



Financial and economic crisis in the region and in Albania

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I consider very original the idea of the Albanian Center for Risk, that in collaboration with the Faculty of Economics of the University of Tirana and the Faculty of Economics and Agro Business of the Agriculture University of Tirana, have organized a conference for the situation of business and risk in Albania, during a time in which the global economy, especially the European economy, are deep into crisis. This is a global crisis. Today's crisis is an economic crisis, it has shocked the real economy, the businesses that produce and offer services. Today's crisis is a financial crisis; it has affected banks, investment funds and especially schemes and systems of social insurance. Today's crisis is a psychological crisis, a crisis of confidence and trust. It has shocked trust, cooperation and well functioning of institutions created as a need for a mutual reaction towards common problems and difficulties. The crisis has raised questions and needs for review and solution for the ways agreements, trust institutions and markets should function. The crisis has affected the private life of the people, creating them problems. Shocks in the employment figures, lockouts and layouts, have put into doubt the guarantee for a job and revenues. This is crystal clear and is traduced in doubt and instability in family revenues, standard of living, a secure future.

The actual economic and financial crisis is not a new phenomenon. We are already used to this mentality. Today in year 2012, we are very familiar to the term crisis. What is new today in 2012, for the Albanian economy and society, is connected to another fact: today business people, owners and managers of private companies, bankers and finance officers, economists and journalists and finally politicians and public sector managers, are more conscious than ever for the high level of risk an economic difficulties and the immediate need for a technical and professional management of these situations.

Which are the signs of the economic and financial crisis in the region? The Balkan region is a region with underdeveloped financial markets. But the Balkan region is not a closed one. Ways and channels of communication of the regional economy with the European economy and wider are numerous and very intensive. Banks are tunnels and highways that connect anywhere, everywhere, fast and with high intensity all the subjects that operate in economy, apart from industry, size, place, time or special circumstances. The characteristics of the economies of Balkan countries, as economies based on small businesses, small economies of relatively small countries, that can be easily managed, based more on real sector than on services and financial sector, do not make them immune to crisis.

Without trying to focus on deeper analysis, I need to underline the fact that the Balkan region is sit on the crisis table. Signs and arguments of this conclusion are numerous. It is not the object of this paper, but we can't leave outside the focus of the analysis the macroeconomic and geographic environment or the crisis situation and intensity. In general, we can conclude that the crisis in our countries is present for many reasons, which are listed below:

First, the sensible fall of household consumption. It is a reflex of the people, a natural behavior because of what is called controlled behavior of people in time of crisis, a natural reaction because of fear. This has its own explanation. When people learn about the opinions and ratings of institutions and specialists, they always think for the future, and focus on saving. It results that consumption has fallen in our countries from 7% to 11,4 %. The increase of household and business deposits in the banks is both a parameter showing availability of liquidity by the banks but also that they have more obligations towards depositors, which means interest. This behavior brings pressure over banking institutions that asks for this capital to be employed, used, to serve crediting the economy. On the other side the economy is characterized from the decrease of growing rates, there is less need for funds, there are difficulties, decrease of turnovers, which brings decrease of confidence that banks have on businesses. Banks that are more exposed to risk, simply strengthen credit procedures and slow down their credit expansion.

Second, in our countries there has been a tremendous fall of remittances. Immigration and income from immigration have important weight in the economies of the Balkan region. They have served for many years as fuel that has made our "economy machine" work. All countries in the world have income from remittances,

but the characteristic in our Balkan countries, is that income from immigration have always had an important role in the economic equilibriums. This phenomenon is stronger in Albania, Bosnia and Kosovo. But it can't be left apart also in other countries. The fall of remittances has worsened the household balances, which is reflected in the fall of household consumption, and on the other side has worsened the situation on the balances of payments. In recent three years, income from immigration has fallen on average 12-29 %.

TABLE 1.1 — *Remittances in % to GDP, Source: UNCTAD.*

| Year | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|-----------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Albania | 18.56 | 11.89 | 16.42 | 17.20 | 16.51 | 15.60 | 15.89 | 15.81 | 14.97 | 13.50 | 11.40 | 10.61 | 8.82 |
| Bosnia | 48.41 | 40.62 | 35.50 | 31.80 | 27.21 | 24.64 | 20.68 | 18.98 | 17.59 | 17.82 | 14.87 | 12.99 | 10.75 |
| Croatia | 2.48 | 2.42 | 3.00 | 3.27 | 3.35 | 3.20 | 3.00 | 2.75 | 2.52 | 2.38 | 2.31 | 2.34 | 2.11 |
| Serbia-Montenegro* | 5.11 | 7.12 | 10.13 | 11.54 | 11.10 | 10.99 | 14.31 | 15.15 | 13.26 | 10.20 | 9.53 | 10.62 | 9.5 |
| FYROM | 1.77 | 2.08 | 2.26 | 2.14 | 2.79 | 3.75 | 3.97 | 3.90 | 4.18 | 4.36 | 4.52 | 4.60 | 4.60 |
| Average of the region | 15.26 | 12.83 | 13.46 | 13.19 | 12.19 | 11.64 | 11.57 | 11.32 | 10.50 | 9.65 | 8.53 | 8.23 | 8.23 |

*In the row Serbia & Montenegro the figures are up to 2008, after this year they represent only Serbia.

Third, there has been slowdown of economic growth, growth of unemployment, fall of investments and increase of inflation rate. It is not typical of Balkan countries to have low economic growth rates. In fact, in almost all these countries, the annual rate of GDP growth for the crisis period in Europe (2008-2011) shows a considerable fall, but not in the same time. Because of the relatively low level of development of the capital markets in the Balkans, and because of the individualities of these economies (meaning economic structures and also in a currency meaning) the degree of the effects of the crisis in economic growth in the first years of the crisis has been weaker. For years 2000-2009 the Western Balkan countries experienced an economic growth of 3.60 %, as a group, while for the almost 20-year period from 1992-2010 they experienced an average economic growth of 4.15 % per year. The figures of the year 2010 and after show for a slowing down trend mostly because of the effects on the economies of these countries of the crisis. Actually, it has affected all the countries.

TABLE 1.2 — *Average rate of economic growth in the Western Balkan countries 1992-2010. Source: UNCTAD, IMF (forecast 2011).*

| Period | 1992 - 2000 | 2000 - 2009 | 1992 - 2009 | 2010 | 2011, forecast |
|---------|-------------|-------------|-------------|------|----------------|
| Albania | | 6.35 | 5.67 | 6.17 | 3.5% |
| Bosnia | | 21.47 | 1.10 | 7.55 | 0.8% |
| Croatia | | 3.52 | 3.89 | 3.67 | -1.37% |
| | | | | | -1 - 1,5 % |

| | | | | | |
|----------------------|-------|------|------|--------|--------------|
| Serbia – Montenegro* | -0.16 | 4.17 | 1.26 | 1.76% | 1.20 – 0.4 % |
| FYROM | 1.27 | 3.18 | 2.12 | 0.7% | - 1 % |
| Montenegro | - | - | - | 1.07% | 0,4 – 0,8 % |
| Average | 6.49 | 3.60 | 4.15 | 1.076% | 0,3 % |

The annual rate of economic growth for 2011 is even lower. Although not yet public, the final figures of this parameter clearly show that forecasts of international institutions like the World Bank or the IMF can be used with a high level of confidence.

The relatively worsened level of the economies can be revealed also by the level of unemployment. The Balkan countries have a high degree of unemployment. In Macedonia, Bosnia and Serbia, unemployment is a big issue. But also it is a big issue more than in other countries in Kosovo. Referring to the media, it strikes 40% of the active population, while according to the official agencies it is about 32%.

TABLE 1.3 — *Unemployment rate 2010. Source: OECD.*

| Period | 2010 | Forecast 2011 |
|------------|--------|---------------|
| Albania | 13.49% | 17.60% |
| Bosnia | 29.2% | 32.4% |
| Croatia | 16.8% | 19.8% |
| Serbia | 27% | 29% |
| FYROM | 32% | 34,5% |
| Montenegro | 20.3% | 22.2% |
| Average | 23.13% | 26.27% |

TABLE 1.4 — *Inflation rate 2010. Source: OECD*

| Period | 2010 | Forecast 2011 |
|------------|-------|---------------|
| Albania | 3.6% | 1.7% |
| Bosnia | 3.1% | 4.3% |
| Croatia | 1.3% | 1.9% |
| Serbia | 10.3% | 8.1% |
| FYROM | 1.6% | 2.1% |
| Montenegro | 3.4% | 3.1% |
| Kosovo | 3.5% | 4.1% |
| Average | 3.87% | 4.15% |

Fourth, the growth of the percentage of the bad loans is a parameter that shows a real worry and measures perfectly the fact that the economy is in difficulty. Below is a

general view of the classification of loans in our banking system. There are about 25% of loans classified from substandard to others. The message of these figures is clear. A considerable number of borrowers have lost their full ability to repay loans normally, mostly because of the economic and financial difficulties.

TABLE 1.5 — Source: Association of Banks, November 2011.

| Loans (million lek) | In % to total | |
|---------------------|---------------|--------|
| Standard loans | 370,144.55 | 67.63% |
| Followed up | 41,230.13 | 7.53% |
| Substandard | 50,497.06 | 9.23% |
| Doubt | 21,638.72 | 3.95% |
| Default | 29,432.02 | 5.38% |
| Others | 34,334.21 | 6.27% |
| Total | 547,276.69 | 100 % |

Fifth, the worsening of public revenues and the growing of the budget deficit is another problem that expresses the fact that the economy is in difficulty.

Tabela 1. Treguesit kryesorë të buxhetit të konsoliduar për periudhën Janar-Nentor

| Miliardë lekë | Janar - Nëntor '10 | Janar - Nëntor '11 | Planifikimi 2011 |
|-----------------------------------|--------------------|--------------------|------------------|
| TË ARDHURAT TOTALE | 293.3 | 295.6 | 308.7 |
| SHPENZIMET TOTALE | 316.5 | 333.5 | 349.3 |
| Nga të cilat: SHPENZIMET KORRENTE | 266.6 | 275.2 | 280.9 |
| Nga të cilat: SHPENZIMET KAPITALE | 54.5 | 58.3 | 63.9 |
| BALANCA FISKALE | - 23.2 | -37.9 | -40.6 |
| BALANCA PRIMARE | + 13.9 | -0.7 | +1.2 |

| EMËRTIMI | 11M-2007 | 11M-2008 | 11M-2009 | 11M-2010 | 11M-2011 |
|-----------------------------------|----------|----------|----------|----------|----------|
| TOTALI TE ARDHURAVE (mIn lekë) | 226,401 | 262,447 | 268,031 | 293,277 | 295,550 |
| Rritja vjetore | 11.8 | 15.9 | 2.1 | 9.4 | 0.8 |

The budget deficit is a known problem for the actual crisis, not only for our Balkan countries. The economic slowdown has provoked also the decrease of revenues in the respective budgets.

Sixth, there are interferences and the high degree of affect of the regional Greek and

Italian crisis in the regional economies. Not only the Albanian economy but also the Macedonian economy, have a lot of connections and communication with the Greek economy. Without doubt the difficulties of the Greek economy and its deep financial crisis have the tendency to affect these economies. But also the Italian economy has difficulties and affects other countries of the region like Montenegro, Croatia, etc.

Seventh, it is clear the aggravation of public communication of politics with the electorate, of the political factors with each other, but also of the media with the public. The vocabulary used is harsh, reciprocal charges and disputes have grown, and there have been political and media attacks to institutions that are not directly connected to the economy like courts, justice organs, media, etc; we are speaking for a political environment that is not calm, causing also people and business not to be calm for the future.

To have a more complex and clear view on the numbers of the private subjects and the creative spirit of the people of these countries, we calculated a measure that shows the number of inhabitants for a business. Based on the 2011 Census in Albania there are about 100 000 active businesses. Meanwhile in 2010, a year ago, we had about 129 000 subjects registered as business activities. This means that the number of businesses that are not reported as active by the entrepreneurs is very high. There is a conflict between the numbers of business subjects registered by the entrepreneurs with that reported in the Census. The registration is obligatory. At the startup no business can begin the economic activity without being registered at the QKR.

| Indexes | All producers | | Producers of goods | | | Producers of services | | | |
|---|---------------|-----------|--------------------|---------|---------|-----------------------|---------|---------|---------|
| | 2007* | 2008* | 2009 | 2007* | 2008* | 2009 | 2007* | 2008* | 2009 |
| Basic Data | | | | | | | | | |
| Number of enterprises | 62,657 | 69,044 | 73,702 | 10,510 | 11,219 | 11,760 | 52,147 | 57,826 | 61,941 |
| Average annual number of employed people | 222,637 | 239,626 | 251,800 | 105,606 | 113,354 | 114,419 | 117,031 | 126,272 | 137,381 |
| Average annual number of employed people paid | 153,589 | 165,095 | 172,032 | 94,312 | 101,468 | 101,500 | 59,277 | 63,627 | 70,532 |
| Total employed people, end of year | 226,616 | 240,391 | 252,226 | 109,236 | 113,718 | 114,633 | 117,380 | 126,673 | 137,592 |
| Women | 67,267 | 67,502 | 69,441 | 33,955 | 33,478 | 33,644 | 33,312 | 34,024 | 35,798 |
| Self-employed | 69,757 | 74,683 | 79,993 | 11,918 | 11,962 | 12,925 | 57,839 | 62,721 | 67,069 |
| Paid employed workers | 156,859 | 165,708 | 172,232 | 97,318 | 101,756 | 101,709 | 59,541 | 63,952 | 70,524 |
| Turnover (million lek) | 890,631 | 1,082,426 | 1,149,470 | 310,114 | 408,957 | 434,275 | 580,517 | 673,468 | 715,195 |
| Turnover/unit (million lek) | 14.214 | 15.677 | 15.596 | 29.507 | 36.454 | 36.928 | 11.132 | 11.647 | 11.546 |

From all this view we can easily conclude that the financial and economic crisis is also present in the Balkan countries. When we say that an economy is in crisis this means first that the real economy, or private businesses operating in the economy, are in difficulty. This is an easy conclusion, but of great importance.

Why should we read it in the right way and with objectivity concerning the situation in an economy in crisis?

First, we want to improve the degree of self-evaluation and analysis of the real situation of businesses. The crisis is a systematic risk that influences and threatens the economic activity of all the subjects that operate in the country. In this way, the real understanding of facts requests from all the entrepreneurs, investors, merchants, business societies and chambers of commerce, to be conscious that the crisis is in a certain way an epidemic disease that has affected all of us without exclusions. Of course the degree of effects of the crisis on business activity and its intensity are different in various businesses. This depends on a large number of factors that have to do with the sector where a business operates, with its structure, with diversification in other activities, and finally with what sources of financing it uses to finance its activity.

Second, the crisis must be known and evaluated, so that businesses can react, to take the necessary measures to reduce the negative effects of exposure to the crisis. Of course businesses, entrepreneurs, owners and managers of private businesses in our country have their reflexes and also instruments to react to crisis and difficulties. But not all know them. The crisis is a result of the effect of a complex of factors, which request a minimum of technical and professional expertise to be known and analyzed. Crisis test the managerial skill and intuit for business of businessmen.

Third, understanding of the crisis and the full evaluation of its effects is often connected to the fact that often the reaction should be in block. Businesses that have difficulties because of business life cycle such as construction sector in our country, have other problems compared to businesses focused in the food sector or businesses focused on tourism. However the reaction and lobbying should be in group. Often politicians and even media or sometimes businessmen treat the problems deriving from crisis as standalone or one-sided. To face the crisis it requests a high interaction degree between the public and the private sector. Clever public policies are those who

consider private business as their partner. An active private sector that develops and grows quickly is a good basis for a strong and consolidated state budget and a business in difficulty needs an encouraging environment and public help through fiscal or administrative incentives.

Fourth, the actual crisis is a tool for projecting future actions and activity. It is known practice to abuse during crisis but is also known practice that in time of crisis there are a certain limited number of businesses that grow fast. This is not typical for crisis. Typical in time of crisis is the fact that activity is reduced, sales are down, debt increases and things get worse. But signs of an economy in crisis do not show in a single day. Crisis is never a product of a single decision and getting out of crisis also is not a single act.

Do businesses have tools and instruments of reaction to crisis? This is another topic. Of course that answers to this question require information of technical, professional, legal, financial and time character.

Businesses have in their hands ways and tools of reaction against negative effects of crisis. But we should not forget that reactions should and can come in time. A bankrupt business or in the road to bankruptcy is a business in extreme difficulty and as everything that is extreme can not be solved or helped with mechanisms of soft intervention.

We naturally think about some important conclusions from the management science and economics science world that deal with crisis, risks, and follow their performance and their rules. The management of a business when the economy is in crisis is a professional problem. Logically we would see as a solution the growing degree of reflection from private businesses and their representative societies to the division of ownership from management. To be an owner and to be a manager are two different sides of interest: professional interest and ownership interest. We think that in Albania time has come for new and experienced owners in the Albanian world of business to try to enter in their businesses new contemporary concepts regarding management and professional decision making.

It is my opinion that all the papers of this conference will complete the spectrum of risk analysis, evaluation of the degree of importance of situations in which our businesses are, and raising of propositions and finding the ways to get out of the crisis with less pain.