THE IMPACT OF INFRASTRUCTURE DEVELOPMENT ON THE ECONOMIC GROWTH OF THE COUNTRIES OF THE WESTERN BALKANS AND FASTER ROAD TO EUROPEAN UNION

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Infrastructure has a positive effect on long-term economic growth, although there are significant variations across countries. The aim of the conference paper will be offer answers to the research question: How to intensify investments in infrastructure in order to achieve sustainable growth of Western Blakan countires and faster integration into the EU?

The motive of this paper is to show that infrastructure investment in the Western Balkans can strongly influence the economic growth of the countries of the region and can thus be an important tool to support recovery from Covid-19, increase productivity, achieve the Sustainable Development Goals (SDGs) and build resilient economies.
Ambition for this research we have found in works of Numerous authors who investigate the relationship between infrastructure development and economic growth. The best-known early works relate research on public investment and productivity growth in the most developed G7 countries (Aschauer, 1989) Ather works indicate that increased public investments are not statistically significant in increasing the productivity of the private sector and the overall economy (Tatom, 1991; Canning & Pedroni, 2008). Those effects are especially pronounced in the poorest countries. (Fosu, 2019)

Recent research provides new evidence on the macroeconomic effects of public investments in developed countries (Abiad et al., 2016), then in Central and Eastern Europe, where investments in transport infrastructure have a positive impact on economic growth (Zaninović, 2022; Miljković, 2020). Of course, the impact of this investment on economic growth depends on how the public investment is financed and how it is managed, as has been shown by numerous examples from both developed and underdeveloped countries. (Nishimizu & Hulten, 1978; Hsieh, 1999; Hulten et al. 2006; Derado & Borić, 2014; Vlahinić et al. 2018; Zaninović, 2022).

When it comes to the countries of the Western Balkans, we find the connection between infrastructure and economic growth in these countries in the works of Murgasov, et al. (2015), Holzner & Schwarzhappel (2018), Grieveson & Holzner (2018) which identifiy the infrastructure gap in the region. Berthomieu, et al. (2016) indicate that physical capital per capita in this region is estimated to be below 30% of the European Union average, and Holzner, et al. (2015) talk about concrete infrastructure projects and relevant initiatives. The role of public investment in infrastructure is particularly evident in the period of post-Covid recovery and in the light of contemporary geopolitical tensions.

The methodology that will be used in the paper is a panel regression analysis covering the period 2000-2021, based on data from the World Bank, the Organization for Economic Cooperation and Development (OECD), the World Economic Forum (WEF) and relevant internet portals.

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As a dependent variable in the model, the logarithmic function of gross domestic product per capita (GDP per capita) will be set, according to purchasing power parity in international dollars. The explanatory variables are the logarithms of the indicators: electricity consumption in kilowatt hours per capita; investments in roads in euros; Internet access - percentage of the population that uses the Internet; human capital - percentage of enrollment in secondary schools; financial development - domestic loans to the private sector as a percentage of gross domestic product. Instrumental variables as part of the explanatory and additional indirect influence on the dependent variable in the panel regression, in addition to the model constant (c), are macroeconomic indicators: inflation by country in percentage; burden on the state - final consumption of the state as a percentage of the gross domestic product; indicator of institutional environment; trade conditions - the openness of the country's foreign trade; the service sector as a percentage of gross domestic product; losses in transmission and distribution of electricity as a percentage of total production; and one backward time series for the dependent variable (the so-called 'lag' of the dependent variable

The expected results should show that infrastructure is a vital factor in achieving sustainable development in the region, as well as that the region needs significant investment in high-quality infrastructure in order to achieve both development and its European goals. Development of decision-making tools and reform/policy proposals on how extensive public investments should be financed and managed, so that the effects on growth are positive, in cooperation with policy makers.

Keywords: infrastructure, economic growth, Western Balkans