

## Unemployment and the Eurozone crisis: the state of social welfare in the Balkans

### Abstract

*This article explores the trends that define key social welfare moments for the countries of the western Balkans. The mounting Eurozone crisis and the interdependence of economies are both important phenomena that condition the need for intervention in the labour sector of the peninsula. Indeed, the article observes that the effects of the crisis are clear and that these have had further impact on the western Balkans terrain, one that is consolidating and fragile in some respects, in ways that have produced a greater number of unemployed people. The article offers statistics for each of the western Balkans countries and analyses them against a background that requires reform. The overall purpose is directed towards an increased awareness of the state of social welfare in the western Balkans; of the interdependence that exists between the EU and aspiring members; and, perhaps most importantly, of the strategic demand for introducing vigorous economic reforms that promote innovation and competition, boost production and strengthen democratic and accountable institutions.*

**Keywords:** social welfare, global economic downturn, Eurozone crisis, unemployment, labour markets, reform, liberalisation

### Introduction

The most recent history of the Balkans has shown signs of an appreciable political stability overall. The political landscape of the peninsula is more peaceful than perhaps at any other period since the 1990s conflicts in the Balkans emerged or re-emerged, albeit that in some places it is fragile. The interventions and involvement of the international community, together with the changes brought from within, have shaped the socio-economic climate in the region. The trajectory of progress may, however, not be taken for granted and transformation processes are not seeing their best days. Indeed, social stability is a fundamental prerequisite to any meaningful development enterprise just as, in contrast, a lack thereof can be a source of tension or instability.

Our data speak not only of an already high level of unemployment in the western Balkans region but, in many cases, also of an increased level in the aftermath of the global economic crisis which has seen unemployment rates in the region increase by about two percentage points. In EU countries, this increase was about 2.4 per cent (Balaj, 2010: 41). Yet, the difference remains easily discernible, with unemployment rates in the region being significantly higher than the EU-27 average (Galgóczi and Sergi, 2012).

The findings of a report published by the Institute for Regional and International Studies (2010) anticipates a very difficult and slow process of job recovery, as well as further and continuing pressure on state welfare systems and public budgets. The report argues:

*Sustained unemployment may cause social tensions and bring a rise in some crime forms and the grey economy. (p. 9)*

The relationship between the global and local appears to be immense, both in terms of the consequential downturn and its aftermath. It is worth recalling that one of the key traits of the economic crisis was the sudden collapse of credit on a global scale as banks stopped lending to each other in fear of unknown consequences and uncertain exposure to toxic debts (Roubini and Nihm, 2010). The effects soon reached the south-east European theatre and their negative impact was more strongly felt in those countries where banks were internationally-owned and the magnitude of integration with global markets higher. For instance, Turkey was only modestly affected: most of its banks are domestically owned.

Beyond the setting of sudden collapse, the effects of the crisis have also been experienced on other fronts. Due to the Eurozone crisis, remittances from migrants have been on the decrease. This poses another challenge to the social welfare systems of western Balkans countries, in particular as countries in the region rely relatively heavily on remittances – and some of course more than others. The precise data on remittances may not be easily obtained, and their accuracy is by nature difficult to ascertain, but Table 1 offers an important indication of the pertinent trends.<sup>1</sup>

**Table 1 – Remittances in five Balkan countries**

Country	Remittances as a share of GDP, 2008 (%)	% decline in the flow of remittances, 2008-09
Albania	12.2 %	0.0 %
Bosnia and Herzegovina	14.8 %	3.9 %
Croatia	2.3 %	1.9 %
Macedonia	4.3 %	1.3 %
Serbia	11.1 %	1.8 %

Source: World Bank remittances database

### The state of (un)employment

Despite sustained economic growth and stability, labour markets have not shown any significant scale of improvement, with the region having high unemployment rates

<sup>1</sup> Data for Kosovo and Montenegro are missing from the World Bank’s remittances database; however, according to IMF data, Kosovo’s remittances as a share of GDP fell from 12.6 % in 2007 to 11.9 % in 2008, and then further to 10.7 % in 2009.

which are especially stark in Bosnia and Herzegovina, Kosovo and Macedonia. Indeed, the effects of the global economic crisis are clearly involved in this equation. Table 2 presents the state of unemployment in western Balkan countries in recent years.

**Table 2 – The impact of the global economic crisis on trends in unemployment in the Balkans (%), 2007-2010**

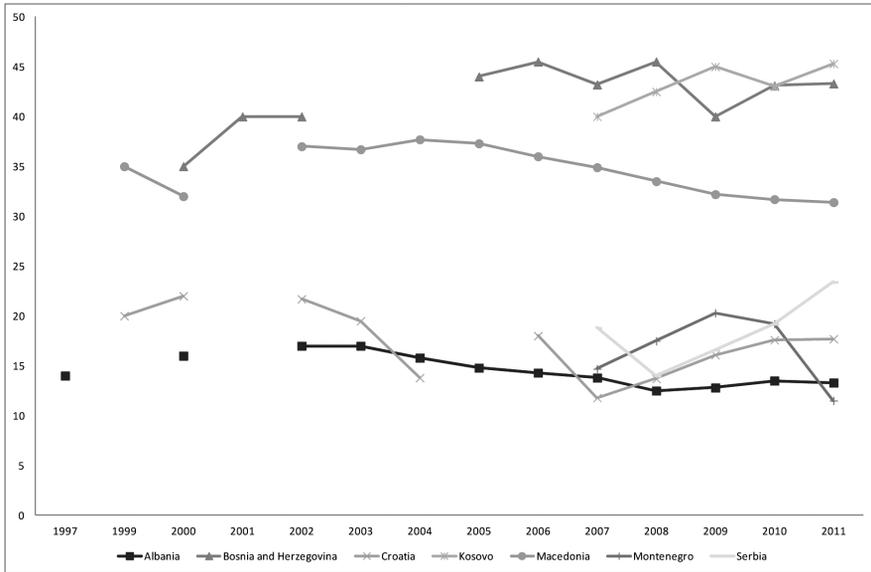
Country	2007	2008	2009	2010	2011
Albania	13.8	12.5	12.8	13.5	13.3
Bosnia and Herzegovina	43.2	45.5	40.0	43.1	43.3
Croatia	11.8	13.7	16.1	17.6	17.7
Kosovo	40	42-43	45	43	45.3
Macedonia	34.9	33.5	32.2	31.7	31.4
Montenegro	14.7	17.5	20.3	19.2	11.5
Serbia	18.8	14.0	16.6	19.2	23.4

Sources: European Bank for Reconstruction and Development; World Bank; International Monetary Fund; CIA World Factbook

A more longer-term perspective is offered by Figure 1, although the data is evidently incomplete. The negative effects of the global economic downturn are not difficult to distinguish. The impact is perhaps more apparent in the cases of Croatia, Serbia and Montenegro. We can see clearly that the highest levels may be encountered in Kosovo, Bosnia and Herzegovina and Macedonia.

For the purposes of the data in Figure 1, unemployment is defined as the percentage of the labour force that is without jobs.

Figure 1 – Unemployment rates in western Balkans countries



Sources: International Monetary Fund; CIA World Factbook

The ranking of the countries of the region, seen from the global perspective, are presented in Table 3. This is composed of data taken from the CIA World Factbook and enables us to view the problem of unemployment in the countries of the region in the context of unemployment as a global problem and one which, moreover, has evidently deteriorated as a result of the recent global economic crisis. Indeed, the statistics show the labour market to be in an alarming state in most countries of the region.

Table 3 – Unemployment rate (%), 2012, country rankings (largest first)

Rank	Country	Value
11	Kosovo	45.30
13	Bosnia and Herzegovina	43.30
21	Macedonia	31.40
30	Serbia	23.40
44	Croatia	17.70
63	Albania	13.30
79	Montenegro	11.50

Source: CIA World Factbook 2012

Based on these results, the cumulative unemployment rate in the western Balkans stands at 22.07 %. Comparatively, this remains a significantly higher rate when compared to that of the EU-27 and the EA-17, even at a time of continuing economic confusion and uncertainties for certain European Union economies. According to the EU's statistical office, Eurostat (2013), the seasonally-adjusted average rate in the Euro area (the EA-17) was 11.9 % in January 2013, whereas the average unemployment rate across the EU-27 was 10.8 %.

### The demand for reform: alternatives and avenues

Some analyses may support the view that what has been taking place in terms of enterprise reforms in the region can be regarded as a process of rationalisation. The EBRD (2002) scored achievements in terms of enterprise reforms, market and trade reforms, and financial institution and infrastructural reforms. All the countries in the region have done well in terms of reforms arising from small-scale privatisation, trade and the monetary system, as well as with regard to price liberalisation (scores ranging between 3 and 4+). However, with regard to banking reforms, the EBRD reports either little progress or no progress at all (that is, between 1 and 2+, with a few scores of 3-). The EBRD's analysis suggested that further reforms are necessary, although improvements have recently been recorded in most areas, especially among EU candidate countries. The EBRD analysis, similar to that of many other international institutions and publications, also mentions the imperative to fight corruption (Qerimi and Sergi, 2012a, 2012b).

The main aspects in need of evaluation are social stability, EU membership, the attraction of more capital and the future of industry. These are not separate issues and depend on the credibility of the entire peninsula as a potential new focal point for entrepreneurs. These countries must exhibit further progress in reform in order to be able to attract FDI (see, for example, Lankes and Stern, 1997; Sergi, 2003). Liberalisation measures have indeed been taken recently (for example, in Montenegro and Serbia). In the field of fiscal policy, there is broad consensus on its use as a means of attracting investors, although to a much lesser extent than it has been in the past. In fact, these countries continue to benefit from significant labour cost advantages, even adjusted for labour productivity, as well as low corporate taxes and continuing tax competition (Kubicova, 2004; Sergi, 2005).

Some improvements in stability and economic freedom have been accomplished, while FDI has had positive effects in local subsidiaries and a further multiplier effect may be anticipated through supplier chains. Future positive spill-over effects as regards domestic companies and branches and in human capital, in addition to the transfer of technological expertise and the diffusion of up-to-date management techniques, could prove to be important for socio-economic growth in its broadest sense. The rise in labour productivity and the significantly-increased export orientation of FDI subsidiaries makes all countries highly dependent on the situation in EU markets. Nevertheless, instability, low intra-regional trade, low aggregate demand, trade and so on are the other side of the coin. Apart from Croatia, exports to the EU in the western Balkans rely on unskilled labour and on low technology. For that reason, creating good medium-term

prospects through regional integration (defined as a condition for the EU accession of the western Balkans) remains important (Sergi, 2003).

Expanding regional co-operation which, so far, has been strongly limited to specific areas and largely imposed by the international presence in the region, would further advance western Balkans-EU relations. Of no less importance and urgency is the challenging task of fighting and making progress in such damaging areas as corruption, organised crime, human trafficking and illegal trading. Together, these factors are of decisive importance in attracting further foreign investment and in generating substantial changes in economic growth. Critical to progress on these issues is the establishment of robust and sustainable patterns with regard to the rule of law. The EU's Stabilisation and Association Process provides helpful guidelines on the adoption of the relevant policies and strategies to strengthen the rule of law.

It has been widely noted that corruption and organised crime are among the most serious problems in the western Balkans. Such activities have a considerable impact on the region's governments in terms of the development and stabilisation of their economies. This is certainly an obstacle to attracting foreign investment and moving closer to the EU.

## Conclusion

This article has identified the real social welfare difficulties which continue among western Balkans countries. The Eurozone crisis and, in fact, the overall global economic downturn have had noticeable negative effects on the already high unemployment rates of the region.

Western Balkans countries must vigorously pursue economic and democratic governance reforms; strengthen the institutional setting; fight corruption; enhance competitiveness; and deepen regional co-operation. A functioning single economic space in the region, along with sustained EU integration and efforts at the reform of the financial sector, is a path along which the weakened economies may not only be revived but also be set stable parameters for their strategic social and economic betterment in the longer-term. Thus, maintaining the focus on reform, co-operation, innovation and production is both a matter of grave urgency as well as long-term strategic priority.

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