

Social and economic trends in south-east Europe

Abstract

This article aims to provide a general overview of the main social and economic facts and developments of a region that was cut off from the mainstream of European development for almost a decade and now finds itself on the way back, although at different speeds for each country. The region we look at here is also referred to as the western Balkans, encompassing non-EU former Yugoslavia and Albania. The countries are at various stages of the EU integration process: Croatia is an accession country, due to join the EU by 1 July 2013; the Former Yugoslav Republic of Macedonia, Montenegro and Serbia are candidate countries; and Albania, Bosnia and Herzegovina and Kosovo are potential candidate countries.¹ Their different statuses also mean differences in data availability, which makes it necessary to compile data from different data sources. This limits data compatibility but, at the same time, provides the reader with a general overview and helps to put these countries 'on the map'.

Keywords: economic growth, convergence, FDI, current account balance, employment rates, unemployment, employee compensation, income inequality, labour force

Introduction

A general overview of the overall position will be followed in this article by the main economic trends, including GDP growth, public finances and the main structure of the economy. However, it is the social trends will be the main focus, including employment, unemployment, employee compensation and income inequality. To provide some further assistance, given the occasional problems with data collection, we have also used selected countries for comparison, namely Germany and Poland, and, in some cases, also Greece. EU-27 data will also be provided to define a benchmark.

General overview

Table 1 provides a snapshot picture of the countries of the region, with data from 2010. The region's heterogeneity is evident, as is its divergence from core Europe and, with the exception of Croatia, also from central and eastern Europe, represented here by the largest country, Poland. GDP per capita (at purchasing power parity) illustrates the general level of development of the region's countries. Kosovo, Albania and Bosnia

1 In the tables and figures in this article, we use the following country codes: AL (Albania); BiH (Bosnia and Herzegovina); HR (Croatia); XK (Kosovo); MK (FYR Macedonia); ME (Montenegro); and RS (Serbia); for comparison, we also use DE (Germany), GR (Greece), PL (Poland) and EU-27 for the current EU.

and Herzegovina are the poorest countries in the region, with income levels between 21 and 28 per cent of the EU-27 average. Serbia, FYR Macedonia and Montenegro represent middle-income countries, with shares between 35 and 42 per cent of EU-27 GDP per capita (taking into account purchasing power differences). Croatia, the most developed state in the region, has a relative income level comparable to Poland, with an income share of 62 per cent of the EU-27 average.

Monthly average remuneration per employee shows wide variation. Here, purchasing power differences were not taken into account, and the data show average wages in the national currency converted into Euros at the market exchange rate (Montenegro and Kosovo use the euro unilaterally). Albania has by far the lowest average wage level, at less than one-tenth of the EU-27 average. Serbia, Macedonia and Bosnia and Herzegovina have wage levels between one-seventh and one-fifth of the EU average. Montenegro has a wage level comparable to poorer central and east European countries (some of the Baltic states), while Croatia has higher wage levels than both Poland and most countries in central and eastern Europe.

Table 1 – South-east Europe, facts and figures at a glance, 2010

| Country | Population (end-year, million) | Real GDP change (%) | GDP per capita at PPP (€), 2010 | Annual inflation rates (consumer prices) | Monthly compensation per employee (€) |
|------------------------|--------------------------------|---------------------|---------------------------------|--|---------------------------------------|
| Albania | 3.2 | 3.6 | 6 800 | 3.5 | 246 |
| Bosnia and Herzegovina | 3.8 | 0.7 | 6 500 | 2.1 | 622 |
| Croatia | 4.4 | -1.2 | 15 100 | 1.1 | 1 054 |
| Kosovo | 2.1 | 3.9 (a) | 5 080 (c) | 4.7 (b) | n.a. |
| Macedonia | 2.1 | 1.8 | 8 600 | 1.6 | 491 |
| Montenegro | 0.6 | 2.5 | 10 200 | 0.5 | 715 |
| Serbia | 7.3 | 1.8 | 8 500 | 6.8 | 461 |
| Germany | 81.8 | 3.7 | 28 700 | 1.2 | 2 910 (b) |
| Greece | 10.8 | -3.5 | 21 500 | 4.7 | 2 300 (b) |
| Poland | 38.1 | 4.0 | 15 300 | 2.7 | 883 |
| EU-27 | 501 | 1.9 | 24 400 | 2.1 | 2 776 |

Sources: Vienna Institute for International Economic Studies (2011). (a) Data from the European Commission. (b) IMF World Economic Outlook Database. (c) based on CIA Factbook 2012.

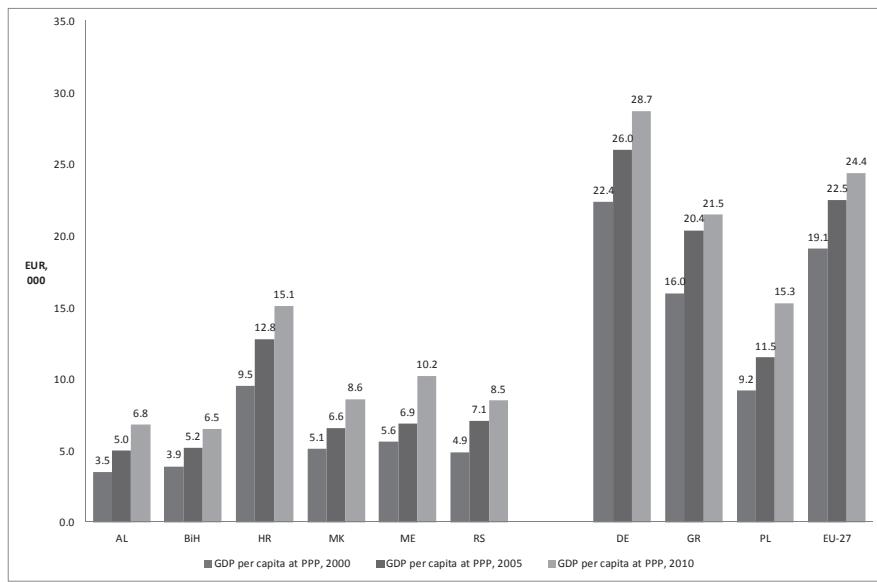
With the exception of Croatia, south-east Europe has been recovering from the crisis and shows more dynamic growth than the EU-27. Inflation, an important indicator of economic stability, is generally moderate, although Serbia has higher values.

Economic trends

Economic growth

The main measure of economic development is GDP growth, especially relative to the EU-27, if we take economic convergence into account. Figure 1 contains an important message that, despite the region's economic and political instability in the first half of the decade and the effects of the 2008-2010 economic crisis, all countries have managed a significant level of catch-up. Serbia, Albania and Montenegro have achieved the most dynamic growth, nearly doubling their GDP per capita. Croatia has moved almost in parallel with Poland, starting at a somewhat higher level in 2000 but ending up slightly lower (although Poland has been the only country in the EU not to fall into recession during the crisis).

Figure 1 – Measures of economic convergence: GDP per capita at PPP (€), 2000-2010

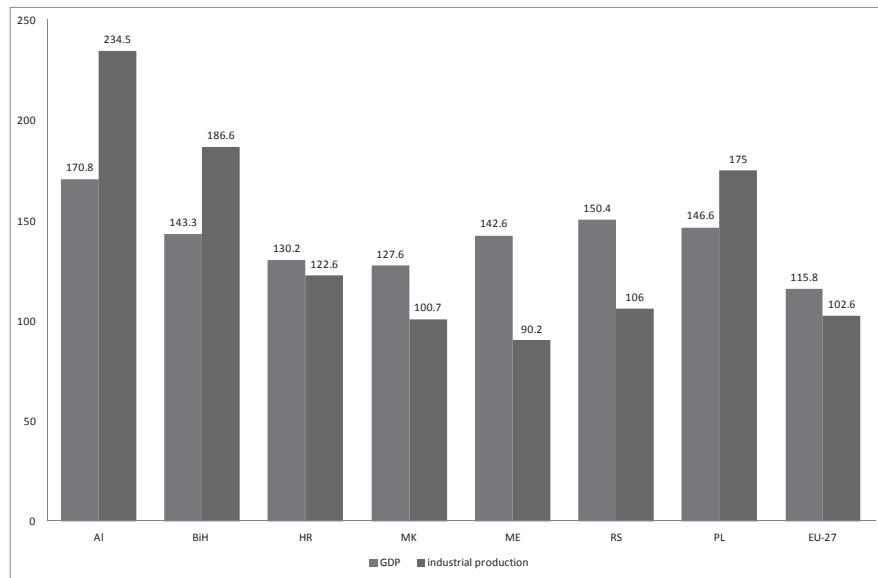


Source: Vienna Institute for International Economic Studies (2011).

Figure 1 is indicative of economic convergence, whereas Figure 2 shows domestic economic developments, using real growth rates for GDP and industrial production in the national currency. Economic growth has been highest in Albania and lowest in FYR Macedonia. In correspondence with the degree of convergence, as we saw in Figure 1, all countries outpaced the EU-27 and, with the exception of Croatia and FYR Macedonia, also Poland. The growth of industrial production was especially high in Albania and Bosnia and Herzegovina (both outpacing Poland), but rather moderate in Croatia,

Serbia and Macedonia. Montenegro, on the other hand, suffered a contraction of industrial activity during the decade, even though it managed significant growth in the economy as a whole.

Figure 2 – Real growth of GDP and industrial production in selected countries, 2010 (2000= 100)



Source: Vienna Institute for International Economic Studies (2011).

One source of economic growth has been foreign direct investment (FDI), which may also help modernise a country's economic base and allow a level of catch-up with peer countries.

Table 2 shows the build-up of FDI stock in terms of share of GDP for individual south-east Europe countries.

The data show a substantial increase in the FDI stock – albeit from a very low level – but the dynamism and share of FDI stock by the end of the period remain behind the new member states of central and eastern Europe. Montenegro is the sole exception; at the same time, it was also the only country in the region with a contracting industrial base. This illustrates the trend that foreign investment was not directed towards industry, but more into non-tradable sectors such as land and property development and services.

Table 2 – Inward FDI stock as a percentage of GDP, 2000-2010

| Country | 2000 | 2005 | 2010 |
|------------|-------|-------|--------|
| AL | 6.78 | 12.48 | 36.67 |
| BiH | 19.66 | 27.54 | 42.50 |
| HR | 13.10 | 32.74 | 56.68 |
| MK | 15.05 | 35.88 | 47.98 |
| ME | – | – | 138.18 |
| RS | – | – | 46.51 |
| YU (ME+RS) | 8.87 | 20.03 | – |

Source: UNCTAD (2011) *World Investment Report*.

Economic equilibrium

Public debt, which is at the epicentre of the second wave of the economic crisis in Europe, has remained at relatively low levels in south-east Europe, ranging from 24.46 per cent of GDP in FYR Macedonia to 58.2 per cent in Albania, with average values across central and eastern Europe (IMF, 2011).

As regards external economic balance, the current account position of south-east Europe countries shows high deficit levels, especially in the pre-crisis boom period, as indicated in Table 3. This makes them similar to the Baltic States, which suffered most during the crisis in Europe, and it generally indicates a lack of competitiveness. The situation is particularly alarming in Montenegro, where the balance of payments deficit reached 40 per cent of GDP at the peak of the economic boom and which, even in 2010, remained at dangerous levels. Taken together, the high levels of foreign investment for Montenegro in the past decade and the contraction of industrial activity clearly indicate that the country is experiencing an unsustainable investment bubble. Albania shows persistently high levels of external deficit, but these do seem to be more manageable. Other countries seem to have corrected their previously high current account deficits.

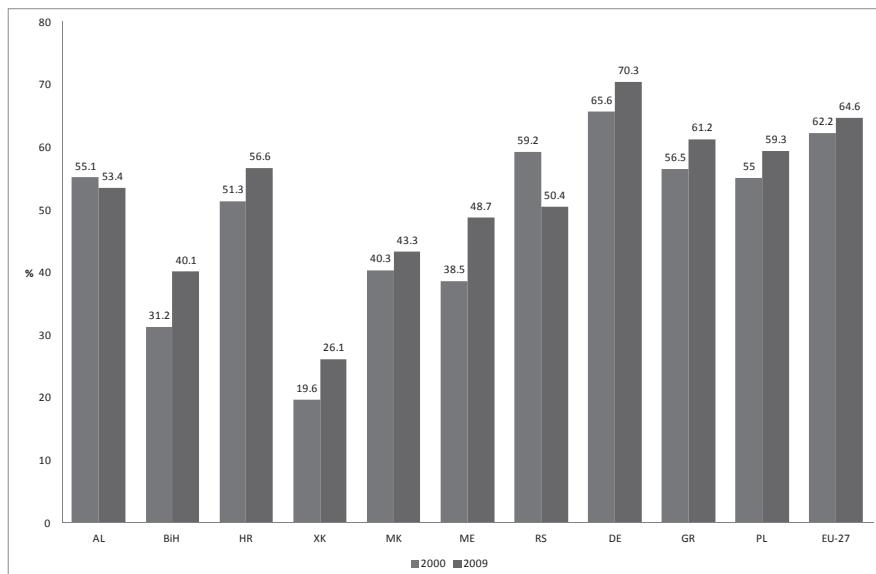
Table 3 – Current account balance, per cent of GDP

| Country | 2000 | 2005 | 2007 | 2010 |
|------------------------|------|-------|-------|-------|
| Albania | -4.7 | -9.0 | -10.5 | -11.8 |
| Bosnia and Herzegovina | -7.1 | -17.1 | -10.7 | -6.1 |
| Croatia | -2.3 | -5.3 | -7.2 | -1.1 |
| Macedonia | -2.7 | -2.5 | -7.1 | -2.2 |
| Montenegro | - | -8.5 | -40.2 | -25.1 |
| Serbia | -0.7 | -8.8 | -17.7 | -7.2 |

Labour market and social developments

Most economic indicators pertaining to south-east European countries do not seem particularly shocking to the average European observer, but the labour market is very different. Taking, for example, the employment and unemployment rates of Kosovo, one might imagine that the data were the wrong way round: a 26.1 per cent employment rate and a 45.4 per cent unemployment rate in 2009 do not seem to belong to the real world. For Kosovo this is reality, however, as Figures 3 and 4 indicate. For the other countries, the labour market indicators are somewhat less shocking, although employment rates are generally significantly lower than those in the EU. Employment rates are particularly low in Bosnia and Herzegovina and FYR Macedonia (see Figure 3), but those of even the best performer, Croatia, are lower than the lowest value in the EU.

Figure 3 – Employment rates (age group 15-64), 2000 and 2009

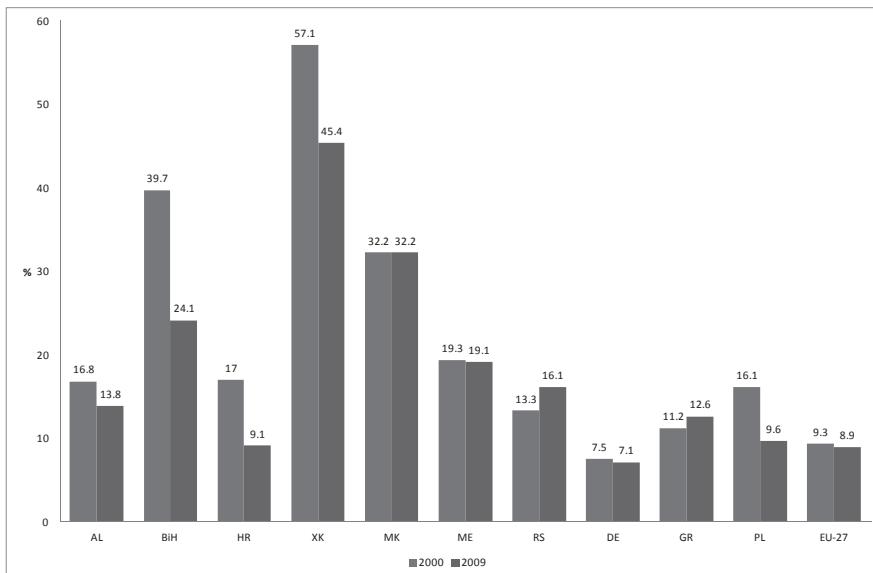


Source: Eurostat (2011).

Unemployment rates in the region (with the exception of Croatia) are significantly higher than the EU-27 average, as Figure 4 shows. In addition to Kosovo, Bosnia and Herzegovina (24.1 per cent) and FYR Macedonia (43.3 per cent) show particularly high values. Furthermore, apart from Croatia, neither do the trends of the past decade indicate any consistent improvement. All this has happened at a time when the region has achieved significant economic growth and a catch-up towards the more developed parts of Europe.

The phenomenon of jobless growth has often been mentioned in the European context, particularly for central and eastern Europe, but the negative champion in this field is, without doubt, south-east Europe. Even if the signs of normalisation are clearly discernible in the economy as a whole, this is unfortunately not true of the labour market.

Figure 4 – Unemployment rates, 2000 and 2009



Source: Eurostat (2011).

If, on the other hand, we look at developments in wages in the region, we again see signs of consolidation. Wage dynamics – for those who are in work – seem to be impressive, as Table 4 shows. Serbia and Montenegro, which also had a comparably more balanced labour market, take the lead, with real wage increases of 145 per cent (RS) and 95 per cent (ME) respectively. Among the south-east European countries for which data are available, only Croatia had a lower real wage increase than the EU-27 average over the decade, but Croatia also has an outstandingly high wage level in the context of the region.

Table 4 – Monthly remuneration per employee, 2010

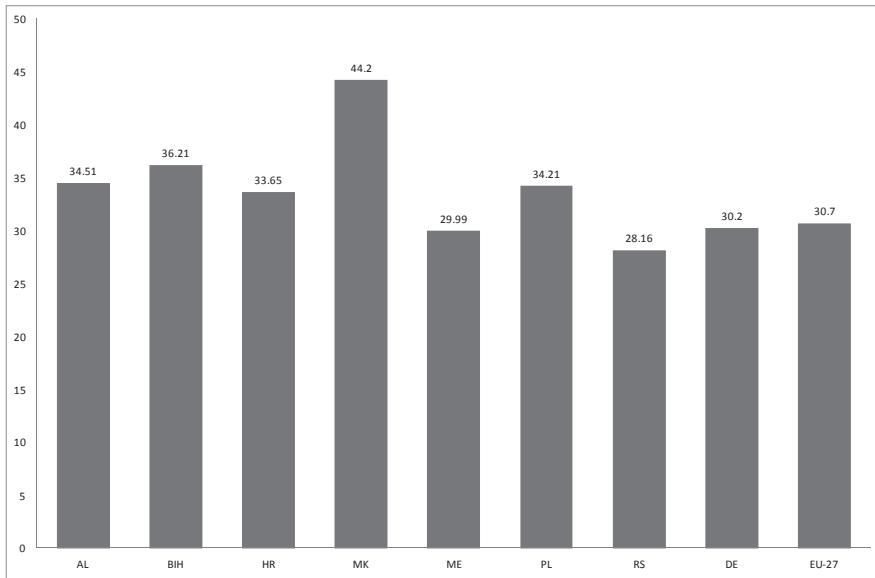
| Country | € | % (EU27= 100) | Index of real wages, 2009 (2000= 100) |
|---------|-------|------------------|---|
| AL | 246 | 8.9 | n.a. |
| BiH | 622 | 22.4 | n.a. |
| HR | 1 054 | 38.0 | 121 |
| MK | 491 | 17.7 | 159 |
| ME | 715 | 25.8 | 195 |
| RS | 461 | 16.6 | 245 |
| PL | 883 | 31.8 | 125 |
| EU-27 | 2 776 | 100 | 134 |

Note: Data for SEE refer to average gross monthly wages.

Source: Vienna Institute for International Economic Studies (2011).

The Gini coefficient measures the extent to which the distribution of income among individuals or households deviates from a perfectly equal distribution. A Gini coefficient of zero represents perfect equality – everyone has the same income – while a coefficient of one (100 on the percentile scale) implies perfect inequality in the income distribution (one person has all the country's income, while everyone else has nothing). Questions can quite legitimately be raised as to the value of statistical income inequality data for countries experiencing extreme labour market conditions, but Figure 5 provides an overview for 2008. Surprisingly (or not), south-east European countries fare rather well, and in European comparison, with FYR Macedonia being the only significant outlier. Serbia and Montenegro, on the other hand, have better results than Germany or the EU-27 average – at least, as far as the formal economy is concerned.

Figure 5 – Income inequality, the Gini coefficient



Source: World Bank, BIH: 2006; for DE and EU-27: Eurostat.

Summary

This brief overview of the economic and social situation of south-east Europe shows that, even though signs of consolidation are discernible in the region's economic performance, the labour market situation is, in most countries, an alarming one. Positive wage developments and positive results on conventional measures of income inequality only show that a large part of the economy is not visible. This remains the biggest social challenge for the region.

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