

THE ALBANIA AND THE REGION : ECONOMIC CRISIS EFFECTS

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Abstract

This composition has the intention to evidence, value and to compare the economic effects that the global crisis has caused at the Balkan region. The aim of this composition is to clarify too: The position of various Countries before the start of the financial crisis and how has changed the rank of this Countries up to now; The crisis influence at the Balkan Countries at the year 2008 and their state at the end of the year 2012 ; The gap regarding the economic development and the people purchase power during the years 2007/2008, and those at our days; The obstacle factors for the economic increase and the reforms that has given a push to the economic growth projects and have diminished the crisis effects.

A benchmark analysis has been applied to see the differences between different countries in the region and Albanian regarding macroeconomic and financial indicators, like GDP growth, purchasing power parity index, consumer price index, total direct foreign investments, rate of export-import, public debt.

In the context of performance benchmarking the paper main goal is to screen out the trend of these macroeconomic and financial indicators in Albanian compare with countries in the region and to draw some recommendation for the future policies for buffering the effect of the crises on the Albanian economy.

After a detailed analysis and a comprehensive survey of the economic sectors (Real Sector, Foreign Sector, Fiscal Sector and Monetary Sector) to every Country, is drawing a framework in which is noted a faint of economic development of the different region Countries.

At the end the composition will focus into the challenges that the region will face in the near future and to the Albanian economic perspectives within the region and global economy.

Keywords: crisis, prospects, recession, purchasing power, challenges.

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1. Preface

The world economic crisis begins at years 2007-2008 in USA , which was caused mainly from the liquidity banks system at the United States of America, where the fall of the weight of the securities has caused the damage of the financial institutions at the global level. This crisis came from the uncovered collaterals of derivate instruments exploded on Wall Street, which bring the biggest economic recession from the crisis of the year 1929 and after.

Taking in consideration that up to now we haven't any sign that the economic crisis is ended, our goal is to reflect the economic power change between Balkan countries. The Balkan region as a region many dependent from the world economic development, has start to felling himself the crisis after the year 2008.

The macroeconomic indicator analysis shows that the year 2008 economic crisis has terminate the economical development positive trend at this rayon countries. This decline of the economic growth is explained due to the effects of the financial crisis at the euro area, which is expected to continue at the next year too. The main potential transfer channels of the financial crisis from the Euro area countries to the South Europe countries are the trade, the foreign direct investment and the banks.

The global crisis effects at the economy of these countries has been seen with a lowest depth mainly for the fact that the financial system of these countries is less developed than those of UE countries. At the Albania case, as one of the economy of the region countries, the sensitivity to the financial crisis is big due to the start of the financial environment liberalization and do to the insufficiency of regular structures to face the risks arising from this liberalization.

Our region has been historically the most backward at the Europe continent. From the century XV with the Ottoman invasion, The South-east Europe disconnects at the progressive way the economic political and cultural connections with the other continent mother side. With the Berlin wall fall and the birth of Balkan democracies. the economic development has been encumbered from the lack of the experience and of the trade mechanisms knowledge and from the politic systems with authoritarian tendencies.

Since the economic crisis has unfold his effects in Albania and into the region countries too, the different economic structures and the undertaken reforms from respective Governments have modify the impact of the crisis at every country.

At his composition we will focus especially to Albania to appreciate if the country during this crisis has increase the developing gap with other countries of the region or has reduced it. Has had the Albany economic convergence against the region?

Hereunder we shall assay, taking in consideration the four sectors which represent the economy (Real Sector, Foreign, Fiscal and Money) , the index of each Balkan country leaving out two states as Greece (because its past show more than 60 years trade economy and for another development level) and Slovenia (because the economic and social structure of this country resembles more with those of the Austria and the Nord Italy than those of the other Balkan countries). The assay countries will be: Croatia, Bosnia, Montenegro, Macedonia, Serbia, Kosovo, Albania and Bulgaria. The time arch will have as the first point the year 2007, before the crisis start while the second point will be the end of the year 2012.

After the result explain we will define the reasons of the different states position change citing the undertaken reforms to the crisis impact and the work remain to do. Through the recommendations will mention the actions which the Balkan governments must undertake to improve their economic situation for the following years.

2.The economic sectorial datas

2.1 The Real Sector

This sector preview the survey of the economic growth, the goods and service value which must be bought from the consumer, the purchase power gaps between different countries and their evolution during years. We can't leave behind the inflation indicators, sustainability symbol and those of the total and foreign direct investments in order to understand the economic dynamism of every country.

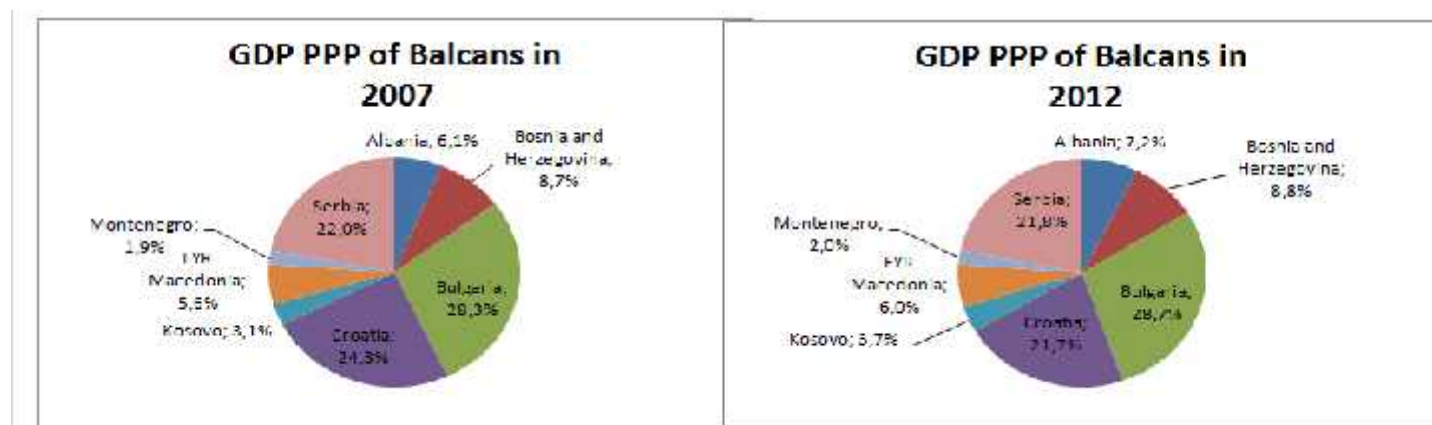
Tab. 1: GDP % constant prices WEO 2013

	2007	2008	2009	2010	2011	2012
Albania	5.9	7.5	3.3	3.8	3.1	1.6
Bosnia and Herzegovina	6.1	5.6	-2.9	0.7	1.3	-0.7
Bulgaria	6.4	6.2	-5.5	0.4	1.8	0.8
Croatia	5.1	2.1	-6.9	-2.3	0.0	-2.0
Kosovo	6.3	6.9	2.9	3.9	5.0	2.1
FYR Macedonia	6.2	5.0	-0.9	2.9	2.9	-0.3
Montenegro	10.7	6.9	-5.7	2.5	3.2	0.0
Serbia	5.4	3.8	-3.5	1.0	1.6	-1.8

The indicator of the GDP change with constant prices show a region's great economic growth during the years 2007/2008 in which was shown up the performance of the Montenegro due to the great investments at the tourist areas. Other countries follow a more balanced rhythms of the economic growth of about 6%. The shots created from the economic crisis at the year 2009 and 2012 has bring the recession into the countries as Bosnia, Croatia, Macedonia and Serbia. The Albania, evaluating the table no.1, has testify a stable resistance to the economic crisis Though an always small growth, our country for the year 2012 has had the highest increase of the GDP, except of Kosovo.

If we shall see the average purchase and producing power for every Balkan country (compare of the years 2007/2012) can see a significant contraction of the Croatia, Bulgaria and Serbia economy, while the biggest progress is noted at the Albanian spaces where for the year 2012 the Albania has produced nearly 7,2% of the goods and services of the region and Kosovo 3,7%. The purchase power for every person at the tables 2 and 3 means GDP for person with the present prices at the USA. The Albania at the year 2007 was the last region countries, and a Bulgarian can buy the double of those of one Albanian or a person from Bosnia has had a purchase power nearly 14% higher than an Albanian citizen. The evolution results up to the year 2012 are positively impressive because today the purchase power of an Albanian citizen is 11% higher compare those of the Bosnia and only 15% lower than those of the Serbian or Macedonian. The power purchase progress and the approach of the life standards for the Albanian citizens is impressive compare with every region countries.

Graph. 1. GDP PPP (purchase power per person) WEO 2013



Tab.2: GDP PPP (purchase power per person) WEO 2013

	2007	2008	2009	2010	2011	2012
Albania	6.337	6.920	7.184	7.497	8.948	9.226
Bosnia and Herzegovina	7.224	7.807	7.659	7.832	8.115	8.215
Bulgaria	12.095	13.187	12.645	12.965	13.812	14.311
Croatia	17.888	18.674	17.548	17.422	17.849	17.810
Kosovo	5.287	5.777	5.997	6.314	6.767	7.036
FYR Macedonia	8.960	9.601	9.576	9.963	10.444	10.579
Montenegro	9.930	10.823	10.252	10.597	11.628	11.800
Serbia	9.722	10.359	10.124	10.117	10.404	10.404

Tab. 3: The compare of the Purchase Power of the Region Countries from Albania point of view WEO

	2007	2008	2009	2010	2011	2012
Albania	100	100	100	100	100	100
Bosnia and Herzegovina	114	113	107	104	91	89
Bulgaria	191	191	176	173	154	155
Croatia	282	270	244	232	199	193
Kosovo	83	83	83	84	76	76
FYR Macedonia	141	139	133	133	117	115
Montenegro	157	156	143	141	130	128
Serbia	153	150	141	135	116	113

Tab. 4: Index consume price %

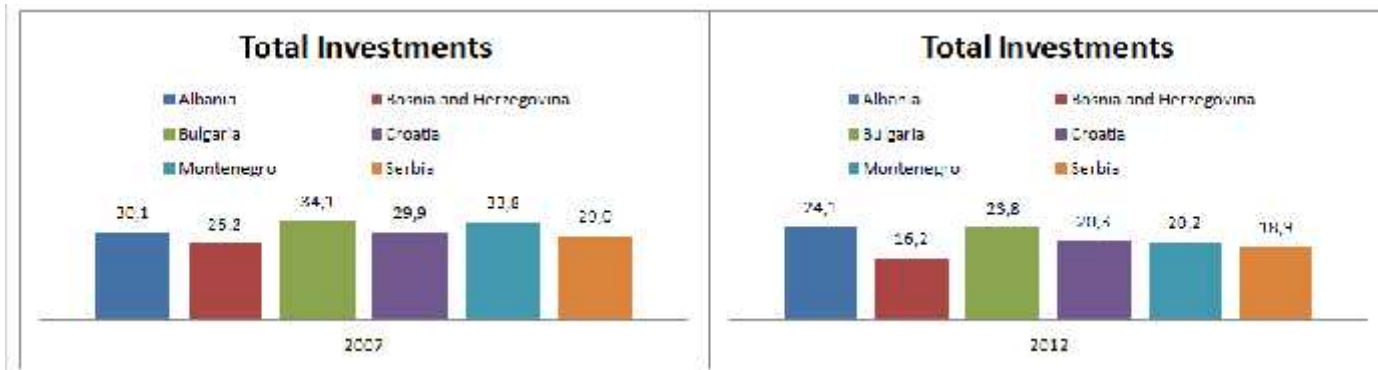
	2007	2008	2009	2010	2011	2012
Albania	2.9	3.4	2.3	3.5	3.4	2.0
Bosnia and Herzegovina	1.5	7.4	-0.4	2.1	3.7	2.0
Bulgaria	7.6	12.0	2.5	3.0	3.4	2.4
Croatia	2.9	6.1	2.4	1.0	2.3	3.4
Kosovo	4.4	9.4	-2.4	3.5	7.3	2.5
FYR Macedonia	2.3	8.4	-0.8	1.5	3.9	3.3
Montenegro	3.5	9.0	3.6	0.7	3.1	3.6
Serbia	6.9	12.4	8.1	6.2	11.1	7.3

Tab. 5: Total Investments %GDP WEO 2013

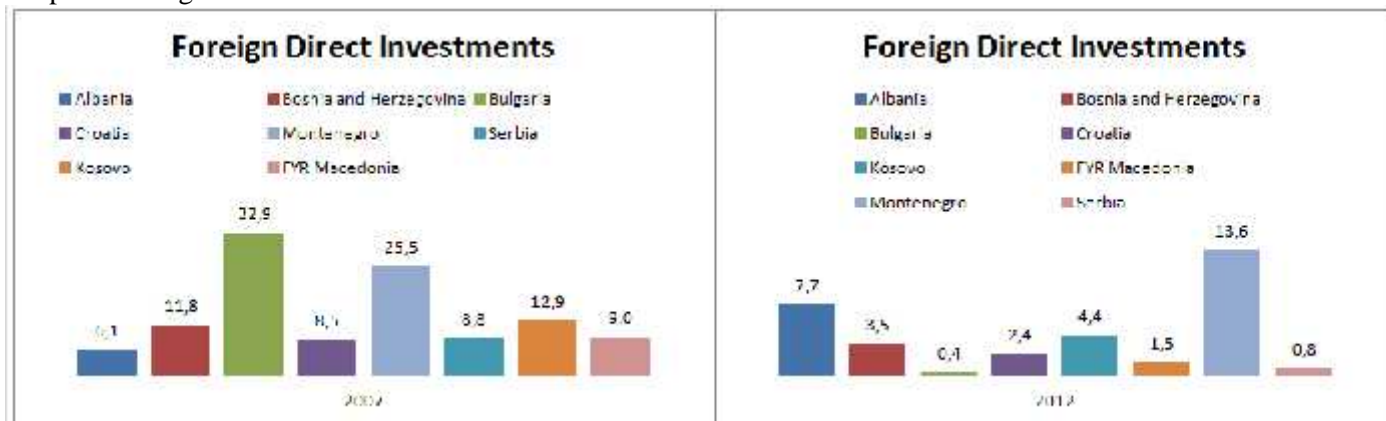
	2007	2008	2009	2010	2011	2012
Albania	30.1	33.4	30.3	26.8	25.6	24.1
Bosnia and Herzegovina	26.2	28.0	20.3	17.1	15.8	16.2
Bulgaria	34.1	37.5	29.4	22.9	21.9	23.8
Croatia	29.9	31.3	25.9	21.9	21.4	20.3
Montenegro	33.8	40.7	27.1	22.8	19.5	20.2
Serbia	29.0	29.7	18.0	16.5	21.2	18.9

The Table. 4, shows the Consume Index Price as proxy of the inflation where the rayon hasn't price problems except Serbia, while regarding the total investments (public and private) those has been at the higher levels in every country before the economic crisis (nearly 30% of GDP). At the year 2012 we have an investment contraction with about 10% of GDP except the Albania. Our country knew to be more and more attractive mainly for the Foreign Direct Investments which are increased from 6,1% of the GDP at the year 2007 at 7,7% of the GDP on the year while the other countries has had a dramatic going down of the FDI.

Graph.2: Total Investments %GDP WEO 2013



Graph.3: Foreign Direct Investments %GDP WEO 2013



2.2 Foreign Sector

Tab.6: The Coverage Rate of Import to Export (DG ECfin)

	2007	2008	2009	2010	2011	2012
Albania	51.3	52.4	54.3	62.2	59.9	64.5
Bosnia and Herzegovina	67.7	44.2	50.6	56.9	57.1	55.2
Bulgaria	83.1	73.4	85.7	96.6	101.5	n.a.
Croatia	96.6	84.5	91.3	98.8	100.0	101.6
Kosovo	27.8	25.6	31.1	34.3	34.6	34.9
FYR Macedonia	80.5	66.8	64.4	71.4	73.6	70.4
Montenegro	56.8	42.0	49.1	55.0	60.7	64.0
Serbia	63.4	56.8	62.4	67.9	65.9	69.3

At this sector has been noted sensible fluctuations at the rate import/export of each country. Except the Croatia for the last year, all other countries are or has been net importers. At an unfavorable situation before the crisis

start has been Kosovo which exports was only 27,8% of imported goods and services, followed by Albania with a rate of 51,3%. Our country has had a significant progress at the production activities because today it cover 63,7% of the imports (+12,4%) arriving and exceeding at this indicator countries like Bosnia and Montenegro. The currency which has had the most decrease value at this period has had the Serbian Dinar which from the beginning of the year 2009 has lost about 35% of its value, while the Albanian Lek has lost about 11% of its value at the years 2010/2011. The Croatian Kuna has had not an sensible fluctuation while the other countries hasn't free exchange rates or use the Eur.

Tab. 7: The current account % GDP WEO 2013

	2007	2008	2009	2010	2011	2012
Albania	-10.4	-15.2	-14.0	-11.4	-12.0	-10.1
Bosnia and Herzegovina	-9.1	-14.2	-6.6	-5.6	-9.5	-9.7
Bulgaria	-25.2	-23.0	-8.9	-1.5	0.3	-0.7
Croatia	-7.3	-9.0	-5.1	-1.1	-1.0	-0.1
Kosovo	-8.3	-15.3	-15.4	-17.4	-20.4	-20.3
FYR Macedonia	-7.1	-12.8	-6.8	-2.1	-3.0	-3.9
Montenegro	-39.5	-49.8	-27.9	-22.9	-17.7	-17.6
Serbia	-17.8	-21.7	-6.6	-6.8	-9.2	-10.9

2.3 The Fiscal Sector

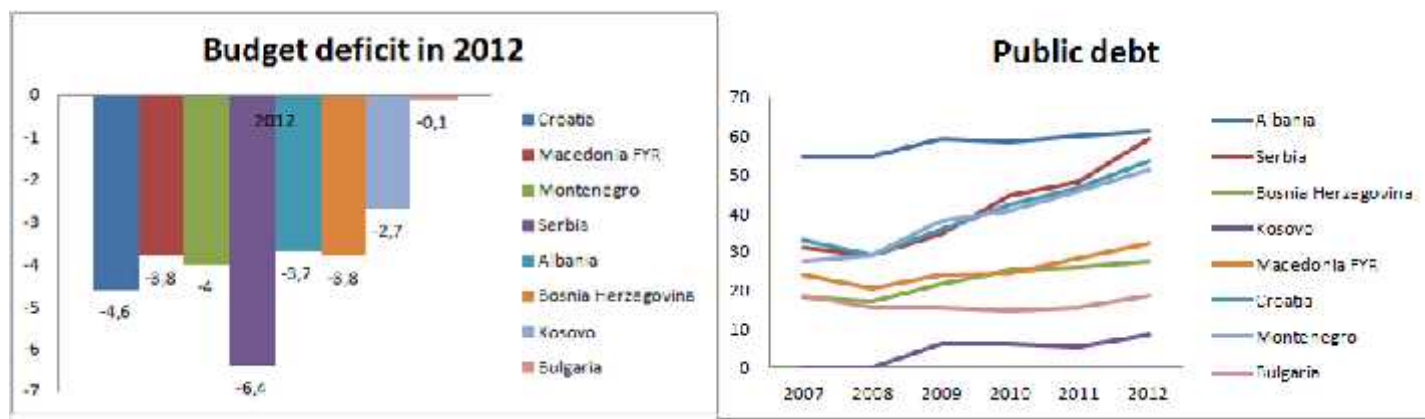
Tab. 8: The Government general balance (Fiscal debt) at % of GDP – IMF WEO April 2013

	2007	2008	2009	2010	2011	2012
Croatia	-2.5	-1.4	-4.1	-4.9	-5.1	-4.6
Macedonia FYR	0.6	-1	-2.7	-2.5	-2.5	-3.8
Montenegro	6.2	-4.4	-5.7	-4.9	-5.4	-4
Serbia	-2	-2.6	-4.5	-4.7	-4.9	-6.4
Albania	-3.5	-5.5	-7	-3.1	-3.6	-3.7
Bosnia Herzegovina	1.2	-2.2	-4.4	-2.5	-1.3	-3.8
Kosovo	7.1	-0.1	-0.7	-2.6	-1.7	-2.7
Bulgaria	3.9	2.8	-0.6	-3.7	-1.7	-0.1

The situation before the crisis start is characterized from a budget surplus for five from eight of the analyzed countries where are noted the Kosovo and Montenegro surpluses. The economic crisis has heavy hit the Croatia, Montenegro, Serbia and Bosnia incomes. The Albania hold the negative record for the year 2009, but must be pointed out that its deficit hasn't been caused for the assistive reasons, contrary, for the construction of the nation road, part of the infrastructure programs. From data clearly distinguish that the Balkan government countries, except Bulgaria, hasn't start yet to apply at the efficiently manner for the cost reduction programs.

The respective Graph for the Public Debt clearly shows that to the Albania, which historically has been the country with the most higher debt at the region, there are joined the Serbia and Montenegro. From the progressive point of view the Serbia is the country with the higher increase debt (+28,8% in five years) while the Albania has represented the more careful country with a debt increase only 6,7% at the same time, except the Kosovo.

Graph. 4: Budget deficit and Public debt (at % of GDP) (DG ECFin)



Tab.9: The total public debt (at % of GDP) (DG ECFin)

	2007	2008	2009	2010	2011	2012
Macedonia FYR	24	20.6	23.9	24.6	28.2	32.1
Croatia	32.9	29.3	35.8	42.2	46.7	53.6
Montenegro	27.5	29	38.2	40.9	45.9	51.1
Serbia	30.9	29.2	34.7	44.5	48.2	59.3
Bulgaria	18.5	15.5	15.5	14.9	15.5	18.5
Albania	54.8	54.8	59.5	58.5	60.3	61.5
Bosnia Herzegovina	18.1	17.1	21.8	25.4	25.9	27.4
Kosovo	n.a	n.a	6.2	6.1	5.3	8.4

2.4 Monetary Sector

Tab. 10: Deposits (annual change at %) (BQ)

	2007	2008	2009	2010	2011	2012
Croatia	27.2	7.4	-15.2	-19.8	7.3	8.3
Macedonia FYR	31.4	23.5	4.6	13	10.9	7.2
Montenegro	94.4	-4.8	-8.3	-1.9	1.5	9
Serbia	46.9	8.8	23.6	14.4	9.2	10.4
Albania	n.a	14.8	-0.1	15.5	14.5	9.4
Bosnia Herzegovina	36.6	15.4	-4	4.7	2.6	2.6
Kosovo	19.3	25.6	20.3	14.8	12	8.1
Bulgaria	35.3	20.3	14.3	5.8	6.1	5

The deposits increase has been strong and continuous up to the first part of the year 2008. This increase was due by the foreign investor too mainly at Montenegro (directed to the tourism area) and in Serbia (directed to the productive activities). The year 2009, other than the Kosovo and Bulgaria has noted a fear moment (without any motive) for the Balkan banks. During the two last years was noted a reduction of the fluctuation and the countries which has held the rhythms of a relative sustainable growth has been the Kosovo, Bulgaria, Macedonia and Albania.

Regarding the credits, states like Montenegro and Albania has underwent an strong extension of the loan up to the beginning of the year 2009. The Albania hasn't suffered up to now the reduction of the credits but the dynamic growth is more and more mitigate. The Kosovo and Serbia has held the positive rhythms of the credits

too but while the first has this from a very small credit base, the second one seems very positive only because the country is underwending at the same years an relative higher inflation .

The Albania is the country more problematic regarding the credits under standards (non performing loans) recognized as bad loans. This phenomenon may be caused from three main reasons as:

1. The expansion with high rhythms and continuous during years of the credit,
2. delays for the clearing of the debts that the government administrate has against the private companies and
3. a very slow system for the collateral execution.

With an higher norm of (NPL) are the countries as Serbia, Montenegro and Bulgaria.

Tab. 11: The credit for the economy (annual change at %) (BQ)

	2007	2008	2009	2010	2011	2012
Croatia	19.4	11.6	5	2.9	6.5	0
Macedonia FYR	35	40.3	14.2	5.4	8.1	7.3
Montenegro	165.1	24.6	-14.3	-8.2	-11.1	-4.8
Serbia	32.5	34.2	24.4	29.9	7.4	13.2
Albania	53.9	43.8	20.5	8.6	11.7	7.4
Bosnja Herzegovina	27.4	28.4	5.4	-0.9	5.6	4.9
Kosovo	29.7	38.7	17.4	10.1	15.4	8.9
Bulgaria	58	33	6.8	5.1	7.6	2.4

Tab. 12: The under-standard credits (NPL)(at % to the total of credits) (DG ECFin)

	2007	2008	2009	2010	2011	2012
Macedonia FYR	7.5	6.7	8.9	9	9.5	9.7
Croatia	4.8	4.9	7.7	11.1	12.3	13.2
Montenegro	3.2	7.2	13.5	21	15.5	16.9
Serbia	9.2	11.3	15.7	16.9	19	18.6
Bulgaria	2.1	2.5	6.4	11.9	14.9	16.9
Albania	3.2	4.7	9.1	12.6	17	21.7
Bosnia Herzegovina	3.4	3	4.5	9.1	12	12.7
Kosovo	n.a	3.7	4.4	5.9	5.7	6.4

2. The undertaken reforms

Hereunder we shall mentions through strong points the undertaken reforms from the Balkan states which have analyzed in order to soften the economic crisis effects and to transcend as soon as possible it.:

- The introduction of the proportional tax “ flat tax”, which permits the capital accumulation and favors the investments at the most profitable areas, simplification the calculations and the tax payments. This tax is applied in Albania, Bosnia, Bulgaria, Macedonia (10%), Montenegro (9%), Serbia (12%).

- The reduction of the social and health contributions.

- The elimination of the bureaucracy at the public administration adopting the information technology and adopting systems “One stop shop” for the registration of the new business activities.

- Promotion of the public investments (infrastructure) mainly those of the transports which has two positive effects as the reinforcement of the consume and the strengthening of the economic growth after the end of the global crisis. This strategy is mainly pronounced at the countries like Croatia, Albania and Kosovo.
- Promotion of the free economic areas, which means freedom to invest without taxes. These projects is preview to be realized as beginning in Macedonia.
- The adoption of the new practices of the cooperation between the public sector and those private (project financing, capital venture, concession agreement, subsidized loans etc...)
- The privatization of the non-efficient state enterprises , but these actions will bring positive effects only at medium limit time.
- Promotion of the international economic cooperation organizations, like CEFTA (Central European Free Trade Agreement), The Black Sea Bank etc...
- The more fast execution of collaterals and the restructure of the credits from financial institutions.

3. Conclusions and Recommendations

The economic - finance crisis has been always the integral part of the economic development, but the measures for their prediction remains the major task of the financial international institutions and of the governments of every country. From the analyzed data it seems clear that last economic crisis has hit our region in two times, where the first has caused the recession at the most countries at the year 2009 and the second one at the year 2012. The countries which up to now has registered a continuous increase has been the Albania and Kosovo but also in these countries the increase rhythm is less than the half of before the crisis.

The indicators show that the Albania is the new protagonist actor in Balkan and the country in which there are applied the most courageous economic reforms. The increase of the GDP has been the highest compare with other countries from the year 2008 and after and the average purchase power of the Albanians has exceed those of Kosovo, Bosnia and is going near quickly to Serbia and Macedonia. These results has been possible due to a low inflation and inner and foreign investments relatively higher too. The Albanian economy knew to be always more competitive overstating the export quotes and improving at a sustainable way the reports import/export although in this area has to be done more. The Albania has been the country with the relatively higher public debt but the increase rhythm has been slowest compare with every other country and the interests for the debt service never hasn't exceed the capital expenses, otherwise from countries like Serbia and Montenegro. The most concerning element for the Albanian economy are the bad loans and the fear of the banks to give loans but this is for all the Balkan.

The last protagonists of the Balkan weakening economies are Croatia and Serbia. The first country seems to have exhausted the increase power due to the near accession in CE and must create e new model of the economy. The Serbia is yet at a phase where the state is the direct protagonist of the economy (being too far from the end of the privatizations) and it function yet on the welfare grounds, which are the responsible for the gallop growth of the public debt.

The Bulgaria, Macedonia and Montenegro, though from the different positions has shown that they are able to face the economic crisis and to be promoters of the economic development and to implement relatively efficient reforms. These countries from the economic point of view has protect their position at the rayon, the same as Bosnia Herzegovina though for this country it isn't preview a positive future because the state administration too bureaucratized and slow is curbing the economic growth and the implementation of the necessary reforms.

The recommendations which we can given will be:

- The role regulator reinforce of the state to protect the competition and the quality standards at the clarification of the concessionary reports regarding with natural monopolies.
- The reduction and the narrowing of the spaces for arbitrariness from the customs and tax administrations and the reduction of the political influence on the economical decisions. .
- The systematic development of the agricultural and energy sector.
- The promotion to create and the function of the closed production and the processing of raw material cycles
- The reinforce and the fast application of the courts decisions and the acceleration at the limit time of the taking decisions from the courts regarding the administrative issues. In Albania must to be fulfill the conditions for the function of the administrative court.
- The promotion within the public administration of the best international practices and of the more competent staff eliminating customers phenomena.
- Investments at the research areas and to the information technology.
- The reduction of the current expenses and the reduction of the pension numbers (mainly in the countries like Serbia and Bosnia where the assistances to the ex fighters are more higher yet).

4. The Literature and References

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