



ТРЕНДЫ ЭКОНОМИЧЕСКОГО РАЗВИТИЯ СОВРЕМЕННОГО МИРА

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BALKANS – GROWTH, STABILITY, THE IMPACT OF FINANCIAL CRISIS AND INTEGRATION TO THE WORLD

Аннотация: *Balkan peninsula is treated as a special case: as powder keg of Europe and the term “balkanization” has negative connotation. Events of last twenty years did not disappoint such terminology, both within Balkan and outside. There was collapse of socialist economies, disintegration of socialist Yugoslavia with not optimal political solutions. External conditions such as an ailing EU, political turmoil in Near East had negative influences on Balkans. The aim of this article is to investigate what has happened with Balkan economies in the last twenty years. In particular, the author focuses on the consideration of the long term trends in economic growth and its stability (is catching-up to developed Europe taking place?); on the impact of global financial crisis on Balkans (was Balkans with less developed financial structure insulated from negative consequences of global financial crisis?); and on the success in integration of Balkan economies to the globalizing world (is Balkans still “an isolated island” in the world of progress?). Basic criteria for a selection of analyzed countries is geographical position of country in Balkans. Thus, 11 Balkan countries are analyzed (Cyprus is not included). The quality of macroeconomic performance and long term development strategy used is measured by dynamic of GDP growth, the stability of growth in period 1991-2010 and resistance to the effects of global financial crisis. The first part includes two indicators of welfare: growth and stability, the second includes the effects of creation of bubble in period 2005-2008 and its bursting in after that.*

Ключевые слова: *financial bubble, integration, economy, analysis, macroeconomic, balkanization, Balkan, dynamics, Eurozone, global financial crisis*

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I. INTRODUCTION

Balkan peninsula is decades treated as special case: as powder keg of Europe and the term “balkanization” has negative connotation. Events of last twenty years did not disappoint such terminology, both within Balkan and outside - in countries bordering the region. There was collapse of socialist economies, disintegration of socialist Yugoslavia with not optimal political solutions, as for instance Dayton

Agreement and Ahtisaari's Kosovo solution. Solution. At the same time Greece suffers economic depression. External conditions were also not favorable: ailing EU, political turmoil in Near East and East to the peninsula had negative influences on Balkans.

Such political and social developments had to impact the economic trends in Balkans as in return they influenced political and social developments. The intention of this paper is to investigate what has happened with Balkan economies in last twenty years. In particular, the subject of research interest are:

- long term trends in economic growth and its stability (is catching-up to developed Europe taking place)
- the impact of global financial crisis on Balkans (was Balkan with less developed financial structure insulated from negative consequences of global financial crisis) , and
- the success in integration of Balkan economies to world in the proves of globalization (is Balkan still and "isolated island" in the world of progress ?.

Basic criteria for the sample of analyzed countries is geographical position of country in the Balkans. It is usually neglected in empirical analysis in favor of some other criteria. Thus 11 Balkan countries are analyzed (Cyprus is not included). Geographical proximity and common historic (cultural) experience could be argument for such unusual grouping. At the same time, contagion effect of crisis (from more developed Greece to other neighbors) can not be neglected.

The quality of macroeconomic performance and long term development strategy used is measured by dynamic of GDP growth, the stability of growth in period 1991-2010 and resistance to the effects of global financial crisis. The first part includes two indicators of welfare: growth and stability, the second includes the effects of creation of bubble in period 2005-2008 and its bursting in after that. Faster and more stable growth and

smaller bubble creation indicate desired qualities of country economic activity and thus a proper way to the transition in its development.

Data from the World Bank data base are used for empirical analysis. Balkan countries will be analyzed individually, and in comparison to world average as well as some other relevant groups of countries.

Balkan countries in transition are eleven: Alb, BaH, Bul, Cro, Gre, Kos, Mac, Mon, Rom, Serb, Turkey, while Slovenia is attached together with some group averages as benchmark (world, BRIC5, OECD, LDC).

II. METHODOLOGY

2.1. The dynamics of growth and its stability

a) Growth dynamics

For period 1991-2010 we calculated:
 geometric mean of growth rates $G = G_a$
 standard deviation of growth rates, based on geometric mean SD
 Coefficient of variation $KV = SD/G_a$

At the same time, we present GDP per capita (current USD) for each country and the above groupings for the starting year 1991, the final year in sample 2010 as well as the absolute difference between the two VG and the ratio of the two KG :

- GDP pc1991
- GDPpc 2010
- $VG = GDP_{pc} 2010 - GDP_{pc} 1991$
- $KG = GDP_{pc} 2010 / GDP_{pc} 1991$.

The idea is to test the hypothesis, that lower starting position (GDPps as indicator of standard of living) could enable faster growth of CiTs in the process of catching-up with developed countries. If true, this can be proved by negative correlation between the starting GDPpc in 1991 and the average growth rate.

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Also, with neglecting the role of population growth the faster GDP growth will lead to larger difference in GDPpc between 1991 and 2010.

b) Variability of growth

Stability of growth was measured with standard deviation SD and Coefficient of variation KV from arithmetic mean of GDP growth rates.

The question is which kind of indicators to use: absolute (SD, difference in GDPpc) or relative (KV, ratio in GDPpc). In principle, relative indicators are preferred over absolute, but in this special case of GDP growth rates and GDPpc, absolute indicators can have more sense in interpretation. For instance, if average growth rate G_a is close to zero, the relative deviation $KV = SD/G_a$ could be huge despite low absolute variation of growth rates SD.

Simple arithmetic means are calculated for group averages.

c) Resilience of growth – resistance to the global financial crisis

The idea to test is that countries that differ more from average growth during creation of bubble in 2005-2008, did have larger bursting (negative difference to average growth) during arrival of crisis after 2008. Lower the difference, the higher resistance to the global crisis exist in country.

Symmetry of positive and negative differences from the average growth is important. The higher difference indicates that some specific factors were present.

The highest growth rate G_{max} and lowest growth rate G_{min} as well as the highest positive difference to the average growth rate $G_{max}-G_a$ and the highest negative difference $G_{min}-G_a$ in period 2005-2010 is calculated for each country and groups of countries.

The idea to test is that countries that differ more from average growth during creation of bubble in 2005-2008, did have larger bursting

(negative difference to average growth) during arrival of crisis in 2009.

Symmetry of differences to plus and minus is important; if not, some specific factors were present.

d) Synthetic indicators of misery (social situation), disequilibrium and aggregate macroeconomic performance. Aggregates of individual macroeconomic indicators are calculated to present overall situation in individual country and trends in period including onset, presence and way out of consequences of global financial crisis 2005-2010. Advantage is to get an overall picture of situation, weakness is that summing up individual indicators is sometimes questionable. To get better overall picture were willing to scarify some correctness in methodology applied.

These indicators are:

- misery index: sum of unemployment rate and inflation rate (introduced by L.R. Klein and some other before him)

- disequilibrium index: sum of current account deficit and budget deficit, both relative to GDP
- aggregate economic performance indicator: GDP growth – inflation rate – unemployment rate – current account – budget.

e) The most recent fiscal vulnerability indicators are presented for Balkan countries, based on EBRD statistics and in addition country statistics EU, IMF and the World Bank statistics.

They include indicators of country indebtedness for 2010 (the recent data available):

- public, external (total and private) debt,
- foreing exchange reserves (total, related to short term debt and to months of import),
- difference external debt- reserves, and
- net foreign direct investment inflow (as one of the sources to finance indebtendness.

f) Situation in banking sector of analyzed countries is illustrated by most recent banking indicators, obtained from EBRD data and some other sources::

- bank assets to GDP (“bankization” of the

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economy, narrower term than financialization or monetization of the economy),

- the structure of bank ownership: private domestic, state and foreign,

- deposits, loans and loan-to-deposit ratio as indicator measuring leverage in banking sector,

- structure of banking loans: the share of non-performing loans, and the share of foreign exchange loans in GDP and in total loans.

g) Countries are evaluated by the degree of approximation to the EU from full membership plus Eurozone membership to no formal relation; and these are correlated with level of economic development of each country (as measured by GDP per capita).

h) The level of the EU financial support to the Balkan candidate and potential candidate countries for financial perspective 2006-2013 is calculated and then measured in relation to GDP and population of receiver Balkan country.

i) The degree of exposure of Balkan countries to the Eurozone and to PIIGS relative to GDP is measured by the three indicators: export, external debt and FDI.

j) Simulation is made for Turkey to become the sixth member EM leaders transforming BRICS into CRIBST by calculating for the group average growth rate and its variability in last 20 years, their strength measured with the GDP.

Statistical Data Sources

Table 1: Growth and its stability

COUNTRY	GDP 2009	Transition Progress Max = 88 rank	GDPpc 1991/2010	GDPpc 10-91	GDPpc 10/91	Growth 91-10 Ga	SD	KV= SD/Ga
World	58260					2.70	1.43	0.53
BALKANS	1308	66.3	2841/8335	5585	4.0	3.0	7.62	1.52
Turkey	614.6	73.5 3.	2743/10094	7351	3.7	3.74	4.91	1.31
Greece	264.0		9772/26600	16828	2.7	2.36	2.54	1.08
Bulgaria	33.2	72.5 5.	1268/6325	5057	5.0	1.39	5.40	3.88
Romania	161.1	75.5 1.	1244/7538	6294	6.1	1.26	6.57	5.21
Albania	12.0	59.5 7.	346/3678	3332	10.6	3.28	10.89	3.32
BaH	17.0	55.0 10.	2057/4409	2352	2.1	11.97	16.65	1.39
Croatia	63.0	73.5 3.	4026/13754	9728	3.4	0.54	7.83	14.52
Kosovo	5.4	...	760/3059	2299	4.0	6.15	6.52	1.06
Macedonia	9.2	62.0 6.	2442/4460	2018	1.8	0.61	4.15	6.84
Montenegro	4.1	58.5 9.	2247/6510	4263	2.9	2.50	5.31	2.12
Serbia	43.0	59.0 8.	3355/5269	1914	1.6	-0.90	13.10	-14.5
Benchmarks								
OECD	41214					2.04	1.60	0.78
LDC	5454					4.78	2.08	0.43
Slovenia	48.5	74.0 2.	6331/22851	16520	3.6	2.26	4.46	1.97
BRICS 5	9473		1817/6866	5049	3.8	4.75	3.29	0.69

Sources: The World Bank Data, EBRD Transition Report 2011, own calculations

In addition, degree of transformation of post-socialist countries among Balkans is calculated by aggregation of twelve indicators of transformation advance as presented by the EBRD Transformation Report 2011.

For most countries data was available from EU, EBRD, IMF and the World Bank. Problems were with data for Kosovo, which is scarce, and for Greece, which is not comparable, as it comes from different source.

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III. RESULTS

III.1. GROWTH DYNAMICS AND STABILITY

ID Card of Balkan 11

In 2009 Balkan economies counted for 2.25% of world GDP according to the World Bank data. By the EBRD soft transition indicators (Transition Report 2011) by 2010 they achieve around 75% of desired transition to market economy on average (Greece and Kosovo excluded), with four in the front group (Romania, Turkey, Croatia, Bulgaria) and the rest in group lagging behind.

High growth, but high variability for Balkan 11 in 1991-2010

Desired goal are high and stable GDP growth rates.

In the long term development Balkan 11 achieved average GDP growth rate 3.% in period 1991-2010, which is above world average (2.7%) and OECD average (2.04%), but below LDCs average (4.78%) and BROCS average (4.75%).

In 2010 GDP per capita of Balkan 11 was 4-times higher than in 1991. It increased by 5585 current \$. BaH and Kosovo exceeded average growth rate (military involvement) Turkey had also above average growth in observation period, while average growth rate for Serbia was even negative.

In absolute values average GDP per capita increased however the most for Greece (!) Croatia and Turkey, while the least for Serbia, Macedonia, Kosovo and BaH.

Variability of growth, measured by standard deviation as well as coefficient of variation (SD/Ga) was for Balkan 11 well above averages for world, OECD, LDCs and BRICS. Within group, Serbia, BaH and Albania experienced above average variability (unstable growth), while Greece, Macedonia and Turkey most stable.

III. 2. RESILIANCE (RESISTENCE) TO THE FINANCIAL CRISIS
THE EFFECT OF GLOBAL FINANCIAL CRISIS ON BALKANS

In tables 2 – 9 the effect of global financial crisis on Balkans is measured, first, by inflation and bursting of bubble GDP growth between 2005 and 2010, and second, by different macroeconomic indicators: misery index (unemployment rate plus inflation rate), imbalance index (current account plus budget), macro-economic aggregate indicator (GDP growth – unemployment rate – inflation rate – budget deficit – current account deficit), as well as by fiscal vulnerability (table 7) and performance of banking sector (tables 8 and 9).

III.2.1. Bubble

According Table 2 the maximum yearly growth rate for Balkan 11 was 7.15% on average (achieved in predominantly in 2007-2008) which was more than double of its long term average growth of 3%, while minimum average rate of -2.80 was achieved for all but Greece in 2009. Deviation above the

Table 2: Creation and bursting of bubble

COUNTRY	GDP 2009	GDPpc 2010	Ga	Gmax	Gmin	VG	Gmax-Ga	Gmin-Ga
World	58260	10000	2.70	4.05 6	-2.32 9	6.37	1.35	-5.02
BALKAN 11	1308	7945	3.00	7.15	-2.80	9.95	4.15	-5.80
Greece	264.0	26600	2.36	5.54 6	-3.51 10	9.05	3.18	-5.87
Turkey	614.6	10094	3.74	8.40 5	-4.82 9	13.22	4.66	-8.56
Bulgaria	33.2	6325	1.39	6.56 6	-5.50 9	12.06	5.17	-6.89
Romania	161.1	7538	1.26	9.43 8	-8.50 9	17.93	8.17	-9.76
Albania	12.0	3678	3.28	7.70 8	3.30 9	4.40	4.42	0.02
BaH	17.0	4409	11.97	6.83 7	-2.91 9	9.74	-4.86	-14.88
Croatia	63.0	13754	0.54	5.06 7	-5.99 9	11.05	4.52	-6.53
Kosovo *	5.4	3059	6.15	6.90 8	2.90 9	4.00	0.75	-3.25
Macedonia	9.2	4460	0.61	6.15 7	-0.92 9	7.07	5.56	-1.53
Montenegro	4.1	6510	2.50	10.2 7	-1.27 9	11.52	7.25	-3.77
Serbia	43.0	5269	-0.90	5.40 7	-3.50 9	8.90	6.30	-2.60
Benchmarks								
OECD	41214		2.04	2.95 7	-4.04 9	6.99	0.91	-6.08
LDC	5454		4.78	7.96 7	4.48 9	3.48	3.18	-0.30
CIT EU 10		13214	1.66	8.35	-8.44	16.79	6.69	-10.10
Slovenia	48.5	22851	2.26	6.87 7	-8.00 9	14.87	4.61	-10.26
BRICS 5	9473	6866	4.75	8.04	0.97	7.07	3.29	-3.78

Sources: The World Bank, IMF, EBRD, EU, own calculations

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average was smaller than below it indicating that additional weaknesses were present in Balkans during bursting of bubble.

Among individual countries above average variation of GDP growth rates was experienced by Romania, Turkey, Bulgaria, Montenegro and Croatia. The highest maximum was experienced by Montenegro (10.2% growth in 2007), the lowest strongest minimum by Romania (-8.5% in 2009). Bosnia and Herzegovina and Kosovo suffered military activities on their territory, which explains unusually high average GDP growth rates and

therefore also high deviations from them in period of crisis.

III. 2.2. ADDITIONAL INDICATORS RELATED TO THE IMPACT OF GLOBAL FINANCIAL CRISIS ON BALKANS

Three synthetic indicators illustrate situation in time dynamics 2005-2011 and cross country for Balkan 11 (plus Slovenia as benchmark).

Social situation is worsening only after 2009

Table 3: Misery Index: Unemployment rate + inflation rate

COUNTRY	GDP 2009	GDPpc 2010 %	2005	2006	2007	2008	2009	2010	2011
World	58260	100							
BALKAN 11	1308	83	26.6	25.3	22.6	25.4	21.1	22.7	27.1
Turkey	614.6	101	17.4	18.3	17.6	20.1	18.8	19.3	21.3
Greece	264.0	266	13.3	12.2	11.3	11.9	10.9	17.2	23.8
Bulgaria	33.2	63	16.1	16.3	15.3	18.6	11.9	12.2	15.4
Romania	161.1	75	16.3	13.9	11.2	12.3	13.4	12.9	11.2
Albania	12.0	37	16.5	16.2	16.4	16.3	15.3	17.6	17.3
Bosnia and Herz.	17.0	44	46.9	37.2	30.5	36.4	23.7	29.3	47.1
Croatia	63.0	137	15.6	14.3	12.5	14.4	11.5	12.9	19.9
Kosovo	5.4	31	42.8	45.5	48.0	56.9	47.8	48.6	52.3
Macedonia	9.2	45	37.3	39.3	37.8	41.0	31.9	33.6	35.9
Montenegro	4.1	65	33.7	32.6	23.6	25.8	22.9	20.3	24.0
Serbia	43.0	53	37.2	32.8	24.4	26.0	24.2	25.5	30.2
Benchmark									
Slovenia	48.5	229	9.0	8.5	8.4	10.0	6.7	9.2	10.5

Sources: The World Bank, IMF, EBRD, EU, own calculations

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According to Table 3 general social situation was improving in Balkan 11 until 2009 (!; the lowest point in developed world), because declining inflation was more important for them than increased unemployment in 2008-2009. But, it began to deteriorate after 2009, so that in the 2011 it is the worst for the whole observation period. Lag in entering crisis is followed with the lag to get out of it. Crucial finding is that social situation today is much worse than in all previous 7 years, including years of relative pre-crisis prosperity in the world.

The level of misery differs significantly among individual members of Balkan 11. Kosovo and BaH started with much worse situation than other Balkans, with Kosovo situation deteriorating even further during observation period, second

because of damped aspirations, not life in reality, which is for them even in 2011 still much better than for Kosovars, for instance.

Economic disequilibrium achieved peak in Balkans in 2008 as in the rest of the world

Optimal development is sum of growth and stability. High disequilibrium causes uncertainty leading to declined welfare. At the same time, autonomous domestic product should have external deficit subtracted from GDP growth. Disequilibrium is sign of weaknesses of economy and its economic policy and, at the same time, can indicate economic problems at home and, sometimes, at wider global scene.

Table 4: Disequilibrium – Imbalances: balance of payments + budget

COUNTRY	GDP 2009	GDPpc 2010 %	2005	2006	2007	2008	2009	2010	2011
World	58260	100							
BALKAN 11	1308	83	-9.2	-10.2	-14.8	-20.1	-15.5	-13.2	-13.4
Turkey	614.6	101	-5.2	-5.3	-6.9	-7.9	-9.0	-9.5	-11.2
Greece	264.0	266	-12.7	-17.2	-21.1	-24.5	-26.6	-20.9	-18.0
Bulgaria	33.2	63	-9.9	-14.6	-26.8	-20.3	-9.8	-4.9	-0.9
Romania	161.1	75	-9.8	-12.6	-15.9	-16.4	-11.5	-10.8	-8.9
Albania	12.0	37	-9.6	-8.9	-13.9	-20.6	-20.5	-16.0	-14.6
BaH	17.0	44	-14.7	-5.1	-9.5	-16.5	-10.7	-10.1	-9.7
Croatia	63.0	137	-9.3	-9.6	-9.7	-10.2	-9.3	-6.1	-7.5
Kosovo	5.4	31	-9.3	-5.4	-1.7	-15.4	-17.8	-18.9	-27.9
Macedonia	9.2	45	-2.3	-1.5	-6.4	-13.0	-9.4	-5.3	-8.0
Montenegro	4.1	65	-10.5	-20.7	-32.9	-50.1	-34.7	-30.6	-27.9
Serbia	43.0	53	-7.7	-11.8	-18.0	-24.2	-11.6	-11.9	-12.3
Benchmark									
Slovenia	48.5	229	-3.2	-3.7	-4.9	-7.0	-7.2	-6.3	-7.3

Sources: The World Bank, IMF, EBRD, EU, own calculations

group is formed by Macedonia, Serbia and Montenegro, where starting position improved in Montenegro, while stagnated in other two. For other five situation was quite similar at the start, and deteriorated the most in Greece.

It is important to take into account starting standard of living, which is quite different for Balkan 11. Even with worsening situation Greeks are still doing much better (at least on average) than all other Balkans. They have most social unrests

For Balkan 11 disequilibrium grew from 2005 to reach maximum 20.1% of GDP in 2008, when global crisis exploded. Improvement was made in 2009 in further in 2010, but then stalled, so that 2011 disequilibrium is still significant 13.4% of GDP. Without this budget and foreign support, the so called “self-sustained” growth of Balkan 11 would be negative during observation period.

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Time dynamics is equal to most of analyzed countries: increasing disequilibrium until 2008 and after that improvement, which stagnated in 2011. Exceptions are Turkey and Kosovo with maximum in 2011, while Bulgaria already in 2007. The level of disequilibrium, however, differs among Balkans 11: In Montenegro it was 50.1% of GDP in 2008 and remains the highest except for Kosovo in 2011. On the other end, Turkey and some other countries experienced much smaller aggregate disequilibria (for benchmark Slovenia it was the lowest in the period, but increased in recent years). Important information is relatively large disequilibrium for Greece, which explains troubles country got into.

Continued decline of macroeconomic situation until 2008, not much improvement after

Table 5: Macroeconomic performance index: GDP growth – un – infl – BoP/GDP – BoG/GDP

COUNTRY	GDP 2009	GDPpc 2010 %	2005	2006	2007	2008	2009	2010	2011
World	58260	100							
BALKAN 11	1308	83	-30.0	-29.4	-30.5	-40.4	-39.8	-34.1	-38.3
Turkey	614.6	101	-14.2	-16.7	-20.8	-27.3	-32.6	-19.8	-24.5
Greece	264.0	266	-23.7	-23.9	-19.4	-36.6	-40.8	-41.6	-48.7
Bulgaria BGR	33.2	63	-19.7	-23.7	-34.7	-32.7	-27.2	-16.9	-14.5
Romania ROU	161.1	75	-21.9	-17.6	-21.1	-19.3	-33.4	-22.8	-18.6
Albania ALB	12.0	37	-20.1	-20.1	-25.3	-29.2	-32.5	-29.8	-28.4
BaH BIH	17.0	44	-46.6	-36.1	-33.2	-47.5	-37.3	-38.6	-54.9
Croatia HRV	63.0	137	-20.7	-19.0	-17.1	-22.4	-26.8	-20.2	-26.6
Kosovo KSV	5.4	31	-47.3	-44.9	-43.4	-65.4	-62.7	-63.5	-75.2
Macedonia MKD	9.2	45	-35.3	-35.8	-38.1	-49.0	-42.2	-37.1	-40.9
Montenegro MNE	4.1	65	-40.0	-44.7	-45.8	-69.0	-63.3	-48.4	-49.6
Serbia SRB	43.0	53	-39.5	-41.0	-37.0	-46.4	-39.3	-36.5	-39.0
Benchmarks									
Slovenia	48.5	229	-8.2	-6.4	-6.4	-13.5	-21.5	-14.1	-18.0

Sources: The World Bank, IMF, EBRD, EU, own calculations

Total macroeconomic performance of Balkan 11 deteriorated in period 2005-2008 to be improved only slightly later (Table 5). In 2011 it remains much weaker than what it was in 2005. On country level for Greece macroeconomic situation worsens continuously from 2007 with lowest point in 2011, when was lowest point also for Kosovo, BaH.

Relatively best results were achieved by Romania and Bulgaria. To put that in perspective with regard to declining welfare of inhabitants, again, development level of each country should be taken into account.

For most external, not public debt is huge, but foreign exchange reserves suffice

Table 6 gives information on debt burden of Balkan 11 at the end of 2010 (last available data). Data on Kosovo and Greece were not available, although it is well known that Greek domestic and external debt is unsustainable and country needs direct external financial support to be able to service it. Public debt is not large, but external total debt is unsustainable for many Balkans. Thus, at the end of 2010 was public debt less than 60% of GDP, for all

Balkan 11 except Greece, if Maastricht criterium is taken as a benchmark. Gross external debt, which includes private and public debt, is much higher reaching over 100% for Croatia, Bulgaria and Montenegro. For debt servicing, crucial is net debt obtained by subtracting claims from gross debt. But, these are not available.

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Table 6: Vulnerability: FISCUS, in % BDP, 2010, INDEBTEDNESS

COUNTRY	GDP (IMF)	Debt public	Gross Debt Exter Total	Private	Reserve	Res/Debt short term	Res/Months of import	External Debt - Reserves	Net FDI
BALKAN 11									
Turkey	736.0	42.2	33.3	29.9	11.4	72.6	4.0	28.1	1.0
Greece		100+*	160*						
Bulgaria	47.8	17.4	101.6	93.7	35.0	88.1	6.1	66.6	4.1
Romania	161.9	31.7	76.4	52.1	28.1	112.6	6.8	46.5	2.2
Albania	11.9	58.2	36.6	11.0	22.7	362.0	4.5	13.9	9.2
BaH	16.6	39.7	56.9	30.9	20.5	196.5	3.5	36.4	0.1
Croatia	60.7	40.6	102.1	73.5	24.7	71.5		77.4	0.7
Kosovo									
Macedonia	9.1	24.6	59.0	42.8	21.0	97.3	3.2	38.0	3.2
Montenegro	4.1	44.1	100.2		14.8		2.6	85.4	17.9
Serbia	38.1	44.9	83.1	59.1	35.7	184.1	6.8	47.4	3.0
Benchmark									
Slovenia	43.0	38.0	115.2	65.7	2.3	8.5	0.3	112.9	

*estimation

Source: EBRD Transition Report 2011

Foreign exchange reserves were sufficient for most Balkan countries, if measured in relation to short term debt and in months of imports. Reserves were below short term debt only for Turkey, Bulgaria and Croatia, while they satisfy desired

minimum of 3 months of imports for all countries with data available, except Montenegro.

Banking in foreign ownership sensitive in global financial crisis

Table 7: BANKING

COUNTRY	GDP 2009	Assets/GDP, %	Owners State %	Domestic Private %	Foreign %	Deposits/GDP, %
World WLD	58260					
BALKAN 11	1308					
Turkey	614.6	91.1	31.6	51.8	16.6	47.7
Greece	264.0					37.9
Bulgaria	33.2	104.6	3.2	16.1	80.7	61.6
Romania	161.1	61.8	7.9	8.0	84.1	33.0
Albania	12.0	77.0	0	7.6	92.4	70.0
BaH	17.0	86.7	0.8	4.7	94.5	35.8
Croatia	63.0	116.8	4.3	5.4	90.3	62.1
Kosovo	5.4	47.0*				
Macedonia	9.2	65.4	1.4	5.3	93.3	50.6
Montenegro	4.1	97.4	0	11.6	88.4	52.5
Serbia	43.0	65.3	16.0	8.7	75.3	
Benchmarks						
Slovenia	48.5	139.9	18.9	52.4	28.7	52.5

* in 2006, Source: EBRD Transition Report 2011

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The impact of global financial crisis on Balkan 11 was mostly felt in their banking sector.

Situation in Balkan banking is described in Tables 7 and 8. For most indicators, data on Kosovo and Greece were not available. Less developed banking sectors is indicated by lower than 100% banking assets/GDP ratio for all Balkans except Greece (assumption) and Croatia. According to EBRD all Balkans (except Turkey and probable Greece) have majority foreign owners of banks and only Turkey had significant stake of state ownership in 2010. That can pose a problem in situation, when foreign banks would like to pull out of Balkans in the process of self-rehabilitation at home.

Inflation of financial bubble (bubble) is indicated for most Balkans by Banking loan/deposit ratio over 100, exceptions being Albania and probable Kosovo (no data available for Greece and Serbia). In 2010 nonperforming loans counted for more than 10%, which is close to critical, of all banking loan portfolio except for Turkey (3.5%) and Macedonia (9.5%).

In addition, problem with loans in foreign exchange, (carry trade) is evident for most Balkan countries, as they have more than all loans extended in foreign currency. Exception is, again, Turkey, which is not so much exposed to this problem caused by changes in exchange rates

III.3.. INTEGRATION OF BALKANS TO THE WORLD

III.3.1. Approximation to the EU

Balkans in different relation (footing) to the EU

In Table 9 evidence is given to the status of Balkan 11 in approximation to the EU. It differs to a great extent, from full membership plus Eurozone membership (Greece) to missing any institutional or contractual relationship (Kosovo). Rank correlation between Balkan country's approximation to the EU and standard in the form of GDP per capita is very high: +0.84. More developed Balkan countries are closer to the EU. However, this says nothing about the direction of causality between the two.

Table 8: BANKING, continued

COUNTRY	GDP 2009	Loans/ GDP %	Non Performing Loans, %	Loans/ Deposits %	Domestic Forex Loans/ GDP, %	Forex L/ Total Loans, %
World WLD	58260					
BALKAN 11	1308					
Turkey	614.6	53.8	3.5	112.9	17.7	28.9
Greece	264.0	167.4				
Bulgaria BGR	33.2	73.2	11.9	118.8	46.5	63.1
Romania ROU	161.1	42.4	11.9	128.7	27.1	63.8
Albania ALB	12.0	50.0	13.9	58.5	27.2	66.5
BaH BIH	17.0	56.7	11.4	158.3	2.7	73.2
Croatia HRV	63.0	72.8	11.2	117.3	55.4	76.0
Kosovo KSV	5.4	27.0		82.0*		
Macedonia MKD	9.2	48.0	9.0	94.8	25.2	52.2
Montenegro MNE	4.1	61.2	21.0	116.6		
Serbia SRB	43.0		16.9		36.6	71.3
Benchmarks						
Slovenia	48.5	83.1	2.2	158.3	4.2	5.0

* 2006

Source: EBRD Transition Report 2011, author (2009)

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Table 9: The approximation of Balkan countries to the EU

COUNTRY	GDP 2009	GDPpc 2010 %	EU + EMU	EU	EU acc	EU cand	EU pot Cand SAA	0	
World WLD	58260	100							
BALKAN 11	1308	83							
Turkey	614.6	101				X			
Greece	264.0	266	X						
Bulgaria BGR	33.2	63		X					
Romania ROU	161.1	75		X					
Albania ALB	12.0	37					X		
BaH BIH	17.0	44					X		
Croatia HRV	63.0	137			X				
Kosovo KSV	5.4	31						X	
Macedonia MKD	9.2	45				X			
Montenegro MNE	4.1	65				X			
Serbia SRB	43.0	53				X			
Benchmarks									
Slovenia	48.5	229	X						

Source: EU data

Financial support from the EU to Balkans remains inadequate

Table 10: IPA support for candidates and potential candidates from the EU, in Million €, Financial perspective 2007-2013

COUNTRY	Per GDP %	Popul 2010 Mio	Per Cap. €	All 07-13 Bio €	2007	2008	2009	2010	2011	2012	2013
Balkan EU candidates		96203	104	9972	1108	1313	1305	1397	1540	1627	1682
Turkey	0.78	72561	67	4832	497	539	566	654	780	860	936
Albania	4.97	3185	187	597	61	74	81	94	94	95	98
BaH	3.88	3844	171	659	62	75	89	105	107	109	112
Croatia	1.55	4426	225	998	141	146	151	153	156	156	95*
Kosovo	11.81	2208	289	638	68	185	106	67	69	69	74
Macedonia	6.72	2053	301	618	58	70	82	92	98	101	117
Montenegro	5.78	619	383	237	31	33	35	34	34	35	35
Serbia	3.24	7307	191	1393	190	191	195	198	202	202	215

Source: EU Enlargement, 2012

Financial support for EU candidates and potential candidates among Balkan countries is very important. It makes real (and nominal) convergence, crucial for further steps in approximation to the EU, more easy.

From the point of view of EU as donor, results in Table 10 show that in period 2007-2013 financial support did not substantially improve from the

previous EU six-year financial perspective 200-2006. Total amount of support did not increase in relative terms and still counts for means less than 4 € per person of EU member country per year or sacrifice of only one large coffee per person per year.

Regarding receivers among Balkan countries, distribution of IPA funds is uneven with regard to GDP and with regard to population. By both

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criteria Turkey receives the least, while Kosovo, Montenegro and Macedonia the most.

Higher degree of approximation leads to higher exposure to the EU and PIIGS

Exposure to ailing Eurozone countries and even more ailing members of PIIGS could negatively impact domestic economies of Balkans.

Table 11 clearly shows large difference in exposure of Balkans to the Euro-zone (moderately ailing economies) and to the PIIGS (heavily ailing

III.3. 2. Other possible integrations

CRIBST – Inclusion of Turkey into BRICS: CRIBST

Goldman Sax created terms for two groups of countries: BRIC and MILT (Mexico, Indonesia, L.... and Turkey). These list is continuously modified in the literature, media, public. Our view is that Turkey could surely be included in the first group due to higher level of development, relatively fast growth in the past, but also

Table 11: Exposure of Balkan countries to the Eurozone and to PIIGS, 2010-2011, in %GDP

COUNTRY	GDP 2009	Exp	EU			Index	Exp	PIIGS		
			Ext Debt	FDI	Index			Ext Debt	FDI	Index
World WLD	58260									
BALKAN 11	1308									
Turkey	614.6	7	10	9	26	2	3	2	7	33
Greece	264.0									
Bulgaria BGR	33.2	18	36	58	112	9	15	17	41	153
Romania ROU	161.1	16	21	21	58	6	4	4	14	72
Albania ALB	12.0	8	5	...	13	7	2	...	9	22
BaH BIH	17.0	8	3	...	11	3	3	...	6	17
Croatia HRV	63.0	9	31	42	82	4	0	5	9	91
Kosovo KSV	5.4	4								
Macedonia MKD	9.2	18	25	...	43	8	19	6	33	76
Montenegro MNE	4.1	1								
Serbia SRB	43.0	8	18	...	25	3	5	...	8	33
Benchmarks										
Slovenia*	48.5	33	22	21	76	9	0	0	9	85

* Eurozone member

Source: EBRD Transition Report 2011

economies). In both Greece is included in ailing partner side. Bulgaria is by the most exposed to both groups and therefore most vulnerable to problems and these groups. It is followed by Croatia and Romania. If Greece is eliminated from considerations, and data for Kosovo is not available, other six Balkan economies are less exposed to critical countries and therefore with smaller danger to be affected (contaminated) Eurozone or PIIGS economic downturns.

due to non-economic externalities such as its geographic strategic position and its religion (Islam predominant), which both are not yet present as predominant in current BRISC membership group. This can be done in addition to the potential EU membership, but also as alternative, if the former does not materialize in reasonable future. We change the acronym BRISC for the group with inclusion of Turkey to CRIBST, which more adequately describes the importance, size and order of membership for its members.

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Table 12: Growth and Stability in CRIBST

COUNTRY	GDP 2009	GDPpc 1991/2010	GDPpc 10-91	GDPpc 10/91	Growth 91-10	SD	KV
China	4985	330/4428	4098	13.4	10.45	1.88	0.18
Russian Fed.	1232	3427/10440	7013	3.1	0.36	7.86	22.04
India	1377	309/1475	1166	4.8	6.60	2.24	0.34
Brazil	1594	2677/10710	8033	4.0	3.06	2.26	0.74
South Africa	285	3346/7275	3929	2.2	2.65	2.19	0.83
Turkey	615	2743/10094	7351	3.7	3.74	4.91	1.38
CRIBST 6	10088						
CRIBST avge	1681	2139/7403	5265	5.2	4.48	3.56	4.24
Benchmarks							
World WLD	58260				2.70	1.43	0.53
LDC LDC	5454				4.78	2.08	0.43
OECD OED	41214				2.04	1.60	0.78
EU	16378						
BALKAN 11	1308	2841/8335	5585	4.0	3.0	7.62	1.52
Slovenia	49	6331/22851	16520	3.6	2.26	4.46	1.97

Sources: The World Bank, IMF, EBRD, EU, own calculations

To find out what such inclusion would mean to the group, Table 12 presents some economic data. Turkey is not the smallest among (present) members. The whole expanded group would count for close to 20% of world GDP, although it will still be for the time being smaller than the USA or the EU. The CRIBST average GDP growth in last 20 years remains above the USA, EU and world average, but variability of growth also above the above mentioned.

Creating stronger group of EM leaders can be used as counter-measure for all developing countries to achieve larger saying in formulating world economic (and political) order. From Balkans, Turkey is well equipped to be their representative, while for other smaller Balkan countries, the perspective of joining the EU, albeit ailing, is only realistic alternative, if they do not want to remain isolated from global trends.

CONCLUSIONS

In last 20 years Balkan economies went through turbulent times regarding political and social developments. Despite that, their **economic growth** was significant. Their average GDP

growth was above the world and the EU average, but not enough for real convergence to the EU which is precondition for their accession. At the same time, variability in growth exceeded far the world standards due to unstable political situation including military conflicts in peninsula. Countries without direct involvement in military conflicts were more successful than other.

Contrary to convenient truth **global financial crisis** affected less financially developed Balkan economies more than most other countries, partly due to collapse of Greek economy and its impact on neighboring Balkan countries. True, the first wave of crisis in the form of collapse of sub-prime mortgages and derivatives market had little negative impact, however tsunami after that was unexpectedly strong. In meanwhile highly indebted Balkans got cut from foreign financial life-injections causing credit crunch) and recession in the EU decreased exports from real sector. The negative effect of crisis was not less synchronic as in developed countries, where the low point was achieved for all economies in 2009, and highest in 2007 (2008). Social situation in Balkan deteriorated significantly after crisis and is not recuperated, and

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misery of people increased. A strong reliance on external financing and domestic fiscal stimulus made Balkan countries highly vulnerable to crisis. For most, debt servicing became unsolvable problem, with Greece as extreme case. During crisis macroeconomic performance of Balkans deteriorated almost continuously, and even in 2011-2012 they are still not out of woods. So much is said in literature, media and politics about negative effect of collapse of Greek economy on EU and especially Eurozone, a little until now about its negative effect on Balkans, especially neighbors to Greece. Credit expansion in wake of crisis made banking sectors in Balkans 11 very week leading to credit crunch when crisis became full blown. Banking sector in almost all Balkans countries has unsustainable share of bad loans, too high credit/deposit ratio and needs rehabilitation. It is predominantly foreign (EU members) owned which causes additional problems if foreign owners would like to retreat from the region in the process of solving financial problems at home.

The process of economic **integration** to Europe and world of this the least developed part of Europe was very slow, almost stagnant in observation period. Regarding accession to Europe, donors remain very reserved with no more than their one coffee per year per person sacrifice for financial support of Balkan candidate and potential candidate countries. From receivers point of view financial aid was quite unequal with respect to the size of receiving economy or per person in receiving countries. Three Balkan countries are already members of EU, one among them of Eurozone, the forth (Croatia) is becoming member in July 2013. But for the remaining seven Balkan countries the accession process slowed down and perspectives to join the EU in near future very slim. While for most of them there is no real alternative to integration to the EU, for Turkey as the largest and fast growing economic with increasing international political cloud the possible next step could be joining the BRICS five

to become CRIBST six. Many reasons speak for that enlargement of the group of leading emerging economies: economic development, political position in Near East, inclusion of predominantly Islamic country to the group.

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