

Coming out of the Global Economic Crisis: Current Status, Effects, and Responses

Sub-regional focus on the Western Balkans

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Structure of the presentation

- Crisis coming to the region: immediate impact
- What was the reaction?
- Lessons learned – is it too early to say?

Crisis coming to the region

- **Crisis arrival delayed:**
 - Western markets – second half of 2007
 - Western Balkans – Q4 2008
- **Due to:**
 - Size of economies,
 - Still low level of integration into global economy,
 - Underdeveloped capital markets.
- **Immediate impact:**
 - Reduced FDIs,
 - Sharp drop in exports,
 - Drop in industrial production and output,
 - Choking off of credit,
 - Reduced inflows from remittances.

CRISIS IMPACT

ALBANIA

- FDI fall
- Aggravated access to credits
- Fall of remittance from diaspora that made about 14% of GDP(SI Tirana)
- Drastic fall of exports
- Drop in industrial production of 13,2% (first quarter of 2009, SI Tirana)
- GDP fall (IMF):
2007: 6.25% 2008: 6.77% 2009: 0.7%

CRISIS IMPACT

BOSNIA AND HERZEGOVINA

- FDI fall
- Domestic credit crunch
- Attack on social programs
- Drop in exports, metal industry most affected
- Employment fall in 2.2% (comparing 2008-09)
- GDP fall (IMF):
2007: 6.83% 2008 5.5% 2009: -2.98%

CRISIS IMPACT

MONTENEGRO

- Drop in company and bank liquidity
- Credit rating fall
- Drop in production in 16,5%
(comparing 2008-09, Monstat)
- Tourism turnover fall; number of tourists - 8,97%, overnights -13,8%
(comparing 2008-09, Monstat)
- GDP fall (IMF):
2007: 10.7% 2008: 7.5% 2009: -4%

CRISIS IMPACT

MACEDONIA

- FDI fall
- Drop in exports, metalurgy most affected
- Trade deficit 2.87 billion, 1 billion higher (comparing 2007-08, DZSM)
- Inflation growth, 2007 2.3% --- 2008 8.3% (MMF)
- GDP fall (IMF):
2007: 5.85% 2008: 4.9% 2009: -2.5%

CRISIS IMPACT

KOSOVO

- FDI stagnation and fall
- Fall of remittance from diaspora in about -10%, it accounted for 40-50% of economy (2009, VK)
- Stopping of steel export, which made 50,8% out of total export
- GDP fall(IMF projection):
2007: 5% 2008: 5.4% 2009: 3.8%

CRISIS IMPACT

SERBIA

- Withdrawal of foreign capital, FDI fall
- Fall of foreign currency liquidity ,dinar weakening
- Drop in industrial production of 12,6% (comparing 2008-09, RZSS)
- Exports fall; 45,26% of exports goes only in four scountries – MNE, B&H, Italy and Germany
- GDP fall (IMF):
2007: 6.9% 2008: 5.4% 2009: -4%

Reactions

- **Governments:**
 - facing dilemma - spend less or spend more?
 - Increased level of deposit insurance to underpin banking sector,
 - No major changes in structural reforms.
- **Central banks:**
 - Set a key policy rate
 - Vary the reserve requirement rate,
 - Intervene on the foreign exchange market to defend the currency
- **Firms and workers:**
 - Firms: cut back the production and lay off of workers
 - Workers: understood that crisis has been imported?
No significant changes to political outcomes.
- **The role of the International community?**

MEASURES AGAINST CRISIS

- Mutual cooperation significantly enhanced (forums, debates...)
- Governments of all countries brought package of measures for mitigating the crisis
- International financial institutions assistance
- The opportunity is seen in
 - Institutional reforms
 - Attraction of FDI
 - Economy of knowledge

MEASURES AGAINST CRISIS

ALBANIA

- Infrastructure investments
- Increase of insured deposits
- Decrease of unemployment, especially in rural areas
- Boost of domestic production
- For imports of China goods duties will be three times higher based on its weight rather than units of measure

MEASURES AGAINST CRISIS

BOSNIA AND HERZEGOVINA

- Infrastructure investments
- Public sector wage decrease
- Decrease of unproductive budget spending
- Support to companies in the form of favorable loans, condition of retaining employees
- Increase investments in agriculture
- Decrease of unemployment, Veteran Employment Program

MEASURES AGAINST CRISIS

MACEDONIA

- Infrastructure investments
- Various tax reliefs for companies and citizens
- The Law on collection from the companies with blocked accounts
- Unpaid liabilities of some companies will be turned into fixed deposit
- Unemployment decrease

MEASURES AGAINST CRISIS

MONTENEGRO

- Infrastructure investments
- Decrease of unproductive budget consumption
- Income tax decrease
- Social programs strengthened
- Total funds for measures were 350 mil.€ (9.4% GDP for 2009, GMNE)

MEASURES AGAINST CRISIS

KOSOVO

- Infrastructure investments, highway construction started
- Urgent Intervention Fund worth €200 million established
- More careful management over CBK funds
- Decrease of unproductive budget spending

MEASURES AGAINST CRISIS

SERBIA

- Infrastructure investments
- Budget savings (decrease of expenditures, cheaper administration)
- Income tax on foreign currency savings abolished
- Stand by arrangement with IMF worth 3 billion € (2009-11)
- Business and retail loans

EFFECTS OF MEASURES IMPLEMENTED

- Economic situation in the Western Balkan countries more stable
- Inflation at more tolerable level
- National currency rates stabilized
- Layoff of employees stopped
- GDP mild growth
- More perceptible growth of these economies expected in 2011 (IMF)

Lessons learned - too early to say?

- What is for sure: economists failed to foreseen the future

Table 1. GDP forecast 2009 - IMF World Economic Outlook/
EBRD Transition Report October 2008 vs. October 2009

	IMF		EBRD	
	Oct 08	Oct 09	Oct-08	Oct-09
Albania	6.3	0.7	5	3
Bosnia and Herzegovina	5.0	-3	4.5	-3.1
Bulgaria	4.2	-6.5	3.8	-6
Croatia	3.7	-5.2	2	-5.4
FYR Macedonia	5	-2.5	4.7	-1.6
Montenegro	5	-4	5	-4.1
Romania	4.8	-8.5	3	-8
Serbia	6	-4	3	-4

Source: IMF, EBRD.

Still. . .

- Strengthened cooperation among the countries in the region: more forums, exchange of opinion debates etc.
- Market oriented reforms significantly inserted in the region;
- Need for more conservative fiscal policy;
- Lower growth rates for the region in years to come;
- Future growth should be more internally driven.

Sources

- National statistics and central bank websites
- IMF: <http://www.imf.org>
- EBRD: <http://www.ebrd.com>

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