WESTERN BALKANS’ COUNTRIES IN FOCUS OF GLOBAL ECONOMIC CRISIS

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Abstract:
The paper intends to analyze the impact of global economic crisis on the economies of Western Balkan Region. Albania, Bosnia & Herzegovina, Croatia, Macedonia (FYROM), Montenegro, Serbia, and Kosovo are part of this Region. The purpose of the paper is not to analyze the global crisis impact on specific sectors of the economies of the Western Balkan Countries, indeed, it focuses mainly on the macroeconomic level, identifying and analyzing fluctuations of major macroeconomic indicators of the economies of this Region. In this regard the paper analyzes the trends of macroeconomic indicators that reflect the development and macroeconomic balances of those economies, such as GDP, the level of employment, inflation, budget deficit, trade relation, etc, in two periods of time: before the crisis, and during the years of crisis.

Highlighting the deterioration of these indicators, the paper tries to identify factors that have contributed to these results, for example the level of opening of the economies of these countries, foreign direct investment, remittances, etc.

Analysis of macroeconomic indicators shows that the world economic crisis of 2008 have interrupted the positive trend of the development of the Western Balkan Countries. Characteristic of this influence is the fact that the global crisis actually appeared 9 or 12 months later than what was reflected in the developed European countries. On the other hand, the trend of positive growth, although modest, in industrialized countries starting from 2010, has been confirmed in the Western Balkans as well.

The paper has considered the different studies in view of economic development of the Western Balkan countries during the global economic crisis; based also on the data for economic development of these countries provided by the statistics IMF, and in particular on recent reports of the European Commission for EU Candidate and Pre-Accession Countries (October 2010 and January 2011).

Key words: economic crisis; economic growth; Western Balkans economies.

JEL classification: 010; 040; 057.

INTRODUCTION

The global economic crisis did not start in Balkan Region, but the crisis has affected the economy of Western Balkan’s Countries as well. In contrast with others countries in Europe, the Balkan economies were still driven positively by inertia in 2008, with an average growth rate about 5.51%. But in 2009 most of the countries has been faced with a negative growth of GDP. In 2009 Croatia’s GDP growth rate dropped from 2.4% to -5.8%; Serbia’s from very good 5.5% to -3%, etc; Only Albania, and Kosovo had have a positive figures, although some point away compare with the years before.

At the same time according to IMF, forecasts are more optimistic for next two years; they predict a positive increase in real GDP for all Western Balkans Countries in 2010, (excepting Monte Negro), and 2011 (World Economic Outlook -2010).

In this viewpoint, the paper intends to illustrate the impact of the last global economic crisis in the Western Balkans Countries. In this region, are included Albania; Bosnia and Herzegovina; Croatia; Macedonia; Monte Negro; Kosovo and Serbia. The paper is structured in two main parts. The first part illustrates the development of economies in Western Balkans before and during the global crisis, (2008-2010). Based on the macroeconomics figures, the analyze intends to explain the impact of the economic crisis in those countries, showing for example growth of GDP, unemployment rate, inflation, trade balance, budget deficit, etc.,
The second part of the paper aims to explain the role of the main factors, which came from global crisis, that have influenced economic development in Western Balkans. Particularly, is illustrated the role of economic integration of countries with global economy, economic cooperation in the region, change of exports and imports volume, development of foreign direct investment, the role of remittances, etc.

1. WESTERN BALKAN COUNTRIES IN VIEW OF ECONOMIC GLOBAL CRISIS

The impact of global economic crisis in Western Balkan have been shown in almost all countries in the region. In a point of view, Western Balkan Countries have been characterized mostly as developing economies, with relatively low level of openness to world markets, with perhaps a stable banking system, which has been almost not affected by risky and unsafe financial instruments, etc. Like as some other developing economies, these factors have been somewhat inhibitory regarding negative impact of the global crisis. In other point of view, the Western Balkans Countries are still not quite stable economies, and specially they are suffering from vulnerability in the view of a global crisis. They suffer from the lack of “automatic stabilizers” of social welfare systems and also the access to the easier financing and support mechanisms. In this framework, it is important to make evident the impact of global crisis in the economies of Western Balkans; how much their economies have been influenced from global economic crisis. The channels that expose the Albanian economy most to the shocks from the world economic environment consist of falling hard currency inflows and the tightening of financing in general.

In this point of view, firstly it is to make clear, that there is an evident correlation between economic growth in developed countries, and growth in developing countries. But it is a fact also, that this correlation in recent years has weakened. Thus for example, the correlation between economic growth in OECD countries and developing countries has been about 0.5% before 80’, it means that one percent of GDP's growth in OECD countries has affected approximately 0.5 % growth of GDP in developing countries. While in the period 2000-2007 this indicator has gone to 0.2%. Analysts give arguments for this variation using the impact of structural changes in developing countries, as well as the growth of the economies of so-called, "emergency", as China, India and Brazil, which seems to offset somewhat the negative impact of traditionally industrialized countries during the crisis.

In this focus the first question should be which is the concrete impact of global crisis on Western Balkan economy. From this perspective, before analyze the influence of various factors, it is important to reflect the real consequences of this crisis on Western Balkan; which have been the general development of these economies drying the crisis period? In this view, we are not going to analyze "which are the factors that have influenced" the economies, but which was "the result of all factors" in the economy of Western Balkan countries? In this regard, to make an analysis as clear and significant, the paper is focused on macroeconomic level, without aiming to analyze the negative impacts of different factors, in particular economic sectors, or specific aspects of social development. In this point, initially it makes evident, what are the fluctuations of macroeconomic indicators that characterized the economies of the Region during the global crisis 2008-2010; what are the negative deviation that suffered macroeconomic balances, compared with their trends observed several years ago, it’s mean before 2008

In terms of macroeconomic indicators, the **Gross Domestic Product (GDP)** has been one of the most positive and sustainable one in Western Balkan. The growth of GDP in the Region, compared to the average GDP growth of the 27 European members (EU 27), shows that before the crisis, all Balkan countries experienced rapid increase of economic output. In the years 2005-2007 the GDP growth in Western Balkan Countries was higher than that of the EU, with an average by 6-7% and was considered quite normal state of economic development. In 2007 the real growth of GDP was in Monte Negro 10.7%; Serbia 6.9%; Bosnia and Herzegovina 6,2%; Macedonia 6,1%; Albania 5,9%; Croatia 5,5% and Kosovo 3,9% (the lowest). Even in 2008, when the industrialized European Countries felt in economic downturn, Western Balkan economies still driven positively.
Although there was a slowdown in their economic growth, it was still suitable growth with an average about 5.5%; certainly not that sharp as the one leading to an EU average of 0.7%. Particularly in this year Albania had a real growth of 7.7% and Montenegro 6.9%; the lowest increase was in Croatia by about 2.4%.

The data shows that Western Balkan Countries felt in economic downturn in the year 2009 (figure 1). It is typical for all countries in the Region, which expresses the likeness of economic development of these countries. The downturn has been substantial. It has been more obviously for Macedonia -8.0% from 5.0% in 2008, Croatia -5.8% from 2.4% (2008); Montenegro -5.7% from 6.9% (2008); Serbia by 5.5% -3.1% (2008), etc. The growth has been positive only Kosovo 4.0%, and Albania and 3.3%, although some points away compare with the previous year. Europe itself in this year had a negative GDP growth of -4.4%. The figures demonstrate that the Western Balkans Countries follow the general trends on global and European scale, but the change in trends is registered months or a year later. On the other side the data shows a partial recovery in the first and second quarter of 2010, which follow positive outlook for other countries in EU as well.

![Figure 1. GDP real growth 2005 – 2010 (%)](source: “EU Candidate and Pre-accession Countries”; Economic Quarterly – CCEQ ECFIN Unit D-1 (8 October 2010 & 12 January 2011)

Another indicator, which is used to evaluate the impact of the economic crisis, is the unemployment rate. It is known, that during the global economic crisis, increasing rate of unemployment has been one of the main negative aspect of the crisis in many industrialized countries. This problem is more sensitive in West Balkan where countries in the region lack the “automatic stabilizers”, otherwise as in the industrialized countries in the Europe.

The unemployment data indicate that the Western Balkans had serious unemployment levels even before the crisis, and they are got worse after 2008. All countries had higher unemployment rates than the EU [1]. However, figure 2, shows a clear tendency of diminishing rate of unemployment for the entire period before crisis, from 2005 to 2008. But in 2009 its level reached higher rates for all countries. But while most of the countries have high yet still manageable problems, in Macedonia, Bosnia & Herzegovina and Kosovo have more than a third, quarter and
nearly half of the working force; respectively 32.2% for Macedonia, 42.7% for Bosnia and Herzegovina and 45.4% for Kosovo (for 2008).

On the other hand, according to EUROSTAT data for firsts' two quarters of 2010 showed the labor market had been effected of a deterioration of its indicators.

It is evident that each economic crisis will have a negative impact on the budget deficit, since the economic downturn will be reflected in decreasing of tax revenues as well. In this view deterioration of budget deficit is another indicator that will reflect the effect of global crisis in Western Balkan.

Data shows (figure 3) that keeping under control the budget deficit, has been always an important part of the macroeconomic stabilization for Western Balkan. In 2008 except Albania, all other countries have had a very sustainable deficit.

But 2009 noticed a significant increase of budget deficit as a percentage of GDP, which has reached -6.8% in Albania; -8.0% in Kosovo; -4.1 in Croatia and Serbia, etc. The intention to argue this negative increasing, throw the global economic crisis is not easy, because it is combine with a decline of GDP treated above, which brought an increase of the negative ratio of budget deficit to GDP. However deterioration of budget deficit is another negative effect of global crisis in the economic development of the region.

In view of macroeconomic analysis, a particular aspect is that of the external equilibrium, which is materialized on the payments balance. In this regard, the characteristic for Western Balkan Countries are the deficits significantly above the EU average, which have a trade balance deficit about -0.8% (EU27). Some countries have negative trade balances around the thirty- percent, as for example Albania and Bosnia & Herzegovina, while Montenegro and Kosovo near the forty-five percent (figure 4).
The figure shows as well that during the crisis (2009-2010) the deficits were gradual reduced. In this point it is not clear, if the economic crisis has been affected or not this balances in particular. In this regards it is note that trade balance depends not only from export and import volume, but also from two main factors: price level in World Economy and local exchange rate. As will be argued below, there was a certain positive effect of the crisis on trade deficits in the Balkans, follow a decreasing of imports’ prices for these economies.
2. THE FACTORS THEY HAVE INFLUENCED WESTERN BALKAN COUNTRIES IN SIGHT OF GLOBAL ECONOMIC CRISIS

Recognizing the impact of global crisis, particularly in economic growth, the next question should be: what are the factors that have had a significant impact in the Western Balkan Countries? The answer will serve to understand better “where” these countries are, the expectations for next years, and it we should expect a more positive economic performance, etc.

The impact of global crisis in developing economies is related to several factors, among these we can mention: the integration of these economies to the global economy; increasing of the prices during the crisis in the global economy, reducing of remittances from emigrants as result of the crisis in host countries, decline of the direct foreign aids; the difficulties of borrowing from banks, etc. The effect of these factors is certainly different in different countries and is related to their characteristics.

In this framework, we are going to do a short analysis of these factors. The analyze consists of making present the change of the factors, in the period before the crisis, until 2008, and during the crisis, in the years 2008-2009.

The level of economic integration with the global economy. One of the most important factors, that can overtake the international economics developments in to a specific country, is of course the level of integration of this country related to world economy. In an open economy, with considerable economic relation with the world economy, probably the impact of a global crisis will be more sensitive. Economic integration of a country with the world economy is analyzed generally through export - import volume of this country related to the rest of the World. Of course, in a large view, we can include here also the foreign investment, remittances, etc. Initially, we will focus on commercial relation, while the other factors will be analyzed later.

The economic level of integration of a country is demonstrated in the “openness index”, which represents the percentage of the volume of exports and imports to GDP. With reference to the concept of the World Bank for the evaluating of exports and imports [2] whose indexes are shown in Figure 5:

In focus of international crisis, a relatively small opening of an economy would be a “positive” factor that can limit the impact of global crisis in the country. Data shows that Bosnia and Herzegovina, Montenegro and Macedonia have a higher openness index, even higher than West European Countries. It means that trade relation of these countries with the rest of the World has been more intensive, which represents more potential for over passing a negative effect of global crisis on the economies of these countries.

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Figure 5. Openness Index
Source: World Bank

Another factor that can affect economy of a particular country is also the structure of its commercials relations with other countries, which are affected by the economic crisis. If the export - import volume of Western Balkan Countries are mainly related with the countries that are affected significantly by the crisis, then it is realistic to assume that the impact of the crisis in the Region will be bigger. Figure 6 presents the structure of exports and imports of Western Balkan Countries for five major countries, in the year 2009. It shows that main partners are countries as Italy and Greece (particularly for Albania), but also Germany and Russia, which are affected significantly from global crisis.
**Price level.** Focusing on global crisis, a typical characteristic is the increased price level in countries affected by it. The higher prices extend their negative impact in other countries as well, making imports for these countries more expensive and increasing their costs of production. But it depends of course from the structure of the imports.

In 2009, in general for Western Balkan Countries’ imports, the main items which was imported were machinery, equipment and spare parts, which have taken about 40-45% of total imports [4]. In 2008 and 2009, the average increasing price for this group – products, in U.S.A. markets, was respectively 1,9% and 1,2%, which reflects in fact the general trend for the whole period after 2004. Other important groups are - products fuel, electricity and minerals [5], with about 8-10% of the total (2009). In the U.S.A markets, the fuel price in 2008 is increased by about +35%, but for 2009, its price fell average with -34%; in the meantime price index for electricity was +5,8% in 2008 and only +0,6% in 2009. The prices for the other imports’ groups are products like the food, beverages and tobacco [6], which account about 6-11% of imports (except Serbia). In U.S.A it is increased. average from +9,3% in 2008 and by +2,3% in 2009.

On the other side, the PPI (*Producer Price Index*) in European Union countries, -which characterizes the level of prices of raw materials and intermediate consumption, in 2008 reflected an increase of about 8%, while in 2009 he suffered a decrease of -2.9%.

In the focus of data, it can be assumed that the price level of the global economy, has affected negatively the Region in 2008, but it should not have a considerable influence in 2009.

This conclusion in fact, is partly true. The costs of imports depend not only from the prices, but also from the exchange rates of local currency with foreign currencies, mainly with Euro. Here we have a different picture compare with the dynamic of the price level. Up to 2009 we have a stable exchange rate for almost all countries, while in 2009 some of the local currency are depreciated obviously against euro, mark Albania where LEK was devaluated about -7,7%; and Serbian RSD was devaluated about 14,8% [7].

**Remittances from emigrants.** The decline of remittances is considered one of the negative consequences of the global crisis in developing economies. In Western Balkan Countries remittances sent home by emigrants working abroad are an important part of overall GDP. Particularly those are significant for Serbia (5,6 billion USD, about 12,6% of GDP); Bosnia Herzegovina (2,2 billion USD, about 12,7% of GDP) and Albania (1,3 billion USD, about 10,9% of...
GDP), countries which are included in 10 top remittance recipients countries in “Europe and Central Asia” Region [8]. In these economies they have been in important levels, which served to reduce the deficit of payments balance and also an important source for financing domestic demand. Figure 7 shows the dynamics of remittances from emigrants during the period 2005 - 2010.

In 2009, remittances for the first time suffered a decrease for all countries. Is this decrease totally a consequence from the global crisis, or there are others factors that may have affected it? Remittances, for many reasons, are considered as economic absorbers of negative effects of crisis’ period. In this regards, according to IMF remittances in the World Economy for 2008 are estimated in stagnation and in a decreasing in 2009 about -5.5%. The data from Western Balkan Countries in 2009 show a more “robust” decreasing, mark particularly Bosnia Herzegovina with about -20%; Albania -12%; and Croatia -8%.

Anyway the situation seems to be change in 2010, which is in the same line with forecast from IMF. Officially recorded remittance flows to developing countries are estimated to increase by 6.0% in 2010. This marks a healthy recovery from a 5.5% decline registered in 2009. Remittance flows are expected to increase by 6.2% in 2011 and 8.1% in 2012.

![Figure 7. Remittances in Western Balkan (2005 -2010) [9]](source: World Bank “Outlook for Remittance Flows 2011-12”)

**Foreign direct investment (FDI).** It is presumed that the global crisis has affected developing countries also through decreasing of foreign direct investment. Data in figure 8 shows decreasing of FDI for the most of countries of Western Balkans. The exception is only Montenegro and Albania where in 2009 the growth rates of FDI have been positive (respectively 61% and 12%).

Decreasing of FDI in the Region has followed the world general trend of FDI during the crisis years. In world economy the FDI fell about 16%, during 2008, even more drastic was this in 2009 with about 37%; while in developing countries decline in 2009 was about 24%. In this regard, the data of figure 8 compared with those of figure 1, show even more significant go down of FDI for some of Western Balkan Countries, as Bosnia-Herzegovina (-71%), Croatia (-63%) and Macedonia (-60%).

On the other side, Western Balkan Countries have relatively low level of FDI, so for the South Eastern Europe region only Croatia, Serbia and Montenegro belong to the second group, which includes countries with FDI from 1.0 to 4.9 billion USD, while Albania and Bosnia Herzegovina are included in the third group (with FDI between 0.5 to 0.9 billion USD) and Macedonia belongs to the fourth group (the last), with FDI less than 0.5 billion USD. In this regard, although the fall of FDI has affected down turn of economy, there have not been a drastic impact as in other countries.
Difficulties in borrowing from banks. The economic crisis have started from the banking system. Perhaps banking system in Western Balkan has been stabilized and banks have been quite far from being “infected”. In addition in Western Balkan the economic activity coming from banking sector is much lower than in other countries. Thus for example while in EU countries the percentage of financial system assets to GDP is over 150%, in Albania its weight is about 82%.

But in other hand, the increasing of percentage of bad loans and decreasing of deposits in 2008 and 2009, tighten loans during the years 2008-2009. In this regards, in Albania [10] bad loans (non performing loans) has been increasing from 3,2% in 2007 to 4,7% in 2008 and 9,1% in 2009. The negative trend seems to continue also in the two first quarters of 2010, respectively 11,1% (2010/I) and 12.0% (2010/II). Also in Monte Negro non performing loans are increase from 3,7% in 2007 to 7,2% (2008); 13,5% (2009); 16,6% (2010/I) and 16,8% (2010/II). For some other countries a negative development is reflected in tightening of banks’ deposits; for example in Croatia rate of deposits have been decreasing from 27,2% in 2007 to 7,4% in 2008; -15,2% in 2009; even more in 2010; -25,7% in the first quarter and -21,8% in the second quarter (figure 9).

Bad loans and decreasing of deposits follow a restriction of the loans and investment and finally economic growth (figure 10).
CONCLUSIONS

• The impact of global crisis in the economy of Western Balkan Countries is reflected mainly in the decreasing of GDP growth rate. In 2009 it has been more obviously for Macedonia -8.0% from 5.0% in 2008, Croatia -5.8% from 2.4% (2008); Montenegro -5.7% from 6.9% (2008); Serbia by 5.5% -3.1% (2008), etc. The growth has been positive only for Kosovo 4.0%, and Albania from 3.3%, although some points away compare with the previous year.

• The unemployment figures indicate that the Western Balkans have had serious unemployment levels even before the crisis, and they have aggravated after 2008. During 2009 the unemployment level reached higher figures for all countries in Western Balkan. While most of the countries have still high manageable problems, Macedonia, Bosnia & Herzegovina and Kosovo have an unemployment rate respectively 32.2%, 42.7% and 45.4% (for 2008).

• During main 2009 in Western Balkan Countries noticed a significant increase of budget deficit as a percentage of GDP, which was particularly higher in Kosovo -8,0%; Albania -6.8%; and Croatia and Serbia -4,1. The intention to argue this negative increasing only throw the global economic crisis is not easy, because it is combined with a decline of GDP rates.

• Regarding trade relation, in Western Balkan Countries, the imports have had a negative impact on domestic production. But the analyze shows that this negative impact is coming mainly due to the devaluation of local currency against to Euro, and not significantly from the rising of imported goods’ prices.

• On the other side, the structure of exports and imports of Western Balkan Countries shows that their main partners are countries as Italy and Greece (particularly for Albania), but also Germany and Russia, which are affected significantly from global crisis.

• Concerning opening of economy with the rest of the World, in particularly countries as Bosnia and Herzegovina; Montenegro and Macedonia have a higher openness index, even higher than West European Countries. It means that trade relation of these countries with the rest of the World has been more intensive, which presents a more potential factor for over passing a negative effect of global crisis on their economies.
Data shows decreasing of FDI for most of countries in Western Balkan. The exception is only Montenegro and Albania where in 2009 the growth rates of FDI have been positive (respectively 61% and 12%). On the other side, Western Balkan Countries have a relatively low level of FDI, in this point of view although the fall of FDI has affected down turn of economy, there has not been a drastic impact as in other countries.

ENDNOTES

[1] EU has an unemployment rate average about 8,9% in 2008.
[2] As per World Bank, Exports and Import of goods and services represent the value of all goods and other market services provided to the rest of the world. They include the value of merchandise, freight, insurance, transport, travel, royalties, license fees, and other services, such as communication, construction, financial, information, business, personal, and government services. They exclude compensation of employees and investment income (formerly called factor services) and transfer payments.
[3] There are no available data for Montenegro and Kosovo.
[9] There are no available data for Montenegro and Kosovo.

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