

The impact of the Greek crisis on the Western Balkans

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The debt crisis in Greece is affecting the already tough economic conditions of the South-Eastern European countries. For some of them Greece is a significant trade partner and one of the key foreign investors. The region's economic problems may deteriorate as money is withdrawn by Greek banks who play a major role in the financial sector of some Balkan countries. The problem with Athens' vast debt and the expected long-term stagnation in Greece will slow down the economic development of the entire region. The crisis may also impede the integration of the Western Balkan countries with the European Union.

The Greek crisis has not destabilised the Balkan economies...

The international financial turbulence linked to the Greek crisis has had a moderate effect on the Balkan economies. A major depreciation of the national currency has been observed only in Croatia and it is comparable to the devaluation of the euro against the dollar (a fall by 5 percentage points between 30 April and 7 May). This has happened because the Croatian financial sector is relatively the best-developed and most strongly integrated with European markets.

A major effect was the withholding of the issue of state bonds by Albania, Croatia and Macedonia. This had been planned for the end of April. Those countries feared that the threat of Greece being declared insolvent could prevent them from obtaining funds for financing their national debts. However, the danger that the delay in the bond issue and the rise in the price of capital caused by the Greek crisis will destabilise public finances in the Balkan countries does not exist; their financial needs are small because they have maintained their budget deficits and public debts at low levels.

... but it will weaken the economic revival in the region

The global financial crisis has affected the Balkan countries to various extents (see Appendix). The average GDP fall in 2009 was not large in the region, reaching 5 percentage points. However, given the low level of economic development, it brought about a significant deterioration in people's financial conditions, an increase in the unemployment rate and a serious deterioration in public finances (for example, Serbia and Bosnia and Herzegovina received special aid from the International Monetary Fund).

Economic forecasts for this year indicated a very weak economic recovery in the region's countries (1% GDP growth on average). However, the debt crisis in Greece may put even

such a low growth at risk, especially in those countries which have strong economic ties with Greece, which is a key trade partner for Albania, Montenegro and Macedonia (always among the top three). It is also the key foreign investor for those three countries and Serbia. Croatia and Bosnia and Herzegovina have much weaker economic links with Greece.

The expected recession will reduce Greece's demand for goods from Balkan countries and slow down Greek investments in the region. One of the negative consequences will be a lower availability of new loans offered by Greek banks, which along with Austrian and Italian banks play a significant role in Albania, Serbia, Macedonia and Montenegro (between 10% and 15% of the market share). It can also be expected that there will be fewer remittances from expatriate workers working in Greece. This will affect Albania most of all since more than 600,000 of its 3 million population work in Greece and their remittances, according to various estimates, account for between 12% and 15% of the country's GDP.

The Greek crisis will slow down the economic recovery in the Balkans not only because individual countries have links with the Greek economy but also because investors often view the emerging markets of South-Eastern Europe en masse.

The crisis vs. EU enlargement

The Greek crisis is modifying the conditions in which the process of EU enlargement by Western Balkan countries is taking place. The slower economic recovery in the Balkans as a consequence of the Greek crisis may make it more difficult for the candidate states to implement the reforms required by the EU. In addition to the purely economic effects, one should expect that the negative image of the Balkan countries as a problematic region in the south of Europe will be reinforced. Greece's problems with keeping discipline in public finances as well as the high corruption levels which have been present for a long time in Bulgaria and Romania preserve the region's reputation of being economically and politically unstable. Due to the problems of the EU's Balkan member states, the accession by the other countries from this region is seen as a challenge to the European Union's cohesiveness. The crisis in Greece has at the same time made the old EU member states realise that the observance of the solidarity principle may entail financial expenses higher than expected. All this will reinforce the reluctance to further enlarge the EU in some member states and may weaken the political will to continue this process. In effect, a tendency to impose more stringent accession criteria, which are already stricter than in the case of the previous enlargements, may appear and thus the negotiation processes with those countries will probably be significantly extended. A successful completion of Croatia's accession process could make EU member states more inclined towards further enlargement and keep the pace of reform in the other Balkan countries.

Appendix

Economic indices in 2009

Country	GDP	Budget deficit (% of GDP)	Public debt (% of GDP)	Exports to GDP 2008 (% of GDP)
Albania	+3.3	-6.9	n/a	11.1
Bosnia and Herzegovina	-3.2	-5.0	n/a	0.4
Croatia	-5.8	-3.9	33.5**	0.3
Montenegro	-5.3	-3.5	37.0	12.1
Macedonia	-0.7	-2.8	25.0	12.1
Serbia	-3.0	-4.1	31.3	2.2

Source: Statistical Offices of individual countries,

* Economist Intelligence Unit

** 2008