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COMPARATIVE ANALYSIS IN BALKAN COUNTRIES AFTER FINANCIAL CRISIS OF 2008



Comparative analysis of economic growth vs inequality vs poverty in Balkan countries after financial crisis of 2008

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This paper examine the divergence of economic growth and income's inequality through comparative analysis among five Balkan countries (Albania, Kosovo, Montenegro, Republic of North Macedonia, Serbia) after financial crisis of 2008. Results demonstrated the inconsistencies on this triangle: economic growth versus inequality versus poverty relying on national dataset through static and dynamic statics. Referring to theoretical background the economic growth reduced poverty, but it had a little impact on income inequality. These results emphasized the significance of this relationship especially after financial crisis of 2008. The weak progress of these countries induced the inequality without reducing poverty relying on the macroeconomic circumstances of them. External versus internal shocks affected these countries related to economic growth and poverty. Meanwhile the adverse income distribution restricted the impact of growth on poverty. Due to this goal the redistribution policies should be monitored in the future in these countries. Comparative analysis investigated trade-off between inequality and growth confirmed the robust results during this time. We expected the homogeneous results in future due to appropriate policies to reduce the economic development gap and to promote the sustainable and comprehensive progress in long run.

Keywords: Economic growth, Inequality, Poverty

1. Introduction

The fight against poverty is the primary goal of modern development of economies of the 21st century. However, the nature of poverty and economic growth changes from one country to another. While before the crisis the incomes of the poor were less closely tied to overall economic growth, after the crisis growth became pro-poor. The increased sensitivity of poverty to growth is explained to a large extent by the bottom of the distribution growing closer to the rest rather than generalized improvements along the entire income distribution. Employment gains were the main reason for the increase in welfare among the less well-off after the crisis, while other income sources like pensions, social assistance or remittances have played a very limited role.

We want to see how 2008 crisis affected some economic values of these Balkan Countries. It is very important to see if the economy of these countries is stable or is very easily affected by economic and financial crisis. These countries have too many economic problems and are in their way to become EU members. Also this paper can say something more about their economic situation after 2008. Also we can compare these economic values between these countries to see how their economic activity is affecting poverty and unemployment which are the worst problems of these countries and they are not finding a stable solution for these problems.

So we will compare economic activity after 2008 crisis in these countries and give some conclusions about their actual activity.

2 Literature review

Blanchet et al (2019) investigated the development of income inequality for 38 European countries during 1980 - 2017 through the harmonized methodology. He confirmed that inequalities enhanced at most of European countries both at the top and bottom of distribution, particularly among 1980 and 2000. He demonstrated that the relative poverty in Europe was more volatile according to the enhancement from 20% in 1980 to 22% in 2017. His results highlighted the inequality's gap among Europe and USA, but it was lower and raised much less in Europe compared to the USA. Meanwhile it will be continued the significant income disparity among European countries and it was associated with fragile improvement of European-wide income redistribution.

El ouardighi and Somun-Kapetanovic (2009) analyzed the convergence process of inequality in income among five Balkan countries during 1989-2008 through the comparison of the situation in the European Union of 27 countries. Their results demonstrated the real convergence process among Balkan countries; meanwhile the determination was detected between European Union countries. Also the income and inequality convergence were higher during the 2000s related to EU-27, but the greater part of convergence demonstrated during the second half of the 1990s according to Balkan countries. Authors highlighted the continuous and comprehensive development gap amongst Balkan and European Union countries.

Lee (2014) investigated the impacts of globalization on income distribution and poverty. He found that financial globalization enhanced the income inequality and

poverty commonly, however there was a conditional relationship between trade openness and inequality and poverty.

Le (2008) examined the impacts of initial inequality and poverty rate on the successive economic growth in the provincial level of Vietnam. His results demonstrated the robust negative relationship among the initial poverty rate and subsequent economic growth, meanwhile there was no linkage among initial inequality and subsequent economic growth. Empirical results demonstrated that lower inequality induced the lower poverty rate and poverty reduction could contribute to the reduction of inequality. Also he emphasized the impacts of human capital, investment, GDP growth rate and trade openness to reduce the inequality and poverty.

Agyemang (2014) analyzed and compared the impacts of economic growth on poverty and income inequality amongst 76 countries across sub-Saharan Africa, South and East Asia, Latin American countries and the OECD region during 1990 - 2010. He found that economic growth induced the reduction of income and human poverty levels according to all developing regions. However he found that the economic growth had a slight impact related to poverty's decline according to all regions with high income inequality compare to low inequality. His empirical results demonstrated the significance of economic growth related to reduction of income inequality in sub-Saharan Africa, meanwhile the economic growth enhanced the income inequality in Latin American countries and the OECD region.

Wahiba and El Weriemmi (2014) analyzed the linkage among income inequality and economic growth in Tunisia during 1984 - 2011. He found that the inequality had a negative impact on economic growth after acceleration of the opening exchange's process. He explained this result due to the failure of redistribution policies after the country attained the "unbearable" level of inequality.

3. Economic situation after 2008 crisis

The Eurozone crisis still continues to burden the fragile transitioning economies of the Western Balkans, which are battling a sluggish recovery, weak economic output, unemployment and dangerous high public debts¹

3.1 How crisis affected GDP Growth

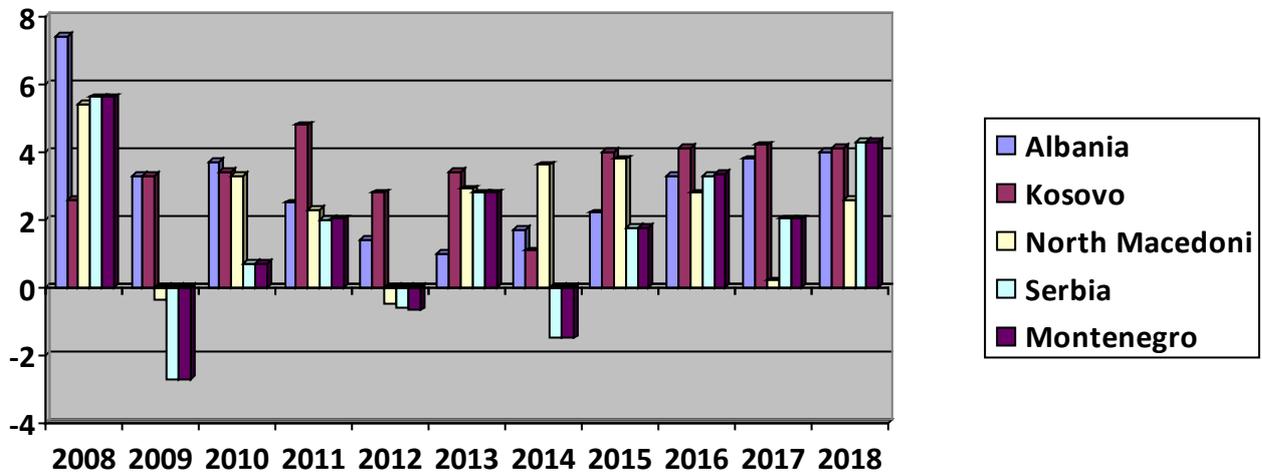
The rapid growth of a decade ago and the catching -up process of the Western Balkans economies came to an abrupt end in 2009, with a GDP contraction of an average of 3.9 %.

What is important to underline is the fact that these countries have highly volatile economies that are highly susceptible to adverse economic changes in neighboring countries. The economic crisis of 2008 showed that these countries still have a

¹ Zeneli(2014)'' *Economic Development in the Western Balkans: On the road to competitive Market Economies* ''

lot of work to do to increase the stability of their economies in order to increase stability. The following graph shows the economic growth performance after 2008.

Graph 1 : GDP Growth from 2008 – 2018 (increase in %)



Source : World Bank 2019

The analyse of the graph above shows that after the crisis of 2008 we have a significant decline in economic growth rates, where in some countries it has also negative values. The country with the biggest fluctuations is Serbia, where we can see that we have had a significant fluctuation between positive and negative rates. All countries have been affected by negative values of economic growth except Albania and Kosovo.

Serbia is slowly implementing structural economic reforms needed to ensure the country's long-term prosperity. In 2016, Serbia reduced its budget deficit to 1.4% of GDP and its public debt to 71% of GDP, in 2017.

The economy of Montenegro is mostly a service based economy, currently in the process of economic transition. From the graph we can see that in the first years after the crisis there is a large volatility of economic growth rates where we often have positive and negative values, which indicates an economic instability. After 2012 we see that we have no negative values and sustainability increases. Montenegro recorded a strong economy growth which reached 4. percent in second quarter of 2017, which means that the country is placed in a fifth position in Europe when it comes to the growth rate. The key drivers for the change are related to the strengthening of the fiscal stability based on the fiscal consolidation measures, the mid - term economic growth based on the implementation of big investment projects in infrastructure, tourism and energy, as well as Montenegro's membership in NATO and progress in the EU accession process. The aforementioned improvement creates space for more favourable entrance to the international financial markets and strengthening the country's international investment position.

The economy of North Macedonia has become more liberalized, with an improved business environment. From the graph we can see that in the first years after the crisis there is a large volatility of economic growth rates where we often have positive and negative values, which indicates an economic instability. After 2012 we see that we have no negative values and sustainability increases.

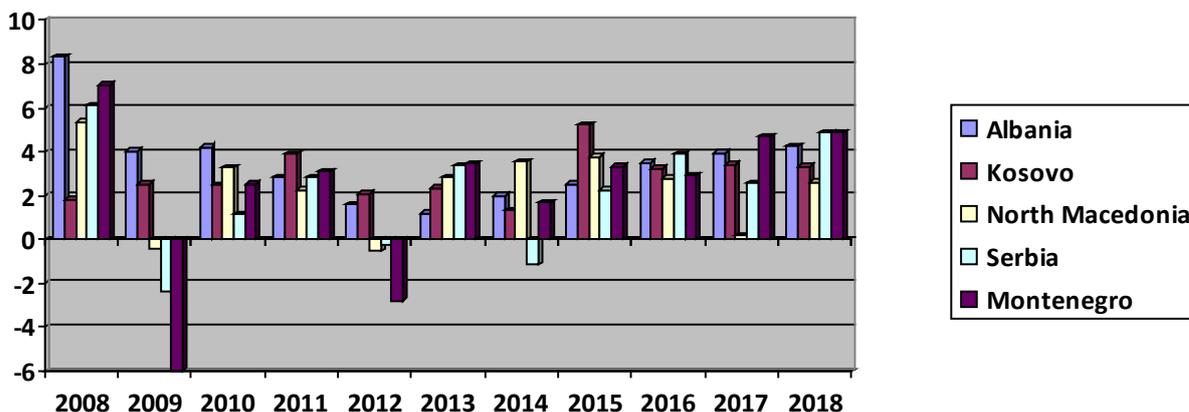
The economy of Kosovo is a transition economy. Strong economic growth that does not affect the high unemployment rate, an economic model that must change to meet the challenges of globalisation. The current trend is certainly positive news, and it shows that Kosovo is beginning to move away from an economic model that the World Bank deemed as “unstable growth”. In the past, growth was mostly based on household consumption, fuelled by remittances. Now we see growth supported also by an increase in both public and private investments. There are some positive developments: last year, growth was not driven only by consumption, but also by investments, which were mostly public, like the expansion of the road and highway network.

Over the past two decades, Albania has transformed from one of the poorest countries in Europe to an upper-middle-income country, reducing poverty from 25.4% in 2002 to 14.3% in 2012. The global financial crisis halted growth, slowed poverty reduction, and reduced employment opportunities. Albania is implementing macro-fiscal and structural reforms to revitalize growth and job creation. Since 2014, Albania’s economy has steadily improved and economic growth reached 3.8% in 2017. However, close trade, remittance, and banking sector ties with Greece and Italy make Albania vulnerable to spillover effects of possible debt crises and weak growth in the euro zone.

3.2 The effect of GDP crisis on GDP per capita

We often use GDP per capita as an indicator to measure distribution of incomes in society. It has his limitations but again it can help us to give a clearer view on the redistribution of incomes.

Graph 2 : Increase of GDP per capita 2008-2018 (increase in %)



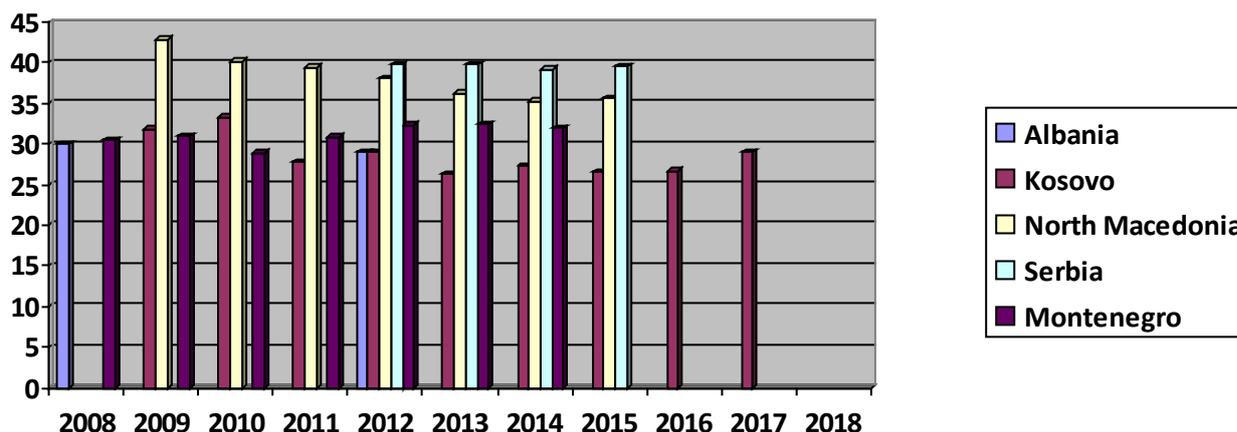
Source : World Bank 2019

From the graph above we can see that after the 2008 crisis we have a decrease in the percentage of GDP per capita increase. In some years we also have negative values, which mean that in these years the GDP per capita has been decreased. The biggest impact on this decrease of course has been given from the decrease of GDP Growth after 2008. In the last years we can see an increase of GDP per capita but the value of GDP Growth is not increased too much, which mean that also an impact has been given from the part of population that has left these countries. We must say that one of the countries that is suffering from emigration is Albania.

3.3 How is affected Inequality from 2008 crisis

The Gini coefficient measures the inequality among values of a frequency distribution. A Gini coefficient of zero expresses perfect equality. A Gini coefficient of 1 expresses maximal inequality among values. In the early stages of economic development, inequality increase as a result of the shift of people from the large, relatively poor and egalitarian agricultural sector to the small, industrial sector that is richer but relatively unequal. In the latter stages, however, as a bulk of the population shifts to the urban sector, there is an increase in the relative wages of the poorer workers in both urban and rural sectors, and various policy measures are also implemented to reduce intra- and intersectoral inequality. Therefore, overall income inequality in the economy decreases in the latter stages of development.

Graph 3: Gini Index 2008 - 2018



Source: World Bank 2019

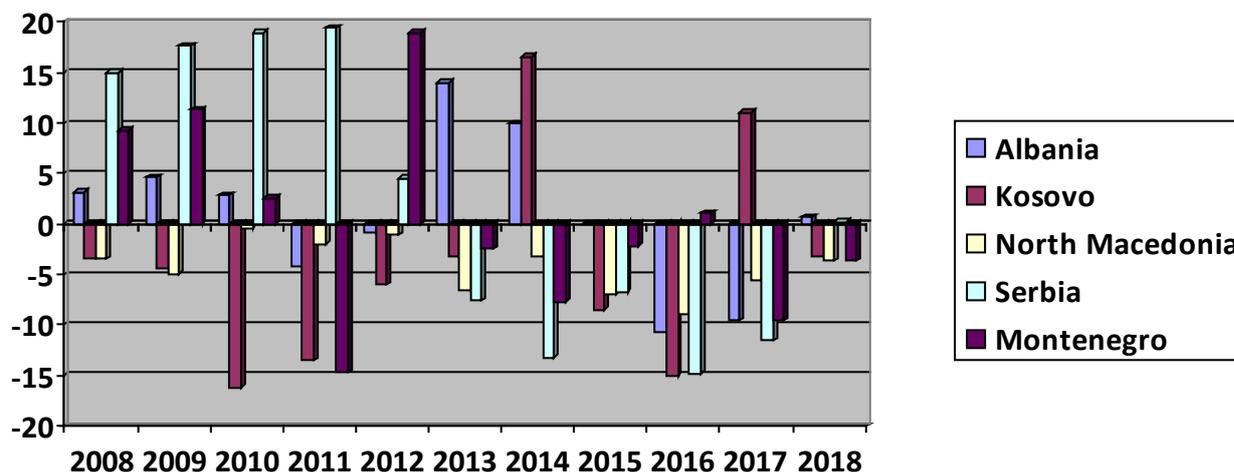
Initially, it is worth noting that there is a lack of regular data regarding the calculation of the Gini coefficient. For Albania the most recent measured value is that of 2012. Since we cannot compare data year after year then we can make a comparison of their values with the coefficient itself. What we can see in the graph is that we have no significant coefficient changes in the countries with the exception of North Macedonia which has reduced the coefficient from 42.08 to 35.6. As for Montenegro, there is a slight increase in the Gini coefficient.

An analysis of income inequality (measured by the Gini coefficient) by income sources shows several important findings. First, wages contributed most to total inequality (93%) and increased it. All other income sources, other than capital income which influenced very little, such as self-employment income, pensions, welfare benefits, decreased inequality. The second finding of interest is that taxes have the largest impact on reducing inequality. This is followed by social transfers other than pensions, while income from self-employment and private transfers is less important.

3.4 Interpretation of Unemployment

Unemployment in the Western Balkans is the highest in Europe, with an average of 23 %. The economic crisis worsened the situation, with more plunging incomes, rising poverty and unemployment. Western Balkan countries suffer a lot low participation rates and missing opportunities for young workers. The most devastating consequence of high unemployment rates is of course the poverty.

Graph 4: Unemployment Rate 2008 -2018 (in %)



Source: World Bank 2019

What we can see from the graph is that one of the countries that is more affected by the 2008 crises is Serbia. First it has an increase of the unemployment rate for the first 4 years and then we have a decrease year after year. Also from the graph we can see that Albania, Kosovo and Montenegro have suffered the consequences of 2008 crises 4 years later in the terms of unemployment.

4. Conclusions

From the graphs above we can see that all these countries that are part of the study have a very vulnerable economy which is very easily affected by the crisis.

These countries need to make big changes in their economic systems. Need to increase more their economic stability.

All countries in study are suffering from unemployment and most people are moving in foreign countries to find a better wage and to find more opportunities. This is increasing the damages to these countries which are losing their teenagers and the most qualified people.

From the calculations of Gini coefficient we can see that these countries have almost a similar Gini value and in the years after crisis it hasn't changed too much with some exceptions.

Another interesting conclusion is that these countries have lost now their rhythm of GDP increase and now they have very low increase rates which is not helping too much them to increase their employment rate.

Also these countries have not a powerful relationship between GDP Growth and unemployment and their economic growth is not increasing the number of people employed, which means that these countries should seriously make structural changes on their economic activity.

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