1. Budget is 1.000.000 lek
Source: Data used for this scatter plot are from World Bank

METHODOLOGY

In order to determine the impact of government debt upon the economic growth we used GDP data for 1991 to 2012 and the same interval for the economic growth. The approach was to determine not the rate of government rate from year to year but the increase in government debt itself. In other words is the government debt enough to sustain our economic growth? Many economists tend to comment the government debt as a parameter that prevents the economic growth. So to be asked is what government debt is high enough to not prevent the economic growth of a country.

The economic growth is presented by GDP while the government debt is the external debt (public and private debt) guaranteed by government. The government debt is the factor and the economic growth, GDP, is the effect in our model. First we thought to determine the inverse correlation, were the economic growth is the factor and the government debt is the effect, too but we thought this is not relevant for the main model and we will be investigating in later research. Also a differentiation between the public and private debt guaranteed by government should be a topic for future research. The relationship between the government debt and economic growth is scare. Many studies on the subject through out the region are absent.

The model

Correlation analysis made using the SPSS (Statistical Package for Social Science) program. According to the regression analysis will reject the hypothesis of independence of these variables if the R^2 is less than 0.05. We will accept the hypothesis of no dependence between variables. The theoretical literature, especially from a neoclassical point of view, the relationship between public debt and economic growth tends to point a negative relationship (Ch, Cristina and Ph. Rother, "The impact of growing government debt on economic growth". European Central bank, Working paper, 2010, no 1237.). As Modigliani and Buchanan, respectively in 1961 and 1958, would say that public debt is sad to be a burden for next generation. The sign plus or minus determined for the independent variable, is determined by the theory. In our case from the above mentioned theory the sign of government debt on economic growth is minus.
The scatter plot is used to represent relationship between variables in our case, the link between the economic

Table 2. Model Summary

Mode	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.229	**.052**	.003	9.93937522

A. We do not analyze the R square as the model has only two variables
Source: By Author

Table 3. Coefficients

	Intercept	Variable	t-test	Nr of Observations
	.976	-0.003	0.97	19

A. The sign of variable comes from theory
Source: By Author

growth, GDP, and government debt of Albania in the period under consideration.

The government debt is 1.000.000 lek and is fixed in 500 segments. As it can be seen the values of both variables which are far from the trend line are the ones in 1991, 1992 and 1997. From 2001 the values tend to reach the trend line and have a normal spread over time.

The coefficient of regression statistic is 0.052> 0.005. This means that the H1 hypothesis is rejected and the H0 hypothesis b=0 should be accept. H1 represent the hypothesis were there exist a relationship between the two variables and the HO represent that there is no effect of government debt on economic growth. Referring to our model we can say that for the case of Albania the government debt does not have a strong effect over the economic growth, as R = 0.052.

The table presents coefficient standardized and standardized coefficient of regression model estimated standard errors of it and t test values.

According to this table, the equation / model relationship between the variables studied in the scheme Y= a+ bx is the following:

Y=0.976234393+ 0.003X

This means that on average, effect variable, Y (economic growth, GDP) increase by 0.003 to increase by a unit of independent variable X (government debt). Coming to the t-test is seems that the test is statistically insignificant.

CONCLUSION

The main conclusion for the paper is that there is not a direct correlation between the government debt – and the economic growth, GDP, for the case of Albania. Although the model could be valid for other national economies as well, we can not be sure for it was not tested.

Also there could be some non-economic variables that can affect the model validity as the political decision taken without taking account of strictly economic and fiscal needs. Also there should be considered and the number of observation taken in consideration, 19, which is a limited number.

The model is the first step in a more large approach for determining the way government debt can be a preventive factor for the economic growth and it can help the policy makers to access the volume of government expenditure for infrastructure that we are willing to sacrifice for the economic growth and GDP increase.

On future research is focus on determining the level of economic growth from where the sustainable economic development is possible. At the enterprise level this issue is the marginal benefit that permits the firm to be responsible and to invest by debt.

As a main conclusion the relationship between government debt and GDP growth for the case of the Albania is insignificant or very week. Considering that the government debt for the Euro zone has a limit of 60 percent of GDP, there can be concluded that at this level the volume of government debt does not prevent the economic growth.

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This work is part of a deeper research studies.

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