Pan-European Regional Council

International Trade Union Confederation

"Developments of the economies, macroeconomic indicators and challenges in SEE countries"

Report prepared by the South-East Europe Trade Union Economic Experts' Network

Table of Contents

Introduction

Now an important truth in the panorama of trade unionism in Europe, the SEE TU economic experts' network, which is active under the umbrella of the International Trade Union Confederation's Pan-European Regional Council (ITUC-PERC), draws together economic experts from national trade unions active in post-Yugoslavia countries (except Slovenia) and Albania. PERC's regional office located in Sarajevo oversees the network's activities; the Friedrich Ebert Foundation and ETUI support the network's activity financially. The network builds on our network members' knowledge and expertise to be able to encourage a constructive social dialogue, and adhere to a strong regional view, thereby striving for a vast array of activities, from enhancing national labour activists and economists' professionalism to reinforcing the conditions for sustainable economic and social growth. All these stages are our concern because in the light of changing labour and business environments we need to adapt our ways of thinking, be attentive to shifting traditional paradigms and examine ties between shaking-off previous inertia, fair and creative strategies and taking advantage of the opportunities that national and international markets offer. The SEE TU economic experts' network's agenda develops the relationship between trade unions, the state, business and labour markets under new market economy rules and looks upon the effectiveness of trade unionism on a shared understanding of the many challenges and opportunities that these national economies face today. In the light of economic crises under market economy on a global as well as national scale, placing particular emphasis upon its causes at the regional level as well as upon the multirole of the state and other economic actors is vital. All these aspects are within our areas of interest and operation.

The Western Balkans – 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 – is an important reality to work on. This region has a wide heterogeneous character, although its unique past has been shaped by both geographic location as well as internal and external dynamics (Sergi and Qerimi, 2008). Now these countries have shown signs of an overall appreciable political stability. Albeit in some places fragile, the political landscape of the Peninsula is more peaceful than in perhaps any other period from the time the 1990s conflicts in the Balkans emerged or re-emerged. Moreover, Western Balkan countries are waiting in the wings to join the EU. Croatia started accession talks on 3 October 2005 and it is set to join the EU at the start of July 2013. The other Balkan countries have been told they can join the EU one day, if they meet the 'acquis communautaire', that is the body of European Union law, which includes democracy, the rule of law, a market economy and adherence to the EU's goals of political and economic union. Candidate countries – FYR Macedonia, Montenegro and Serbia – had mixed reviews. Serbia was criticised for continually refusing to recognise the independence of Kosovo. The Belgrade government was also criticised for making very little progress towards developing its economy, neighbourhood Policy Commissioner Stefan Füle, during his presentation of the annual EU enlargement package on 10 October 2012 said. Commissioner Füle has also recommended in October 2012 that Albania should be given formal EU candidate status; candidate status for Bosnia and Herzegovina and Kosovo remains a more distant prospect.

With that said, this report provides an overview of the previous meetings of the network as well as the main social and economic actuality and developments of the Western Balkans. Their different statuses with respect to EU integration is part of the story; no less important are differences in data availability, which made 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'. For further help and better economic comparisons, some statistical data compare Germany, Greece, Poland and EU-27 as a benchmark. According to data availability, the ensuing paragraphs overview economic trends, public finances, unemployment, employee compensation and income inequality, among others. The reports by national experts provide detailed information on economic and social developments, contain constructive proposals and make insightful policy recommendations.

1. Past Meetings of the SEE TU Network

The SEE TU Economic Experts' Network gathered in several locations across the Western Balkans, in Belgrade (12 – 13 November 2009), Sarajevo (7 – 9 April 2010), Kotor (9 – 10 December 2010), Durres (8 – 9 September 2011), Dubrovnik (3 – 4 April 2012) and Belgrade (15 – 16 November 2012).

1.1 Belgrade, 12 – 13 November 2009

Our first meeting was held as part of the SEE Trade Union Forum. Twenty-five union leaders and experts from SEE countries gathered in Belgrade, as well as PERC's Executive Secretary, Mrs. Enisa Salimovic, Office Coordinator of the ITUC/PERC SEE Office in Sarajevo, representatives of LO (Norway), Solidar (Brussels), CGIL and ISCOS (Italy), CITUB (Bulgaria), FES office in Belgrade and the regional cooperation council (RCC). During the meeting were discussed:

- The effects and after-effects of global economic crisis in southeast Europe; the role of IMF and national governments' measures;
- How to protect jobs, decent work and workers' fundamental standards;
- Transport and energy from the Agreement on Transport in southeast Europe;
- The role for trade unions in implementing coherent and sustainable pension reforms in southeast Europe;
- Migration policy.

The two-day work of economic experts and debates on global financial and economic crises helped us to come up with a first proposal of priority issues and thereby identify vital problems and obstacles in the SEE countries:

- High level of corruption;
- Untenable poverty;
- Inefficient and ineffective public administration policies.

Fresh mid- and long-term measures should be fashioned, economists proposed. Stability and development must rest on a variety of issues that remain the crucial bedrock of analysis. These include: revenues and expenditures policies, tax policy strategies, investments in material and immaterial infrastructures or what we can term as 'intangible capital', which refers to an umbrella of terms, such as human capital, skills and know-how, social capital, generalized trust among citizens, the economy's institutional framework overall. One piece of statistical data: 78 per cent of the world's wealth is due to intangible capital, with a range from 59 per cent in developing nations to 80 per cent in OECD high-income countries, the World Bank (2006) posits. Felix Roth and Anna-Elisabeth Thum (2010) found a positive linkage between intangible capital investment by business and labour productivity growth over the period 1995-2005.

In addition to this, we put forward the study of global financial and economic crisis, and the role of international financial institutions, whose professional economists and huge amount of money spent on economic analysis could not suffice even to foresee the approach of this crisis nor how to circumvent its deep economic after-effects. Trade union leaders and economic representatives painted an extremely thorny economic situation in the SEE and that these countries were experiencing a crisis even before the recent economic crisis had officially been recognised; the overall situation is even more complex now. We have particularly referred to the role of international financial institutions that set strict conditions on national governments in exchange for loans, which the governments abuse rather often and make unwise decisions leading to drastic measures. Consequently, the workers suffer the most. The result is massive dismissal of workers, large disruptions in labour market and increasing discontent.

Unambiguous data can help to straighten out labour hardships in these countries as those suffering the worst global economy crisis since the Great Depression have experienced the most severe case of unemployment. In Serbia, 155,000 work posts were lost during the 2009 crisis (when the country's industrial production contracted by 12.6 per cent), while Belgrade was pursuing measures in relation to stand-by arrangement with IMF then, which particularly jeopardized the rights of the workers. In Croatia, about 50,000 workers lost their jobs (industrial output growth shrank by 9.2 per cent in real terms); the sectors of wood industry, civil engineering, textile and shipbuilding were especially vulnerable; the reform of the pension and disability fund system was misconducted while the government introduced the special so-called ‘crisis tax’ and increased VAT. In FYR Macedonia, where about 53,000 families receive social aid, 27 per cent of the young are unemployed, 270,000 pensioners only receive up to 70 Euros, and in 2009 about 30,000 work posts were lost, the social dialog does not function at all.

The socioeconomic situation in other countries in the region is no less difficult, although signals of economic recovery are well known. Trade union leaders highlighted during the meeting the lack of any social dialog and discussion or consultation with their respective governments concerning assistance and obligation set by the IMF, which has resulted in a lack of social consensus at times. Even though deep political and institutional changes which would be needed to boost growth and job creation might be politically controversial and difficult to implement, they are indispensable to lower labour costs, IMF (2012a) posits. Several examples were illustrated, such as the one of Serbia and Bosnia and Herzegovina, where the trade unions, with the assistance of ITUC headquarters in Brussels and Peter Bakvis, director of the ITUC/Global Unions Washington D.C. office, managed to establish contacts with the IMF and somehow alleviate the measures for their governments. This happened although more than 80 per cent of all IMF missions meet with national trade union representatives to gain a better understanding of what is happening in the labour markets of individual IMF members, and there are extensive policy consultations with the ITUC, the IMF (2012a) reports. Conclusions and recommendations of the Forum of Trade Unions of SEE were made, too. It is necessary to continue the cooperation and work of the economic experts from SEE Trade unions on concrete and key issues. FES confirmed its readiness to fund future meetings of the trade union network, at least once a year, as this global crisis could serve as a chance for the trade unions to improve their public image and become more attractive to new members. An active working methodology would accomplish a new task: the purpose is to protect jobs and the dignity of work, as well as making better and fair labour conditions.

1.2 Sarajevo, 7 – 9 April 2010

‘European policy of flexicurity, empirical analysis and reform proposals’ was the topic of the meeting. All participants oppose the proposals for anti-crises measures, which serve as an attempt to conceal the omissions of employers and governments, whose activities are directed

towards increasing labour market flexibility. Moreover, new labour codes were in many respects a step backward for workers, leading to diminishing unions' bargaining rights and enabling uncomplicated workers' dismissals, violation of fundamental workers' rights, and maintenance of the illusion about the existence of social dialogue. The workshop participants were united in their request that the social dialogue and the mechanisms for its realisation must be repeatedly encouraged as a part of democratic method for tackling social and economic dilemmas. All participants highlighted the role of trade unions in overcoming the adverse consequences of economic crisis as well as setting the stage for new social and economic expansion under new settings and realities as of foremost relevance.
Taking into consideration newly established social and economic circumstances and the fact that the market nature of labour relations might cause further restrictions on workers' rights; this requires a better balance between flexibility and social security as well as a more resolute fight against corruption. We have identical attitudes that mutual coordination among trade union organisations could encourage much greater participation and improve job security.

The following discussion points were introduced:

- To consider the possibility to strengthen the role of a Western Balkans agency for the fight against corruption;
- To establish a regional agency for researches in the field of respect for labour rights and labour market flexibility, with an important role for the national and European trade unions in the above activities;
- To establish our network's Internet forum to make the network prominent inside and outside the region and the appointment of a public relations officer who should be in contact with the media to inform the public about the activities of the network;
- To form special groups consisting of trade union economic experts in charge of writing specific reports and to better understand the problems of poverty, unemployment, migration policy, harmonisation of tax regulations, etc.

Under conditions of globalisation, we propose maximum unification of basic workers' rights, full application of European standards in the field of labour law and protection of the social-economic situation of employees and for the harmonisation of regulations in the field of tax policy. However, we must be conscious about national divisions between established trade and a number of newly established trade unions, restrictions on the promotion of trade unions as social partners to ensure the balance between the flexibility and security of working positions.

1.3 Kotor, 9 – 10 December 2010

The ‘trade union approaches and strategic opportunities in combating corruption’ meeting was intended to develop a better understanding of corruption. It is interesting to note that the meeting was held on International Anti-Corruption Day (i.e. 10th December). Economists emphasized the need to have on the agenda some important issues that are required for social stability and economic development. In the western Balkan region, some 70 per cent of all bribes were paid in cash in 2010, while 22 per cent were given as food and drink, according to the UN Office on Drugs and Crime (2011) report. Considerably lower down the scale come valuables (5 per cent), other goods (4 per cent) and the exchange of services (3 per cent). According to the experience of citizens who paid at least one bribe in the twelve months prior to the survey, the public officials who receive most kickbacks are doctors (57 per cent of citizens bribe doctors), police officers (35 per cent), nurses (33 per cent), and municipal officers (13 per cent). Other types of public officials, ranging from municipal elected representatives (3 per cent) to land registry officers (9 per cent), receive a smaller percentage of bribes, the UN Office on Drugs and Crime reports. Therefore, the problem of corruption is a hot issue throughout SEE. Trade unions want to develop approaches that are more pragmatic: an active involvement for the fight against corruption in the western Balkans and a regional agency for researches in the field of labour rights and labour market flexibility were discussed in depth.

I also presented statistical figures and commented in reference to corruption, remarking that there is not a unique recipe for fighting corruption; that all countries face this problem; and also that the trade unions must take a more active role in fighting corruption, that they have to make a short-term and long-term plan in fighting unemployment, poverty and corruption. Trade unions experts presented figures and proposals concerning how corruption can be ameliorated together with a more effective role in fighting corruption, which is one of the worst illnesses in society. It is time to set the rules and design policies, which would allow trade unions to engage in the control of public finances and pursue corporate social responsibility. In addition, corruption, which affects the development of any country, has been the subject of many researches and studies (e.g. Transparency International, World Bank, UNDP and EU), which consist of businesspersons' general perceptions of the relative corruption levels of different countries. Research results of public opinion on corruption are similar in the majority of countries. Unemployment, poverty, low wages, and corruption remain the most important social problems.

Institutions regarded by citizens as the most corrupt are political parties, the judiciary, health, education and even governments. What is worse, citizens are extremely pessimistic about the effectiveness of the current legislative corpus. The rule of law, respect for legal norms, and severe punishments would be the most efficient in preventing corruption. Building strong and sound state institutions would offer concrete results and increase the level of trust among citizens. We have also drawn attention to the fact that national anticorruption agencies' goals have not been achieved in several countries.

Strengthening of public awareness related to this issue, especially in the media, would also be important for a reduction in the level of corruption. For example, countries do have their own national agencies for fighting corruption, but none believes in their capacity to stop corruption. A negative socio-political climate prevails, low standards, and widespread corruption at all levels in society is reflected in problem solving complexity.

1.4 Durres, 8 – 9 September 2011

This was a joint meeting of SEE TU economic experts and experts in pension system reform to discuss causal links between the reform of pension systems and the informal economy and corruption. As our fourth meeting of the SEE TU Network of Economic Experts, our goal was to discuss current economic policies of their governments and the implementation of the pension system reforms, but also to glean opinions from the professional position on certain matters, as well as to establish proposals for future work of these trade unions.

Experts briefly presented the status of pension system reforms in SEE, the current situation of the reforms, challenges, positions and actions of trade unions, as well as the achievements of trade unions. Based on national presentations, it may be concluded that the reforms are pursued at a time of economic crisis in which so many workers have become jobless, resulting in reductions in budget and fund incomes. Moreover, the control mechanisms of taxes and contributions collection are weak in the region, labour in the unofficial economy is evident, the role of IMF and World Bank in shaping the social security systems in the transitional countries is moving in the direction of stricter requirements for retirement following the new pension orthodoxy.

Expert Martin Hutsebaut talked about a causal relation between pension system reforms in southeast Europe and the informal economy and commented on reforms in some of the countries and compared them against some European countries. Regulation of the tax system as a prerequisite for the functioning of social security and stability of a country was recognised as an extremely important issue.

I presented an analysis on how to introduce a better financial discipline to protect and improve economic stability – the approach of trade unions to this matter and possibilities. It was particularly emphasized – considering the social and economic circumstances as well as the fact that the nature of labour relations may wane workers' rights – that trade unions have to strive for a better balance between flexibility and social security, for more effective strategies to combat corruption and better and more efficient institutions. TU Networks of economic and other experts should clarify the economic situation in SEE countries. The prevailing economic crisis, but also the coming crisis, gives special possibilities for action and the work of trade unions and their experts.

The fourth meeting reiterated our previous deliberations concerning the usefulness of SEE TU economic experts' network in the following challenges:

- Combating the engagement of workers in the form of unregistered work and other forms of unregulated labour relations;
- Filing requests with governments for efficient institutions and instruments of financial control;
- Stronger presence of trade union policies and proposals in the processes of pension system reforms in SEE countries;
- Create national and regional trade union positions on global policies, new economic crisis, financial markets etc.;
- Design and propose the establishment of regional agency for combating corruption;

- Continue monitoring the role and policies of International Financial Institutions and their pressures on governments, as well as actions and proposals of governments related to austerity measures and reduction of workers' and social rights, especially in the process of European integrations.

1.5 Dubrovnik, 3 – 4 April 2012

The objective of the meeting was 'Politics of the European Commission', the impact of the austerity measures on the economic and social situations and perspectives of the workers and citizens in their countries. Possible approaches to developing new models of growth after the crisis were also in the focus of the discussions.

The economic experts identified in their discussions several relevant challenges and problems. The economic crisis brutally hit CEE and SEE and it appears as having an interdependent process that our network has to scrutinise:

- Trade unions lost membership and seem not to be able to fulfil promises to protect workers' rights;
- Unsustainable reduction in wages and pensions;
- Growing inequality and injustice in the distribution of wealth;
- A strict conditionality of the IMF and other international institutions, while national governments often misuse IMF's support thereby concealing bad strategies and policies;
- Labour market difficulties and uncertainty regarding who should be in charge of job creation;
- A growth potential in so-called 'green jobs' and alternative models of growth to enable an exit from the crisis;
- Amendments to and passing of new labour laws have reduced workers' rights and fundamental standards of decent work.

It is important to continue with monitoring the role of the EU's policies and of international financial institutions' as well as providing commentaries and alternative proposals on austerity measures, which have an effect on workers' and social rights, especially in the process of European integration.

1.6 Belgrade, 15 – 16 November 2012

The meeting 'Macroeconomic conditions and indicators in SEE countries' was meant to continue the cooperation of economic experts from the SEE TU and discuss on the network of economic experts and highlight the importance of the cooperation among the economists at the national and regional level. National experts have presented their reports and Ms. Koppa – a member of the European Parliament – talked about the enlargement policies, criteria and the EU's strategic interests, social dimension in the accession process with a special emphasis on the Balkan states. Ms. Koppa has emphasized how important it is to strengthen the capacities of social partners for a long-term accession process, and that it would be good to join other actors of civil society in the accession process. She pointed out that the EU continues to be attractive, also in the light of its unique combination of economic dynamism with a social model. She also talked on the important role that social dialogue plays in EU decision-making, for greater emphasis on strengthening the capacities of social partners and the role of social dialogue to be able to develop enforcement mechanisms such as labour inspection and ensure respect for workers' social rights. Network member's Sven Karas has worked in the past on designing the special web page for our network and he has presented the design and parts of the web page; it was agreed that all relevant data will be gathered and post on the web page about the network's activities. Network members will be able to communicate easier via the web page with each other, and ITUC – PERC Sarajevo Office will try to secure translations of all the relevant documents to English, BSC, and Albanian language. Sven Karas will provide technical assistance in the future, and the LO TCO project will secure funds for the creation of the domain for the web page, and its maintenance.

Participants welcomed the confirmation of acceptance of the new project by LO Norway, with the financial support of the Norwegian government, which will allow the economic experts and trade unions to get more seriously with the issues of taxation system reforms, informal economy and corruption. It will be a continuation of the commenced work on the issues, which constitute a permanent obstacle for the growth and development, and will still be a great challenge for the trade unions.

2. Overview of Macroeconomics Dynamics

Table 1 provides a snapshot 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, from Central and Eastern Europe too. GDP per capita (at purchasing power parity) illustrates the countries' general level of development. Kosovo, Albania and Bosnia 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 (when purchasing power differences are taken into account). Croatia, the most developed state in the region, has a relative income level comparable with Poland, with an income share of 62 per cent of the EU-27 average. Monthly average remuneration per employee shows wide variation. Here data show average wages in the national currency converted into euro at the market exchange rate (note that Montenegro and Kosovo have adopted the euro unilaterally). Albania has by far the lowest average wage level, at less than one tenth of the EU-27 average. Serbia, FYR 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 CEE countries (some of the Baltic States), while Croatia has higher wage levels than Poland and most countries in Central and Eastern Europe.

Table 1 – Southeast Europe, Data at a Glance

Country	Population (end-year, milion)	Real GDP change, in % 2011, (a)	GDP per capitaat PPP (euros) 2011	Annual inflation rates (consumer prices), 2011 (a)
Albania	3.2	3.0	6,800	3,4
Bosnia and Herzegovina	3.8	1.3	6,800	3,7
Croatia	4.4	0.0	15,100	2,3
Kosovo	2.1	5.0	5,080(b)	7,3
Macedonia	2.1	3.1	9,200	3,9

Montenegro	0.6	2.4	10,500	3,1
Serbia	7.3	1.6	8,800	1,1
Germany	81.8	3.1	28,700	2,5
Greece	10.8	-6.9	21,500	3,3
Poland	38.1	4.3	15,300	4,3
EU 27	501	1.5	24,400	3,1

Source: The Vienna Institute for International Economic Studies (2011). (a) IMF – World Economic Outlook Database (2012b). (b) Based on CIA Fact book 2012.

With the exception of Croatia, southeast 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. A negative note is the size of the shadow economy in Croatia, FYR Macedonia and Albania, which was in 2006 35.1 per cent, 36.7 per cent and 37.9 per cent, respectively, according to Schneider, Buehn and Montenegro (2010).

2.1 Economic Growth

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

While there is positive indication of economic convergence (Galgóczi and Sergi, 2012), Table 2 shows domestic economic developments, using real growth rates for industrial production. Economic growth was highest in Albania and lowest in FYR Macedonia. In correspondence with convergence, all countries outpaced the EU-27 and, with the exception of Croatia and FYR Macedonia. The growth of industrial production was especially high in Albania and Bosnia and Herzegovina (both outpacing Poland), but rather moderate in Serbia in 2010 and 2011, negative in Croatia (since 2009) and FYR Macedonia in 2009 and 2010. Montenegro, on the other hand, suffered a contraction of industrial activity during the decade (only in 2010 a +17.5 per cent), even though it managed significant growth in the economy as a whole.

Table 2 – Annual Growth Rates for Industry (%)

Country	2008	2009	2010	2011
Albania	8.7	10.6	18.6	10.0
Bosnia and Herzegovina	7.3	1.5	3.7	5.6
Croatia	1.2	-9.2	-1.4	-1.2
Macedonia	5.1	-8.7	-4.8	3.3
Montenegro	-2.0	-32.2	17.5	-10.3
Serbia	1.4	-12.6	2.5	2.1
Germany (a)	-0.1	-16.3	10.9	7.6
Greece(a)	-4.2	-9.2	-6.6	-8.1
Poland	2.4	-3.7	10.8	7.2
EU 27	-1.8	-13.7	6.8	3.2

Source: The Vienna Institute for International Economic Studies (2011). (a) Eurostat (excluding construction).

One source of economic growth was foreign direct investments (FDI), which may also help to modernize a catching up country's economic base. Table 3 shows the build-up of FDI stock as a share of GDP for individual SEE countries.

Table 3 – Inward FDI Stock, as a percentage of GDP

Country	2000	2005	2010
Albania	6.78	12.48	36.67
Bosnia and Herzegovina	19.66	27.54	42.50
Croatia	13.10	32.74	56.68
Macedonia	15.05	35.88	47.98
Montenegro	-	-	138.18
Serbia	-	-	46.51
Montenegro + Serbia	8.87	20.03	-

Source: UNCTAD, World Investment Report (2011).

Although the data show a substantial increase of the FDI stock – albeit from a very low level – the dynamism and share of the FDI stock by the end of the period remain behind the new member states of Central and Eastern Europe. Montenegro is the sole exception with a stock of FDI equal to 138.18 per cent in 2010 and this illustrates the trend that foreign investments were not directed towards industry, but more into non-tradable sectors, such as real estate development and services. Nevertheless, much more should be done in terms of competitiveness for these economic systems to nurture production and foreign investment.

One additional aspect of analysis is the extent to which the regulatory environment in the region is more or less conducive to the start-up and operation of a local firm when considering variables such as ‘dealing with construction permits’, ‘registering a property’, ‘getting credit’, ‘protecting investors’, ‘paying taxes’, ‘trading across borders’, ‘enforcing contracts’ and ‘closing a business’. Ranked from 1 (the easiest country in which to do business) to 185 (the most difficult country in which to do business), a high ranking on the ease of doing business index means the regulatory environment is more conducive to the start-up and operation of a local firm. This index averages the country’s percentile rankings on a variety of indicators, giving equal weight to each topic. The rankings for all economies are benchmarked to June 2012 (Table 4). Despite a few notable improvements in Kosovo, Montenegro and Serbia, only FYR Macedonia is ranked high and most countries rank low globally, *Doing Business 2013* reports. The tenth in the *Doing Business* series – finds that Serbia was the 9th top global reformer in the past year (Greece 8th). Macedonia and Croatia are two of the 20 top global improvers, too. *Doing Business* captures some key dimensions of regulatory environments for domestic businesses, however it does not measure all aspects of the economic environment that matter to regional and international competitiveness, such as macroeconomic stability and corruption, which are important in our TU network's agenda. Moreover, the easiness of doing business index utterly ignores crucial indicators about trade unions and competitiveness, such as labour skills and working conditions, underlying quality of institutions and infrastructures, among others.

Table 4 – Ranking on the Ease of Doing Business

Country	Doing Business 2013 Rank	Doing Business 2012 Rank
FYR Macedonia	23	22
Montenegro	51	57
Croatia	84	80
Albania	85	82
Serbia	86	95
Kosovo	98	126
Bosnia and Herzegovina	126	125
Germany	20	18
Greece	78	89
Poland	55	74

Note: To provide a comparable time series for research, the data set is back-calculated to adjust for changes in methodology and any revisions in data due to corrections.

Source: World Bank, Doing Business Database 2013. Data time series for each indicator and economy are available on the Doing Business website <http://www.doingbusiness.org/rankings>.

The global competitiveness index (GCI) is developed by the World Economic Forum's Centre for Global Competitiveness and Performance (Table 5). The GCI aims to mirror the business operating environment and competitiveness of over 140 economies worldwide, by identifying advantages as well as impediments to national growth. It is based on twelve pillars of competitiveness (i.e. institutions, infrastructure, macroeconomic environment, health and primary education, higher education and training, goods market efficiency, labour market efficiency, financial market development, technological readiness, market size, business sophistication and innovation), providing a comprehensive picture of the competitiveness landscape in countries around the world at all stages of development.

Table 5 – The Global Competitiveness Index

Country	Rank 2012-2013	Rank 2011-2012	Rank 2010-2011	Rank 2009-2010
Germany	6	6	5	7
Poland	41	41	39	46
Montenegro	72	60	49	62
Macedonia	80	79	79	84
Croatia	81	76	77	72
Bosnia and Herzegovina	88	100	102	109
Albania	89	78	88	96
Serbia	95	95	96	93
Greece	96	90	83	71

Note: World Economic Forum, The Global Competitiveness Report 2012-2013, available at <http://reports.weforum.org/global-competitiveness-report-2012-2013/>.

In line with this, economic freedom ranking might be an additional perspective of analysis. For over a decade, the Heritage Foundation, in partnership with The Wall Street Journal, has tracked economic freedom around the world with the influential Index of Economic Freedom. The ranking is meant to understand to what extent individuals are free to work, produce, consume and invest in any way they please, with that freedom both protected and unconstrained by the state as well as the level to which governments allow labour, capital and goods to move freely (Table 6).

Table 6- Economic Freedom Ranking

	World rank 2012	World rank 2012
Germany	26 [71]	23 [71.8]
Macedonia	43 [68.5]	55 [66]
Albania	57 [65.1]	70 [64]
Poland	64 [64.2]	68 [64.1]
Montenegro	72 [62.5]	76 [62.5]
Croatia	83 [60.9]	82 [61.1]
Serbia	98 [58]	101 [58]
Greece	119 [55.4]	88 [60.3]
Bosnia and Herzegovina	104 [57.3]	104 [57.5]

Note: freedom scores are in [.]: 100 - 80: free; 79.9 - 70: mostly free; 69.9 - 60: moderately free; 59.9 - 50: mostly not free; 49.9 - 0: repressed.
Source: The Heritage Foundation (in partnership with The Wall Street Journal), available at: <http://www.heritage.org/Index/ranking>

A composed economic freedom indicator consists of the following freedom-related variables: business freedom, trade freedom, fiscal freedom, government spending, monetary freedom, investment freedom, financial freedom, property rights, freedom from corruption and labour freedom. FYR Macedonia's economic freedom score is 68.5, making its economy the 43rd freest in the 2012 Index. Its overall score has increased 2.5 points from last year, reflecting improvements in six of the 10 economic freedoms and an especially large gain in business freedom. FYR Macedonia is ranked 21st out of 43 countries in the Europe region, and its overall score is above the world and regional averages. FYR Macedonia has undertaken significant reforms in many sectors of the economy over the past few years, inspiring economic growth and the development of a thriving entrepreneurial sector. Despite progress, corruption and an inefficient legal framework remain major concerns.

Albania is ranked 57th in the 2012 Index, 26th freest among the 43 countries in the Europe region, and its overall score is above the world average. Some improvements in freedom from corruption and business freedom are detected, although poor protection of property rights (largely a result of political interference in the judiciary) and pervasive corruption also feature.

Other countries in the region have emerged from the global economic downturn largely damaged, especially in terms of labour market conditions, although striving to continue their transition to a more flexible economy. In particular, Bosnia and Herzegovina, Serbia and Croatia, ranking 104th, 98th and 83rd, respectively, in the 2012 Index, are far away from FYR Macedonia. Serbia's below the world average position (Serbia is ranked 37th out of 43 countries in the Europe region, and its overall score is below the regional averages) reflects modest improvements in trade and monetary freedom offset by losses in business freedom and the management of government spending. Despite some progress, Serbia's overall economic freedom continues to be constrained by a lack of political will to undertake the bold reforms that are required. Government spending remains inefficient, high and poorly managed. Deeper institutional reforms are needed to tackle bureaucracy, reduce corruption and strengthen the judicial system from political interference. Bosnia and Herzegovina's economic freedom, 38th out of 43 countries in the Europe region, remains below the regional average. The foundations of economic freedom are fragile and uneven across the country. The rule of law is weak, and local courts are subject to substantial political interference. Croatia's economic freedom score is due to deterioration in the management of government spending and in business freedom. Despite some significant improvements over the past five years, Croatia's scores on most components of economic freedom remain decidedly average. The lack of an independent and efficient legal framework undermines the foundations of economic freedom, and corruption remains a serious concern, hampering the rule of law and eroding long-term development potential. Nonetheless, institutional weaknesses still hold back economic freedom and prevent dynamic growth. In particular, the foundations of economic freedom remain challenged by corruption and an inefficient judicial system that is vulnerable to political interference. The accumulation of large fiscal deficits in recent years risks undermining macroeconomic stability and long-term competitiveness and highlights the need for more disciplined management of public finance.

The foundations of economic freedom are still fragile and uneven across the region. Powerful business networks control national economies; policy-making maintains these regimes at all levels. Poor protection of property rights, widespread corruption, disorganized bureaucracy and costly registration procedures generate additional hitches and discourage entrepreneurial activity. This is a hot issue for debate in our TU network; that is where the development is heading if profound measures are not taken in time to prop up the real functioning of the markets and stabilise at least some decent level of real competition across the Balkans.

The Knowledge Economy Index (Table 7) is calculated based on four pillars: economic incentive and institutional regime; education and human resources; the innovation system; information and communication technology. The knowledge index measures a country's ability to generate, adopt and diffuse knowledge. That is the index takes into account whether the environment is conducive for knowledge to be used effectively for economic development and an indication of overall potential of knowledge development in a given country.

Table 7 – Knowledge Indexes

Rank	Country	2009 Knowledge Economy index	2009 Knowledge Index
1	+2 Denmark	9.52	9.49
12	+3 Germany	8.96	8.92
27	+3 Hungary	8.00	7.88
37	-2 Poland	7.41	7.38
38	-7 Greece	7.39	7.58
40	+4 Croatia	7.28	7.28
43	+8 Bulgaria	6.99	6.94
47	+13 Romania	6.43	6.25
53	+20 Serbia	5.74	6.32
58	+14 FYR Macedonia	5.58	5.66
79	+7 Bosnia and Herzegovina	4.58	4.68
93	+10 Albania	3.96	3.92

Notes: In green, the change in rank from 2000. The variables are normalized on a scale from 0 to 10.

Source: http://info.worldbank.org/etools/kam2/KAM_page5.as

The Knowledge Index (Table 7) is the simple average of the following three pillars: education and human resources, the innovation system; information and communication technology. Croatia and Serbia are the countries that best rank in the index (40th and 53rd, respectively), but we note that all the countries have improved their rank since 2000. The knowledge index and the other indexes that concern ease of doing business, global competitiveness and economic freedom must be taken seriously as must the vital importance of the international dimension of today's economic reality.

Through improving the investment climate, broadening access to finance, increasing competition in product and service markets, and/or diversifying the economy would be the way forward. One attention-grabbing part of the liberalisation process is the banking sector. Tables 8 and 9 give data on banking sector reforms and interest rate liberalisation. The index is calculated by the EBRD on a scale of 1 (minimum) to 4.33 (maximum) and this shows that the development is close to the EU in the case of Croatia (even higher than Slovenia: 3.33). Table 9 is concerned with loans-to-GDP ratios (loans to the nonfinancial private sector) and data depicts that it has dramatically increased in Montenegro since 2006 and it is 81.4 per cent, although behind Greece and Poland. Croatia presents a 70.2 per cent and the other countries lower ratios. The vulnerability indicators are given in Table 10.

Table 8 – EBRD Index for Banking Sector Reform and Interest Rate Liberalisation

	Albania	Bosnia and Herzegovina	Croatia	FYR Macedonia	Montenegro	Serbia	Slovenia
2000	2,33	2,33	3,33	2,67	n.a.	1	3,33
2001	2,33	2,33	3,33	2,67	n.a.	1	3,33
2002	2,33	2,33	3,67	2,67	n.a.	2,33	3,33
2003	2,33	2,33	3,67	2,67	n.a.	2,33	3,33
2004	2,67	2,67	4	2,67	2,3	2,33	3,33
2005	2,67	2,67	4	2,67	2,3	2,67	3,33
2006	2,67	2,67	4	2,67	2,7	2,67	3,33
2007	2,67	2,67	4	2,67	2,7	2,67	3,33
2008	3	3	4	3	3	3	3,33
2009	3	3	4	3	3	3	3,33
2010	3	3	4	3	3	3	3,33

Note: 1 is the minimum; 4.33 is the maximum implying that the development is close to the EU.
Source: EBRD.

Table 9 – Loans-to-GDP Ratio in % (loans to nonfinancial private sector)

	Albania	Bosnia and Herzegovina	Croatia	Greece	FYR Macedonia	Montenegro	Poland	Serbia
2004	9,6	32,3	51,8	n.a.	22,1	16,8	n.a.	24,8
2005	15,3	36,5	56,4	75,6	25,1	20,7	89,6	30,7
2006	22,2	39,5	64,0	79,5	30,2	39,4	93,1	30,8
2007	30,0	44,4	67,1	88,0	36,8	83,0	98,0	35,3
2008	35,2	50,9	68,1	92,2	43,9	90,7	101,8	41,4
2009	37,2	50,2	69,6	90,3	42,9	80,4	107,5	45,0
2010	38,2	51,9	70,2	92,1	44,9	81,4	109,6	47,5

Sources: up to 2009 EBRD. For 2010 author's own calculations upon the data from Central Banks' web sites. For Greece and Euro-zone, ECB.

Table 10 – Vulnerability Indicators

	Banking system			**Bank dep.**	**Loans/ dep.**	**Country risk**	**Nonperforming loans**	
	(end of 2010)/4			latest				
	Total assets as share of GDP	Share in total assets:				12.10.11		
		State-owned banks	Foreign owned banks	% of GDP	Private sector, in %	(CDS spread, bps)	NPL in % Dec 2010 /6	NPL in % latest
Albania	77,0	0,0	92,4	68,3	58,8	…	7,6	8,7
Bosnia and Herzegovina	86,7	0,8	94,5	34,8	161,8	…	...	...
Croatia	116,8	4,3	90,3	61,8	117,5	492,5	...	...
FYR Macedonia	65,4	1,4	93,3	50,2	94,3	…	...	...
Montenegro	97,4	0,0	88,4	51,2	126,5	…	21,0	...
Poland	76,8	22,9	70,5	45,5	116,3	268,6	8,8	8,4
Serbia	65,3	16,0	75,3	…	…	…	16,9	17,1

Source: EBRD.

No less important in our analysis is the gas and electricity sectors, which are characterised by outdate infrastructures. This is especially in Serbia, Bosnia and Herzegovina and Kosovo, characterised by high losses in transformation, transmission, distribution and high-energy consumption of households due to poor insulation of buildings and low efficiency of appliances. Although there is wide variation among countries in electricity transmission losses, with Croatia and Kosovo being the most and the least efficient systems in the region, the high energy intensity of the region is some two times higher than the European OECD average. To deal with electricity shortages and volatile electricity production, now the region is entering the second decade of creating a regional energy market and is integrating it in the EU internal energy market; the so-called Athens Process. The 2005-signed treaty establishing the Energy Community was designed with a view to enabling countries of southeast Europe to become a part of the EU's internal market even before their formal accession to EU. An important milestone towards the success of the initiative was the decision of the Ministerial Council of the Energy Community of October 2011 to implement the third package of EU internal market legislation. The crunch of the electricity market due to extreme weather conditions clearly demonstrated the fragility of the regional market and the need to address the existing barriers to cross-border trade (especially the issue of insufficient generation and transmission adequacy) would be a decisive step. Searching for a balance between securing reliable and affordable energy supplies to support economic recovery and energy efficiency measures and penetration of renewable energy sources is a big challenge here. Following the EU's efforts to introduce an unprecedented level of integration of electricity markets up to 2014, the region has recently commenced implementing the EU target market model, planning to join the EU-wide market coupling scheme by 2015.

Finally yet importantly, is a note on the increasing impact of China on the agenda for structural adjustment, product upgrading and deeper integration of southeast Europe with Western Europe. Also, a broad view of European economic integration is crucial given that spillovers and contagion were major issues of the recent economic crisis (Nowotny, Mooslechner and Ritzberger-Grünwald, 2012). Therefore, the debate has to be firmly based on long-term astuteness and we cannot overlook competitiveness taken as a whole. Competition in Europe calls for innovative policies; rejuvenating Europe rests on technological innovation, a lower tax wedge and the like, much less on the flat tax regime. To retain the attractiveness of the Balkan region to international investors, decision-makers have responded by cutting tax rates while they underscored the importance of additional incentives (e.g. cash grants, fixed-term tax relief, labour subsidies). Does this tax competition in Eastern Europe resemble Ireland's strategy of adopting a friendly tax regime on income, capital, and corporations in the 1980s? This resulted – with other investment incentives to investors – in a foundation stone of the Irish economic success then. The national level flat type tax rate (the first country to implement an uniform flat tax in post-communist Europe for all incomes was Estonia in 1991; many other countries followed, including the Balkan countries) was understood to reduce red tape and inequity among tax payers, counterbalance tax dodging and cheating, create more incentives to work, save and invest. The theory supports the notion that too high taxes could not discipline governments, which would instead spend through imposing high taxes by increasing ineffectiveness and inefficiencies. A conclusion cited by some researchers is that the flat tax type success depends on the actual level of the tax rate: the lower it is, the more efficient it might become to swell tax revenue and spark off economic growth. Tax rivalry could equalise effective tax burdens or very close to a nominal balance, and this outcome in terms of fiscal policy advantages would become 'neutral' in the end (Sergi, 2005; Hauptman, Kubicová and Mulej, 2009). Trends of equalisation and convergence of tax rates of corporate income tax and value added tax especially between neighbours and countries of a similar size are shown in Figure 1 and Figure 2.

Yet, how much of a country's competitiveness and investment decision is tax-driven? How much of the economic growth achieved in the Western Balkans was (and could be) realised through further tax slashes? The two questions continue to be controversial issues among tax experts and our network's TU economic experts. The tax competition argument has been emphasised especially if one regards it as leading to a convergence in tax burdens across countries in the end, leaving this fiscal tool with no impact or a 'neutral' one on investors' international strategic decisions. While we do not want to deny the importance that some tax incentives can have on economic growth and investment decisions, yet economic growth must be rooted in deep economic reforms and fair and efficient labour markets not longer on the flat tax system, which has proved unreliable in many countries. Foreign investment flows have largely helped to carry out privatisation in Central Europe in the 1990s and no 'flat tax competition' was in place then. Therefore, granting the new tax flat system with the precedent of economic growth in Central and Eastern Europe is not entirely truthful: economic growth could not have happened in the 1990s if not grounded on positive expectations of market liberalisation and new pro-western trade linkages. In the end, the flat tax system cannot be tribute with positive outcomes in terms of privatisations and economic growth we have seen right after the collapse of the Soviet bloc's system. A real strategy to overcome the current economic and social crises and implement modern growth policies rest on the ground to improve the comprehensive quality of national governance coupled with a renewed focus on corporate strategies; trade unions must play a shining role in this context.

Figure 1 – Corporate Income Tax Rates, 2011

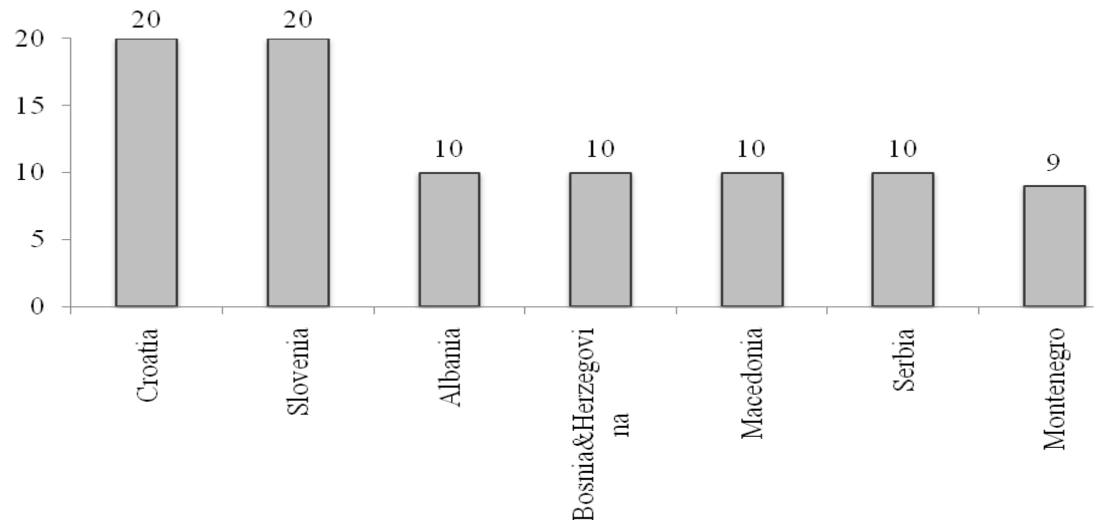
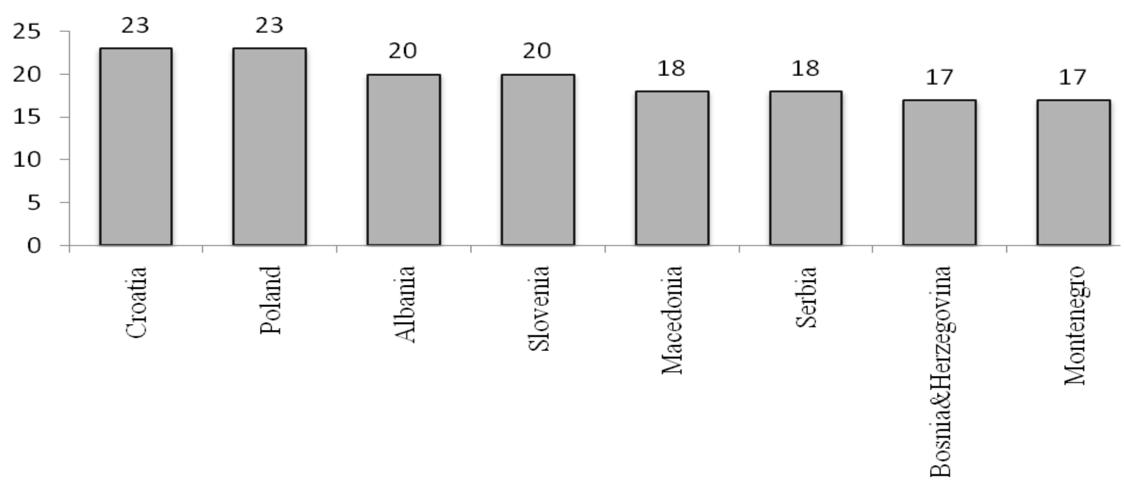


Figure 2 – Rates of Value Added Tax, 2011



Aside from a narrow tax-on-corporate-profits approach, labour costs are equally important in investment decisions, such as wages, payroll taxes, and so forth. Laying emphasis on tax advantages - especially in the case of a big investor who wants a long-term commitment in a given country - is an oversight. Shifting profits to tax havens is another way to skip national tax disadvantages and this could induce big corporations to have plants in one country and exploit another country's tax advantage on profits at the same time. Simply, the phenomenon of FDI, outsourcing and international business, whether conducted in southeast Europe or globally, requires a comprehensive rather than narrow scrutiny.

2.2 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 southeast Europe (Table 11). Debt ratios are all below or on the recommended Maastricht criterion of 60 per cent, ranging from 27.7 per cent of GDP in FYR Macedonia, to 39 per cent in Bosnia and Herzegovina, 46 per cent in Croatia and Montenegro, 49 percent in Serbia and 60 per cent in Albania (the highest in the region) (IMF, 2011). If we compare the gross external debt as a percentage of GDP in Bosnia and Herzegovina, Montenegro and Albania it looks less vulnerable with a ratio of 26.1 per cent, 32.9 per cent and 49.5 per cent respectively. By contrast, the gross external debt in Macedonia, Serbia and Croatia is thorny at 64.4 per cent, 79.5 per cent and 103.1 per cent respectively (although in Croatia and Serbia it consists of long-term debt for the 85 per cent and 95 per cent of the total respectively, thereby plummeting the immediate roll-over risk).

Table 11 – Fiscal Balance and Public Debt, 2011

Country	**Fiscal balance, in % of GDP**	**Public debt, in % of GDP**
Albania	-3.6%	60.0%
Bosnia and Herzegovina	-1.3%	39.0%
Croatia	-5.0%	46.0
FYR Macedonia	-2.5%	27.7%
Montenegro	-4.1%	45.9%
Serbia	-5.0%	49.0%
Germany	-0.8%	80.5%
Greece	-9.4%	170.6%
Poland	-5.0%	56.4%
EU-27	-4.4%	82.5%

Sources: Eurostat and the Vienna Institute for International Economic Studies.

As regards external economic balance, the current account position of southeast Europe countries shows high deficit levels, especially in the pre-crisis boom period, as indicated in Table 12. This makes them similar to the Baltic States, which suffered most during the crisis in Europe and generally a lack of competitiveness is indicated. 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 even in 2010 remained at dangerous levels. The high foreign investment levels for Montenegro in the past decade and the contraction of industrial activity taken together clearly indicate that the country is experiencing an unsustainable investment bubble. Although Albania shows persistently high levels of external deficit, they seem to be more manageable. Other counties seem to have corrected previously high current account deficits.

Table 12 – Balance on Current Account, as percentage of GDP

Country	2004	2005	2007	2010	2011
Albania	-4.0	-6.1	-10.4	-11.4	-12.3
Bosnia and Herzegovina	-16.2	-17.1	-10.7	-5.7	-8.8
Croatia	-4.1	-5.3	-7.3	-1.1	-1.0
Kosovo	-8.4	-7.4	-8.3	-17.4	-20.3
FYR Macedonia	-8.1	-2.5	-7.1	-2.1	-2.7
Montenegro	-7.2	-16.6	-39.5	-24.6	-19.5
Serbia	-12.2	-8.8	-16.1	-7.4	-9.5
Germany	4.7	5.1	7.4	6.0	5.7
Greece	-5.8	-7.6	-14.6	-10.1	-9.8
Poland	-5.2	-2.4	-6.2	-4.7	-4.3
EU-27	0.5	0.1	-0.4	0	0.2

Source: IMF – World Economic Outlook Database (2012b).

2.3 Labour market and social developments

Whereas most economic indicators pertaining to southeast European countries do not seem shocking to the average European observer, the labour market is different. This is the reality, however. For some countries, labour market indicators are somewhat less shocking, although employment rates are generally significantly lower than in the EU. Employment rates are particularly low in Bosnia and Herzegovina and FYR Macedonia, but even that of the best performer Croatia, is lower than the lowest value in the EU. Unemployment rates in the region are significantly higher than the EU-27 average, as Table 13 shows. With the exception of Croatia and Albania (13.5 per cent and 14 per cent, respectively), Bosnia and Herzegovina

(27.6 per cent), FYR Macedonia (31.4 per cent) and Serbia (23 per cent) show particularly high values. The trends of the past four years do not indicate any consistent improvement either, except in Albania (a slight increase from 13 to 14 per cent) and Macedonia (a 2.4 percentage points shrink). All this happened at a time when the region achieved significant economic growth and catch-up towards the more developed parts of Europe.

The phenomenon of rising unemployment and jobless growth have often been mentioned in the European context, particularly for Central and Eastern Europe, but the negative champion in this field is without doubt southeast Europe. As for the euro-zone, the number of unemployed might rise to 20 million in 2013. This would be a historical record, well above the total number of unemployed in 2012 that was 18.7 million, the highest level reached after the launch of the euro, while in 2010 without work were 15.9 million citizens of the euro-zone. As for the Western Balkans, even if signs of normalization are clearly discernible in the economy as a whole, this is unfortunately not true of the labour market. Active labour market policies, e.g. vocational training and educational programmes for workers, are needed. If policy reforms were essential to restore competitiveness, boost job creation and make it more inclusive, this would impose a burden of wide-ranging social consequences. Extensive consultations between social parties are crucial to maintain social cohesion while restoring overall competitiveness and engineering successful and lasting economic recovery.

Table 13 – Unemployment Rate, LFS, in percentage

Country	Unemployment rate, 2008	Unemployment rate, 2010	Unemployment rate, 2011
Albania	13.0	13.7	14.0
Bosnia and Herzegovina	23.4	27.2	27.6
Croatia	8.4	11.8	13.5
FYR Macedonia	33.8	32.0	31.4
Montenegro	17.2	19.6	19.7
Serbia	13.6	19.2	23.0
Germany	7.5	7.1	5.9
Greece	7.7	12.6	17.7
Poland	7.1	9.6	9.7
EU-27	7.1	9.7	9.7

Sources: wiiw Handbook of Statistics 2011: Central, East and Southeast Europe. The Vienna Institute for International Economic Studies. Vienna 2011. Eurostat.

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. Yet, the difference remains easily discernible, with the unemployment rates in the region being significantly higher than the EU-27 average (Galgóczi and Sergi, 2012). Despite sustained economic growth and stability, labour markets have not shown any significant scale of improvement, with high unemployment rates in the region, especially stark when looking at Bosnia and Herzegovina, Kosovo and FYR Macedonia. Indeed, the effects of the global economic crisis are clearly involved in this equation. The observed statistics, showing significantly high values of unemployment, indicate an overall poor level of the state of social welfare, in particular among the countries of the narrowly defined Western Balkans region, one that is also poorly situated to boost in any clear or meaningful way positive cross-cultural communication and interaction. McKinsey's researcher Richard Dobbs authored the survey 'Why the jobs problem is not going away', (2012) and offered an analysis of a 'mismatch' between the demand and the supply of graduates that will expand even more by 2020. In the advanced economies, it could fail to respond from 16 to 18 million graduates, 11 per cent less than the demand, with potentially damaging consequences for GDP growth. The mismatch between demand and supply of highly qualified professionals is a big problem and overcoming it is essential for growth. The competitiveness of the Western Balkans also relates to people's skills, quality, innovation and the existence of a national (and regional) system capable of enhancing these ideas. It is essential that young people be placed in conditions of choosing training in line with business needs. Not surprisingly, companies have increased their focus on the issue of the quality of human resources, focusing even more on excellence in regional and international competition. However apart from in a few cases, the region has a very traditional model of development, with little technology; well-prepared graduates emigrate to find good job opportunities.

If, on the other hand, we look at wage developments in the region, we again see signs of consolidation. Wage dynamics – for those who work – seem to be impressive, as Table 14 shows. Serbia and Montenegro, which also had a comparably more balanced labour market, take the lead, with real wage increases of 145 per cent (Serbia) and 95 per cent (Montenegro), respectively. Among the SEE countries for which data were available, only Croatia had a lower real wage increase than the EU-27 average in the decade, but Croatia also has an outstandingly high wage level in the region.

Table 14 – Monthly Remuneration per Employee, 2010

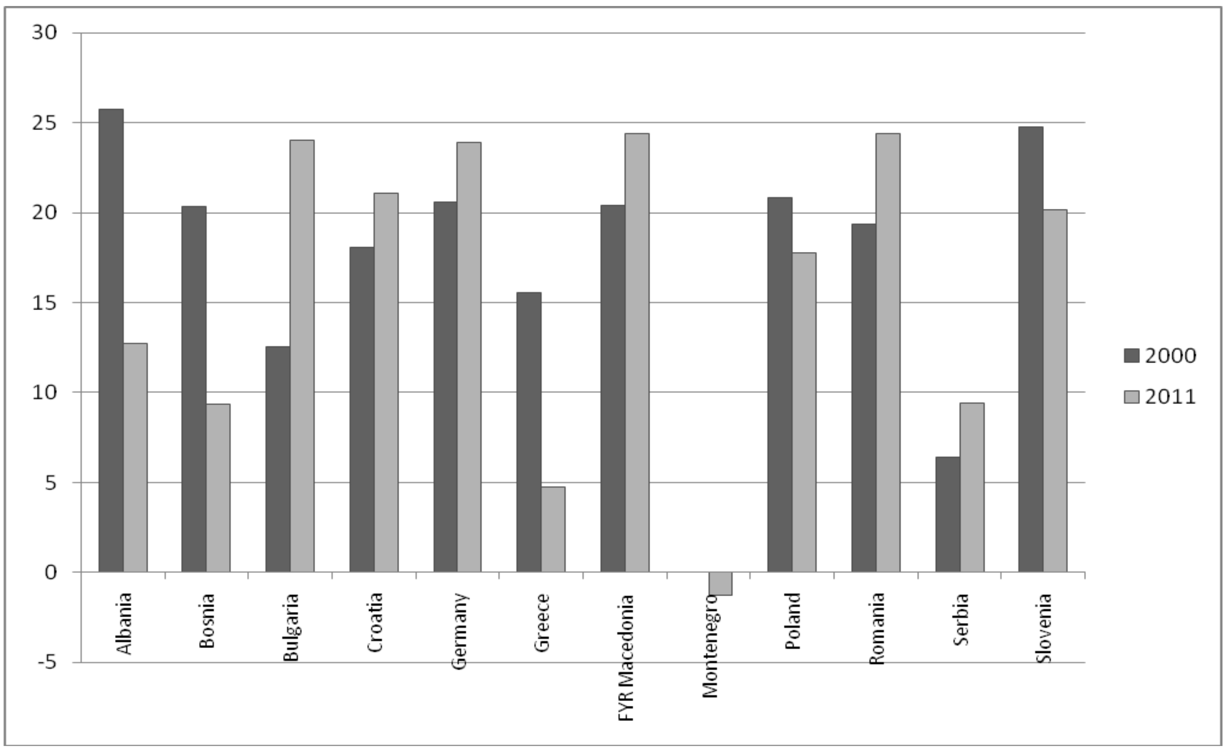
Country	Euros	% (EU-27=100)	Index of real wages, 2009 (2000=100)
Albania	246	8.9	n.a.
Bosnia and Herzegovina	622	22.4	n.a.
Croatia	1054	38.0	121
FYR Macedonia	491	17.7	159
Montenegro	715	25.8	195
Serbia	461	16.6	245
Poland	883	31.8	125
EU-27	2776	100	134

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

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

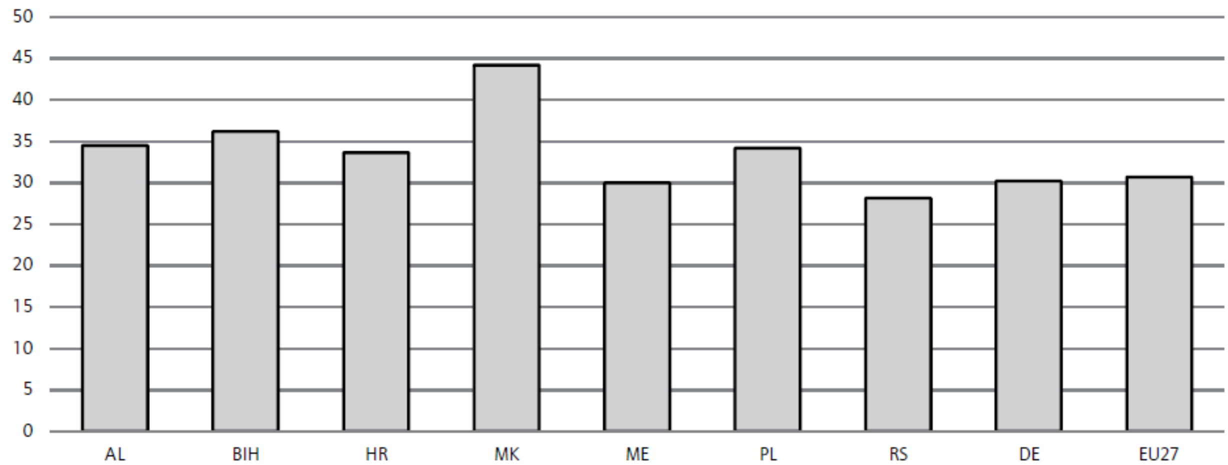
The Gini index measures the extent to which the distribution of income among individuals or households deviates from a perfectly equal distribution. A Gini index of zero represents perfect equality – everyone has the same income – while an index of one (100 on the percentile scale) implies perfect inequality in the income distribution (one person has all the country's income, everyone else has nothing). Growing income inequality is a general trend in Europe and there is no evidence to support the assumption of an equality-efficiency trade-off. Depressing wages has caused loss of efficiency and the purchasing power of the population has been maintained through credits that eventually contributed to unsustainable trends and concluded in a debt crisis (Galgóczi, 2011). And gross national savings are quite low; except for Macedonia (23.4 per cent in 2011), Western Balkans countries' averages are well below ratios in Germany, Bulgaria, Slovenia and Poland (Albania's savings ration plummeted from 22.3 per cent in 2004 down to 12.7 per cent in 2011) (Figure 3). While this was not the case in all of the Western Balkan countries, the tendency to find a trade-off between equality and efficiency is misleading when applied to the complexity of the region. The risk of growing income inequality can lead to social, economic and efficiency damage, while missing the positive external effects of more equality for society. Although it can be questioned what the value of statistical income inequality data is for countries with extreme labour market conditions, Figure 4 gives an overview for 2008. Surprisingly (or not), southeast European countries fare rather well, also in European comparison, FYR Macedonia being the only significant outlier. Serbia and Montenegro, on the other hand, have better results than Germany or the EU-27 average, as far as the formal economy is concerned.

Figure 3 – Gross national savings % of GDP



Source: IMF – World Economic Outlook Database (2012b).

Figure 4 – Income Inequality, the Gini Index, 2008



Note: Bosnia and Herzegovina 2006.

Sources: World Bank. For Germany (DE) and EU27 Eurostat.

Table 15 – Poverty Headcount Ratio at National Poverty Line (percentage of population)

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008
Albania			25.4			18.5			12.4
Bosnia and Herzegovina	19.5			17.7			14		
Croatia			11.2		11.1				
FYR Macedonia			19.1	19.2	18.5	20.4	19		
Montenegro						11.2	11.3	8	4.9
Serbia			14		14.6		9	6.6	
Poland	14.8	15.6	16.6						

Source: The World Bank.

In Table 15 the national poverty rates are reported, that is the percentage of the population living below the national poverty line. National estimates are based on population-weighted subgroup estimates from household surveys. This indicator is one of a core set of poverty and social exclusion indicators on poverty and social exclusion, and is referred to as the Laeken indicators, after the European Council meeting of December 2001, held in the Brussels suburb of Laeken. They were developed as part of the Lisbon Strategy of 2000, which envisioned the coordination of European social policies at country level based on a set of common goals.

Table 16 gives IMF's policy advice on labour market issues tailored to each individual country's circumstances. Several countries are currently facing the challenge of having to regain competitiveness to boost growth. Because euro-zone membership implies the nominal exchange rate cannot be devalued and interest rates cannot be adjusted in an individual country, and because productivity increases only take hold over time. While disagreeing with the IMF's suggestion that improving the region's competitiveness may require labour costs reduction, we strongly advice that it would be vital to have a social safety net in place to protect the most vulnerable in society.

Table 16 – IMF Advices "Tailored" to Individual Country Circumstances

	Labour market institutions and policies						**Broader policies**		
Country	Minimum wages	Unemployment benefits	Labour tax	Employment protection legislation	Collective bargaining	Active labour market policies	Public wage bill	Pensions	Growth reforms
Greece	√		√		√		√	√	√
Iceland						√			
Latvia	√						√	√	
Portugal	√	√	√	√		√			
Romania							√	√	
Serbia							√	√	
Ukraine								√	

Source: IMF (2012a).

2.4 Next Important Steps towards Growth and Making Capital

We will keep networking and develop direct contacts and communication, exchange experiences and ideas in the two regions. To this end, one of our next steps is to create an Internet forum, work on both national and regional strategies in fighting corruption and revive economic growth. Corruption and fraud are diseases that continue to plague public administration and what we know this phenomenon does not allow for optimism. In the justice, health care and other vital sectors, progress towards a sound economic and social betterment is intertwined with surprising ease real episodes of poor reputation with issues of bad management sometimes occasioned by weaknesses in state controls.

We propose that a strong attempt should be made to have a properly organised regional agency for fighting corruption and another for research and development. In addition, the Internet forum is viewed as a platform for approaching the debate over anti-crisis measures against unemployment, poverty, and wealth disparity. Poverty and wealth disparity are of extreme concern, and the latter is divided by extremes in an ‘unfair’ manner and is has grown during the last few decades. If we then ask how ethical the growth of wealth disparity is, we again find history answering questions of great economic importance. We argue here growing wealth disparity differs from simple income inequality and this fact is irrefutable. If income disparity can be fairly and positively associated with market-types of growth, extreme, growing wealth disparity, therefore, is equally not acceptable under current living arrangements. This is primarily because recent economic fluctuations and the contemporary financial and general economic crisis of the world economy since 2007 have made several regions in the world no longer tied to sustainable market functions, rather to forces that prevent the market from working properly, and this is partially the case in the regions of our network’s interests. That means that unionists, businesspeople and governments need to be aware of how their interaction could mitigate growing wealth disparity and the severity and longevity of economic downturns.

The debate may be seen in terms of social consequences followed by public opinion, creating the necessary steps ahead for policy makers. The public itself is the intended recipient of economic policies designed and implemented at the policy level. It therefore makes great sense to study whether policymakers justify or attempt to legitimize specific economic policies based on evaluations of current economic problems. That this is problematic is a problem common to all policy making. We can document growing wealth disparity for several centuries and all of us agree that wealth disparity is unsafe, unstable and destabilizing. Not keeping pace with the right expectations from people and workers now can lead to serious economic and social problems in the future.

A number of factors have contributed to economic collapse, followed by the rise in inequality. Incomplete market reforms, high levels of bureaucratic corruption, and the capture of national governments by powerful business elites account for some of the differences in poverty and inequality outcomes among countries. No less important are the traits of national institutions as the only cause of income level differences; perhaps also geography and resource endowments might be determinants too. Instead, a negative effect of the economic and financial crisis is that more and more workers are forced into various forms of precarious work, about 50 per cent of the global workforce according to ILO. In fact, 2009 was the 60th Anniversary of the ILO Convention on the Right to Organise and Collective Bargaining, 1949, and countries such as

Canada, China, India, Iran, the Republic of Korea, Mexico, Thailand, the United States and Vietnam have still not ratified it. Thus, the convention covers approximately half of the world's economically active population.

Many instruments may be necessary to assess such ethical outcomes: the quality of institutional design and the part geography and natural endowment play as additional causes of the missed socio-economic development. Remember, other economists such as Joseph Stiglitz, a Nobel laureate in economics, have written about the ethical problems concerning ineffective practices of international financial organisations, and institutional policy making overall. There should be no autonomous approach at either extreme, that is, conditionality neither simply forced nor inspired by these organisations, nor financing countries with free money without asking them to adopt a reliable domestic commitment. However, we should take care to cherish the right programmes, to discuss in concert with domestic actors about conditionality on loans, which should be more accessible and functional to economic recovery. Although more than 80 per cent of all IMF missions meet with national trade union representatives to gain a better understanding of what is happening in the local labour markets and there are extensive policy consultations with the ITUC, IMF (2012a) reports, attempts that are more judicious are required. Although the IMF (2012a) posits, "if such reforms are undertaken, they should be implemented according to individual country circumstances, and with care, especially for the most vulnerable members of society." The IMF still recalls that too high a level of protection can lead to labour market distortions where some groups, such as the young, end up with very high unemployment rates, and that in some instances it may be necessary to lower labour costs, IMF (2012a) states. In the past, the massive injections of funds we have seen in Eastern Europe and other regions have not been constructive because the conditions imposed were wrong, such as in Thailand or Indonesia, where there was a condition of cutting public spending, including social spending, which led to an increase in poverty and to shrinking social support for reforms. What is suspected is that the objectives underlying prior approaches were not credible because they were defective in the social sphere, and tight economic policies had low credibility to be implemented. This led either to uncertain commitment by domestic authorities or at best to compromises when a country was able to influence international decision-making. Yet, policies become credible as long as all actors come to an agreement, by avoiding economic guidance of pure ethical orthodoxy that lack adequate domestic knowledge: this fact often brought about inconsistency and failure in the past. As the recent commitment of the IMF and World Bank is going in the direction of a new ethical approach by broadening the involvement of national actors, in certain cases to exemption from the usual numerous conditions, but overall standard conditions still apply (e.g. Hungary, Iceland and Ukraine).

Definitive operational procedures must enable policy makers to commit to realistic programmes and agents to introduce the right balance between ethical long-term outcomes and judicious internal commitments. The IMF and other multilateral economic agencies still serve an essential global task. However, recent economic fears and the call for extending further aid to deprived populations give this network an opportunity to suggest the way these organisations might be working in a superior manner, and we should not pass it up. We must rethink the logical involvement of international and domestic actors according to a country's best interests, because what has been done so far has been largely ineffective. If the risks are that these organisations continue drawing on their naive approaches, domestic players should have a position of greater trust, and all players would come to each other's support. The failure of international financial institutions' approach was an overemphasis on mainstream theories, which have been applied everywhere without considering the differing national state of affairs and social circumstances.

2.5 Summary

Now an important aspect in the panorama of trade unionism in the former communist countries of the Western Balkans, the SEE TU economic experts' network brings into a new cross-cultural perspective the role of trade unions at the European level. The network has an ambitious agenda that looks upon the effectiveness of trade unionism in this region of Europe where it was born through a shared understanding of the many challenges and opportunities that national economies face today. In the light of economic crises under capitalism on a global as well as national scale, placing particular emphasis upon its explanations and its nature as well as upon the multirole of the state and other economic actors is vital.

Notwithstanding the relative results in GDP increase, excluding the presumable temporary effects of the global economic downturn, the region suffers from a number of phenomena that prevent it from growing into a strong and stable economic arena, hence one that is conducive to a flourishing environment for stable cross-cultural interaction. Therefore, the study of both the economic and social situation of the Western Balkans is fascinating for understanding current realities and possible trajectories in the region. A stable political climate, including a functioning institutional system and a state of effective rule of law, constantly increased net of social welfare and a strong or sustainable economy appear to be of decisive value. One of the region's persisting challenges is strengthening of the rule of law, in particular the institutions that are empowered to enforce laws (Qerimi and Sergi, 2009; Sergi and Qerimi, 2006, 2007 and 2008). The problem of corruption has been one of the most enduring dilemmas confronting governments throughout history and it remains one of the most serious problems in the Western Balkans nowadays, along with organized crime. These high values of corruptive behaviour testify to the difficult path of reforming the institutional structure and strengthening the rule of law as a matter of policy and as a part of their broader programmes on governance and capacity building.

The report shows that the labour market situation is alarming in most countries. This is the biggest social challenge for the SEE TU network whose purpose is interpreting economic and social facts, which provide unique opportunities to raise great challenges for economists working within trade union organisations in the region. Positive wage developments and positive results of conventional measures of income inequality only show that a large part of the economy is not visible. On a more positive note, signs of consolidation are discernible in the region's economic performance.

To conclude, the Western Balkan countries have been very diverse over the past decade and this has been reflected in their economic growth rates. The so-called 'latecomers' – following the example of those countries that experienced economic growth and foreign investment earlier – need to strengthen their competitiveness. If there are grounds for foreign capital inflows to be released by the last 'round' of privatization, the region calls for much greater efforts designed for constructive end-results. The underlying purpose remains that of becoming aware of the 'EU factor', greater regional co-operation in the advancement of industry clusters, various incentives, etc. – all these factors being of equal worth to foreign investors.

Last, but not least, it is important that the SEE TU economists' network continues to pioneer rigorous methodological designs and focus on social and economic betterment, a better public administration and a wiser internationalization leap. The network will carry on this noble initiative, discuss loudly all relevant issues and offer sound suggestions, analyses and ways out of the crises. The network might prove to be a success story as long as we could pursue this line of thought and action to its conclusion.

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3. Country reports

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Economic experts: Ph.D. Sanja Paunović, Zlata Zec, Ph.D. Rajko Kosanović and Ph.D. Zoran Ristić

3.1 *Albania*

Albanian Macroeconomic Developments

Economicexperts: Ela Golemi, Luan Zaza and Lulezime Mecaj

3.1.1 Introduction

The past year was another year of economic growth for Albania. Data from INSTAT reveal that economic growth during 2011 was about 3.1 per cent, whereas direct quantitative data suggested a downturn of the economy during the first quarter of 2012. Economic growth during 2011 was driven by foreign demand and a slight fiscal stimulus. Meanwhile, private investments and consumption remained weak. By sector, economic growth was driven mainly by services, agriculture and industry sectors. The construction sector continued its sluggish performance, which was in line with the restructuring trend of the Albanian economy over the past two-to-three years. These trends are characterised by divergences and adjustments in the growth rates of various sectors of the economy and shift of businesses, capital and focus of the banking system to the most productive branches and sectors of the economy.

3.1.2 Macroeconomic developments 2011

Economic and monetary developments in 2011 were characterised by positive but slow economic growth in 2011, slightly stimulating fiscal policy, relative exchange rate stability, decreased risk premia and sluggish demand inflationary pressures. Notwithstanding the positive economic growth rate, the Albanian economy remained below its potential; the average annual inflation fluctuated around the Bank of Albania's target and the key macroeconomic balances ranged around the previous year's levels.

Domestic macroeconomic developments were considerably impacted by the slower economic growth world-wide, shocks arising from costs that made import bill more expensive and a sluggish domestic demand. The economic activity expanded on average 2.7 per cent during the first three quarters of the year, supported mainly by the external demand. Impacted also by the slowed economic activity abroad, exports continued to grow but at a lower rate. On the other hand, the domestic demand, impacted by a cautious approach by the fiscal agent, was fragile, thus providing a minimal contribution to aggregate demand growth. In terms of sectors, the economic growth structure was balanced, impacted by the contribution of both production and services sectors. Budget revenues increased slowly in 2011, reflecting the impact of automatic stabilisers in the economy and the effects of previous year's revenue composition. Developments in revenues and the fiscal authority's commitment to observing the budget deficit benchmark determined the downward trajectory of expenditures in 2011 H2. The budget deficit as at year-end is estimated at about 3.5 per cent of GDP, within the budget law projection for 2011. Current account deficit as a share of GDP resulted 12.0 per cent in the first nine months of 2011. Alongside trade deficit deepening, the deterioration of services account surplus is likely to have contributed to current account deficit expansion. Net flows in current and financial account recorded a positive balance sheet, financing about 72.1 per cent of the current account deficit. The stock of foreign reserve was sufficient to cover 4.4 months of import of goods and services. The labour market conditions improved in 2011. Increased employment was associated with a lower unemployment rate, at 13.3 per cent in 2011 Q3. Reflecting these developments, the minimum wage rise was low in the first nine months of the year.

Table 1. Key economic indicators

	2007	**2008**	**2009**	**2010**	**2011**
Inflation rate (y-o-y, period average)					
Core inflation (in %)	1.3	2.8	1.4	1.7	3.0
Headline inflation (in %)	2.9	3.4	2.3	3.6	3.5
Economic growth					
Real GDP growth (in %)	5.3	7.8	3.6	3.2	3.1
GDP (at current prices, in ALL mil.)	967,670	1,089,293	1,151,020	NA	NA
Labour market					
Number of people employed (in thousands)	939.0	974.1	899.3	916.9	929.9
Unemployment rate	13.2	12.7	13.7	13.5	13.3
Fiscal sector					
Budget deficit (including grants, as a share of GDP)	(3.5)	(5.5)	(7.0)	(3.1)	(3.5)
Budget revenues (as a share of GDP)	26.0	26.7	26.0	26.4	25.4
Budget expenditures (as a share of GDP) 2	29.5	32.3	33.0	29.5	28.9
External sector					

Current account (excluding official transfers, as a share of GDP	(11.4)	(15.8)	(15.9)	(12.3)	(12.0)
ALL/USD average exchange rate	90.4	83.9	95.0	103.9	100.84
ALL/EUR average exchange rate	123.6	122.8	132.1	137.8	140.34
Effective nominal exchange rate, NEER	100.2	99.7	107.1	113.4	113.8
Monetary and financial sector					
M3 aggregate (period-end)	13.7	7.7	6.8	12.5	9.2
Private sector credit (period-end)	48.3	32.2	11.7	10.6	10.4
12-month yields (annual average)	7.90	8.16	9.17	7.98	7.34

Source: INSTAT, Ministry of Finance, IMF, BoA.

Economic growth continued to be supported by private sector credit. Improved liquidity condition and sound bank balance sheets, as well as downward borrowing costs favoured the growth of credit to the economy. However, credit demand remained weak due to the slowdown in economic activity, uncertainty surrounding the economic outlook for the future and banks' reluctance to lend. In 2011, the financial markets were characterised by a downward trend of interest rates, reflecting the easing monetary policy, improved liquidity condition, steady inflation expectations and controlled risk premia. On the other hand, the exchange rate slowed down the previous year's depreciating trend due to equilibrated developments in the balance of payments and the performance of international financial markets.

3.1.3 Output by sectors of the economy

Gross Domestic Product growth has primarily reflected the better performance of transport, trade and agriculture branches. Notwithstanding the slowdown in economic activity, the services sector remains the main driver to annual GDP growth 2011. Its contribution diminished on average 1.5 percentage points, from 2.4 percentage points in the same period a year earlier. On the contrary, the production sector's contribution to annual economic growth rose to 1.2 percentage points, from percentage point in the previous year. Construction sector performed poorly during 2011. The contraction of construction activity, having started since 2009 Q4, seems to have halted in 2011 Q1. However, the value-added to GDP by construction sector declined, y-o-y, in 2011 Q2, to remain almost unchanged in the next quarter. More specifically, during the 2011, the construction sectors value-added averaged 0.8 per cent higher than in the corresponding period year earlier. This increase remains 9.4 percentage points below the annual average for 2005 Q1 – 2009 Q3. Partial data on types of constructions being built in the country, confirm an increase in the value of approved building permits (an annual average of 32.5 per cent for 2011 H1). This reflects primarily the increased value of buildings for residential purposes.

In 2011 Q4, the construction sector dynamics, estimated through qualitative indicators, continued to appear non-positive. Hence, the lower level of the construction confidence indicator suggests a deteriorated construction activity over the fourth quarter, on a quarterly basis.

Services sector showed a slower annual performance over the first nine months of 2011, influenced mainly by the sluggish domestic demand10. The value-added grew on average 2.9 per cent, y-o-y, remaining 3.1 percentage points below its long-term historical average. This was reflected also in the contribution of the services sector to GDP growth that was slightly higher than that of the production sector.

Analysed by economic activity, the slower performance of the services sector over the year 2011 was mainly driven by the contraction of the branches of post and telecommunications and other services. More specifically, the branch of post and telecommunications recorded 1.7 per cent annual decline in the value-added in the economy. During 2011, other services activities generated a 0.7 per cent lower value-added than in the previous year, affected mostly by the contraction of other services for the community, health and education. In the services sector, transport and trade result as the branches with the highest positive contribution to annual economic growth. Transport branch performed more positively than the other branches of this sector. Regarding trade, the value-added from this branch grew on average 4.8 per cent during 2011, comparable to the historical average growth of 5 per cent for the period 2006-2010. Trade activities, maintenance and repair of vehicles and motorcycles, and the wholesale trade provided a positive impact on the performance of this branch.

3.1.4 Fiscal policy and fiscal indicators

Quantitative operational objectives of fiscal policy in 2011 were to observe the public debt below 60 per cent of GDP and maintain low budget deficit levels. These two fiscal anchors, in view of public finance sustainability, conditioned the fiscal space in 2011, leading to the necessity for pursuing a prudent fiscal policy over this budget year. In 2011, the overall fiscal policy was slightly stimulating, while from the viewpoint of distribution by quarters, the measure and direction of consumer spending impact on economic growth was uneven across the quarters. More specifically, in 2011 Q1 and Q4, the fiscal policy was oriented towards expanding direction, while the opposite resulted from its behaviour over the two other quarters. Consequently, in 2011 Q1 and Q4, the public sector is assessed to have made a positive contribution to economic growth, mainly in the form of gross fixed capital formation (as proxied by capital expenditures). Government final consumption, which is illustrated by several specific items of current expenditures, is assessed to have provided a substantially positive contribution only in 2011 Q1.

Budget revenues marked a decelerated growth in 2011, reflecting, the impact of automatic stabilizers in the country. Developments in revenues led to budget revising in July 2011. The primary focus of revising was adhering to the budget deficit limit of ALL 46.8 billion projected in the 2011 budget law. To this end, the projected level of total expenditures decreased by about ALL 18.3 billion (a correction accounting for 4.5 per cent of total budget expenditures projected at year-start). Budget revising has conditioned the trend of expenditures (especially that of current expenditures) in the last two quarters of the year. The high annual growth (by 16.8 per cent) of total expenditures registered in 2011 Q1 slowed down in the next two quarters, to moderate to about 3.7 per cent at year-end. Finally, the revenue and expenditure behaviour in 2011 determined a budget deficit level within the projected budget plan. Total expenditures registered All 376.2 billion in 2011, increasing by 3.7 per cent, y-o-y, in nominal terms. As a ratio of GDP, public expenditures posted approximately 28.9 per cent. Primary expenditures registered a higher annual growth rate, by 4.3 per cent, albeit below its historical average.

Current expenditures were carried out at about ALL 305.6 billion, accounting for about 23.5 per cent of GDP. In annual nominal terms, current expenditures resulted about 1.6 per cent higher. Social security outlays and personnel expenses are the only items having contributed positively to current expenditure growth, while the other current expenditure items (operating expenses, interest rate expenses, subsidies and local government spending) contributed negatively to short-term expenditure growth. It should be noted, however, that the trend observed in the current expenditure constituent items was in line with the revised budget plan for 2011.

On the other hand, capital expenditure registered ALL 70.6 billion, or up by 4.5 per cent in nominal annual terms. The trajectory pursued by capital expenditure in 2011 converged toward its long- term trend. By contrast, the performance of current expenditure was obviously below the trend, hence determining the total expenditure trajectory. According to quarters, the performance of spending was uneven across the quarters of the year. In 2011 Q1, the current expenditures and capital ones recorded an annual growth of 11.3 per cent and 41.4 per cent, respectively, thus suggesting the presence of a positive contribution made by the public sector to aggregate demand growth, either in the form of final consumption by the government or in the form of gross fixed capital formation. In the second quarter, the annual contraction in capital expenditures (by about 27.5 per cent) exceeded the positive effect caused by the growth of current expenditures on total consumer spending. In the third and fourth quarters, current expenditures underwent negative growth, y-o-y, by 3.3 per cent and 3.6 per cent, respectively. In the meantime, capital expenditures contracted in Q3 (by about 9.7 per cent), to record an annual growth by about 19.5 per cent in 2011 Q4. Expenditure trend, driven partly by the revised plan for 2011, has reflected the pursuit of a prudent fiscal policy along this budget year.

Budget revenues grew slowly in 2011 due to the combined effect of several factors simultaneously: the country's economic performance, tax policy in force and revenue structure. In 2011, the budget revenues totalled about ALL 330.5 billion, accounting for about 25.4 per cent of GDP. The revenue indicator as a share of GDP is the lowest in the last five years, reflecting, inter alia, the effects of revenue structure and slow economic growth over this budget year. Total revenues marked an annual increase of 1.8 per cent in 2011. Revenues of a temporary nature, classified in the non-tax revenues are one of the potential factors influencing the low annual growth rates.

A different structure of revenues compared with the previous years is reflected in a higher share of tax revenues to total revenues. Along the same lines, tax revenues as a share of GDP for 2011 are estimated at about 23.4 per cent, while maintaining almost similar levels for 3 years in a row. In the meantime, non-tax revenues and grants accounted for 0.3 per cent and 1.7 per cent of GDP, respectively, or down by 0.1 and 0.8 percentage point from the previous year. The marginal increase of total revenues for 2011 was partly determined by adverse contribution from non-tax revenues, which accounted for about 2.7 percentage points. By contrast, tax revenues contributed positively to total growth by about 4.7 percentage points.

However, the tax revenues trend was slow in 2011, suggesting the impact of automatic stabilizers in the economy. Though the fiscal authority has oriented the tax policy towards tax basis expansion, which suggests positive effects of these regulations in revenue collection, the magnitude of their impact on the budget revenue accumulation is difficult to be identified.

Developments in revenue and expenditure items were materialized in a budget deficit of ALL 45.7 billion, which accounts for about 98 per cent of the budget plan for 2011. In terms of GDP, the deficit is estimated at about 3.5 per cent, a ratio very close to its long-term trend.

In 2011, the budget deficit was financed according to the traditional method, i.e. domestic debt instruments issuance and external borrowing for project financing. The budget deficit expansion was more accelerated in 2011 H1 (generated by the performance of expenditures in Q1 and revenues in Q2). Consequently, the needs for government borrowing, which is fully provided in the domestic market, increased. During 2011 H2, a borrowing measure similar to that of 2011 H1 was maintained, but its composition structure changed, giving priority to long-term domestic debt instruments. In concrete terms, over 2011 H2, the government Treasury bill portfolio of all maturities declined by about ALL 5.1 billion, to be offset by the increase at the same extent of 2-, 3- and 5-year bonds. On the other hand, the downward interest rates on Domestic debt observed in 2011 H2 may have positively contributed to the decline of debt service cost in the future.

Table 2. Main fiscal indicators, yearly comparison.

	Billion ALL			**Annual change in %**		
	2009	**2010**	**2011**	**2009**	**2010**	**2011**
Total revenue	**299.5**	**324.7**	**330.5**	**2.8**	**8.4**	**1.8**
Tax	270.8	288.6	303.9	2.4	6.6	5.3
VAT	110.1	114.0	119.2	2.8	3.6	4.6
Tax on profit	17.1	17.6	19.7	-5.3	2.7	12.0
Excise tax	33.5	38.8	40.4	3.1	15.8	4.2
Personal revenues	26.8	27.1	28.0	9.5	0.9	3.4
Local government	12.1	11.9	11.8	7.4	-2.1	-0.9
Contributions	49.8	53.6	56.6	4.2	7.7	5.6
Non-tax	24.2	31.5	22.7	7.3	29.9	-27.8
Total expenditures	**379.9**	**362.8**	**376.2**	**8.1**	**-4.5**	**3.7**
Current	283.9	300.9	305.6	13.4	6.0	1.6
Personnel	62.4	65.8	67.4	-6.4	5.5	2.6
Interest rates	36.3	41.6	41.1	16.0	14.6	-1.2

Operational expenditures	32.1	34.3	33.0	11.4	7.0	-3.9
Subsidies	2.0	3.5	3.3	-21.6	76.4	-6.6
Social security outlays	96.7	106.2	113.9	26.9	9.8	7.2
Local government expenses	33.6	30.8	28.1	24.0	-8.4	-8.6
Other expenditures	19.1	18.7	18.7	7.8	-2.3	0.3
Capital	95.9	67.5	70.6	2.4	-29.6	4.5
Budget deficit	**80.4**	**38.1**	**45.7**	**33.4**	**-52.6**	**20.2**

Source: MoF

3.1.5 The labour market

The labour market in 2011 performed positively. Employment increase was higher than that of the number of unemployed people, resulting in reduced unemployment rate in the first nine months of the year. The 2011 Q4 business confidence survey signalled businesses' reluctance in terms of employment, reflecting the uncertainty about future demand developments. During the first nine months of 2011, the number of people employed in the economy increased by about 2.15 per cent compared to the same period a year earlier. The increase in employment was mainly due to increased employment in the private non-agriculture sector. For the first nine months of the year, employment increased on average 5.7 per cent in this sector and fell on average 0.8 per cent, y-o-y in the public sector. The people employed in agriculture, which absorbs the major part of the labour supply, increased on average 1.4 per cent over the course of this period. The unemployment rate was downward in 2011, though it remains above its average historical level. Compared to end-2010, the unemployment rate fell by about 0.2 percentage point, settling at 13.3 per cent in 2011 Q3.

3.1.6 Conclusions

Albanian economy during 2012 will remain under the pressure of market developments in our main trading partners and their economic and financial policies. The measures taken by our trading partners to enhance confidence in their financial systems and adjust the macro-financial imbalances hamper monetary policy transmission in the economy. They heighten public concern and undermine its confidence in the future. These are the very reasons preventing the banking system to finance the economy and the government at lower interest rates and, consequently, the central bank's monetary policy transmission to easing the monetary and financial conditions.

The economic development policies should contribute to setting a better balance between the development priorities of the sectors of the economy, by supporting agriculture and production. One immediate objective is enhancing the economic capacities that improve the competitiveness of our products and benefit more from foreign demand. To this purpose, the development and further perfection of financial infrastructure, as well as the qualitative improvement of technology, are, among others, a priority. We must ensure a well-educated labour force, able to adapt to the international labour market, in addition to the local one. Therefore, the education-related policies on the younger generation must, above all, ensure the quality of education and incorporate programmes that assign greater importance to its practical orientation.

Albanian economy will continue to grow during the year ahead, albeit below its potential. The country's economic activity will be conditioned by the solution of the crisis in the euro-area countries, economic growth of partner countries, and foreign investor's attitude to risk. Economic challenges in our partner countries may be transformed into positive opportunities for the Albanian economy.

Albanian economy attractiveness with low unit labour costs, macroeconomic stability and financial soundness of businesses, households and the banking system may be reflected in more foreign direct investments. While the projections factorize lower foreign demand contribution, the widening of Albanian exports market remains a potential scenario. Economic growth projections presume positive consumption and investments growth at home, in response to improvement of lending terms. The latter are expected to reflect the eased monetary policy and reduced risk premiums in the financial system. Moreover, reduction of room for fiscal stimulus and maintaining of stable fiscal parameters will enable the private sector to create spare funds and cut down risk premiums for the economy.

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3.2 Bosnia and Herzegovina

Problems and challenges before the Trade Unions in BiH
Economic- social situation in Republic of Srpska and some proposed measures and solutions for the crisis; Economic expert: Božana Radošević
Economic- social situation in the Federation of Bosnia and Herzegovina and some proposed measures and solution for crisis; Economic expert: Vedran Dedić

3.2.1 Economic- social situation in Republic of Srpska and some proposed measures and solutions for the crisis

Short introduction:

The problems before trade unions in Republic of Srpska are primarily of developing nature, they are real and have been pile up through years and the world economic crisis has just enhanced them, given that no adequate development programmes and measures were adopted at the onset of the state capital privatization process.
The process of transition – privatization of the state capital in Republic of Srpska, which started in the previous century – aimed at achieving economic growth, preserving productive employment, creating new jobs, achieving technological modernization and its involvement in the European and world economic trends and international capital market, cannot be positively assessed as these objectives have never been accomplished. Namely, the process of privatization resulted in a number of bankruptcy and liquidation proceedings: dozens of thousands of workers remained jobless, while many of them did not receive their salaries during the period in which they worked, according to the trade unions estimates. Social contributions were not paid as well, so that the destiny of over 50,000 workers is currently at stake.
At the same time, the revision of the bankruptcy proceedings suggested that every 50th proceedings was completed with the restructuring of the company, while more than 50 per cent of them were completed due to the lack of bankruptcy mass or its insufficient amount. Is also that more than 3/4 of the bankruptcy proceedings were not initiated in a statutory manner or time.

Although there have been some positive trends among individual macroeconomic indicators (e.g. growth of GDP, extent of industrial production, export compared to import, share of total public debt is reduced in GDP) in recent years, the unemployment grew and it is extremely high now (official unemployment rate in 2011 was 38.7 per cent), living standard was significantly reduced as the living costs increased faster than the salaries. Around 80,000 workers are employed in the informal economy.

Also, it was established that more than 1/3 employees do not receive regularly their salaries, and their contributions are not paid, so that the debt of companies on the account of unpaid salaries amounts to almost one half of the RS budget, and around 1/4 for the unpaid contributions.

Brief review of macroeconomic indicators for Republic of Srpska in the period 2007-2011

No.	INDICATORS	**2007**	**2008**	**2009**	**2010**	**2011**
0	1	2	3	4	5	6
1.	GDP per capita in million EURO	2610,65	3019,69	2929,70	2963,96	3153,13(pr.)
2.	GDP real growth in %	6.70	6.20	-3.00	0.8	2,00(pr.)
3.	Employment rate	35.10	37.30	37.20	36.00	34.00
4.	Official unemployment rate	34.00	34.20	35.50	37.30	38.70
5.	Inflation	1.10	7.20	-0.40	2.50	4.10
6.	Public debt (Euro)	1,507,257,167.48	1,610,604,552.86	1,674,827,899.6	1,706,441,063.6	1,817,304,436.54
7.	Public debt (% GDP)	43.24	40.36	44.78	46.32	48.10
8.	Average net salary (EURO)	299,11	386.02	402,90	400,85	413,63
9.	Average pension (EURO)	121,20	158,00	171,28	164,12	164,12
10.	Export-import ratio	49.90	46.30	46.90	53.70	55.60

Although the period 2000-2008 was marked with a comparatively high average growth rate of GDP of 5.7 per cent (except for 2009 -3 per cent, and 2011 +1.5 per cent), the reality is still burdened with a low share and the contribution of some industries to the GDP (processing industries, civil construction, agriculture), which generate together less than one third of it. Contribution of processing industries in GDP is permanently less than 10 per cent. The share of total Republic of Srpska public debt in GDP varied between 59.2 per cent of GDP in 2005, 38.8 per cent of GDP in 2009 up to 48 per cent of GDP in 2011.

3.2.1.1 Possible measures and solutions for problems (RS Confederation of Trade Unions initiated most of them in the previous period)

Amendments to the Criminal Code:

- Failure to pay salaries and contributions should be treated as a criminal offense as tax evasion,
- Introduce a new “institute” – a criminal responsibility who doe to their doing or failure to do intentionally or negligently brought the company to the position of bankruptcy, which would be applied retroactively while the sanctions would be very rigid.
- Unregistered work employment should be also treated as a criminal offense.
- Introduction of a differentiated VAT rate.
- Introduction of a system of liability at all levels – legally define the operation of the anticorruption team.
- Review the existence and the work of numerous agencies (about 2/3 of agencies do not justify their existence) and thus act towards the reduction of public expenditures.
- Consistent application of the Law on fiscal procedure in RS by the RS Tax administration.
- Adoption of special employment programmes for specific and/or groups, which get employment with difficulties.
- Expedite development of small and medium entrepreneurship through various stimulating measures of economic policy.
- Development of all forms of self-employment.

- Revival of production in all industries, particularly those in which RS has rich natural resources and potentials (wood industry, agriculture, metal industry, mining, etc.).
- Review privatization and control of all companies, which failed to respect sale-purchase agreements, and companies for which it is known to have been sold unlawfully, particularly control the responsibility to keep the existing number of employees, and new employment.
- Permanent control by competent RS inspection authorities (Labour inspectorate and RS Tax administration) of those companies which failed to respect basic workers' rights and those which have the history of unregistered employment.
- Incentives and economic stimulation of export-orientated companies, but only those, which respect legal solutions from labour and other laws.
- During the tender procedures, particularly those related to infrastructural and capital investments (construction of roads, water supplies, buildings such as elementary schools and similar), the criterion for the selection of companies and granting business, in addition to price, terms and conditions, quality and similar, one of the crucial factors should be respecting Labour law and collective agreements (in this way, more favourable conditions for employment would be created and the capacity of "good" companies would be increased on the one hand, and this would eliminate unfair competition of the companies which unlawfully operate on the other hand.
- Stimulate investment to know-how and new technologies.
- Facilitate the increase of salaries, particularly in productive industries to allow mobility of workers, increase the interest for certain "less attractive" professions, especially for future generations – current students.
- Expedite harmonization of standards with EU standards to allow the entry of domestic products in EU markets.
- Create conditions for increased competitiveness of domestic products.
- Suppress "grey" economy through instruments, which would be secured by legislation.
- Increase the work efficacy of the control organs and courts.
- Protection and improvement of the rights of employees and enhancing their economic-social position.
- Continuous social dialog between Confederation of Trade Unions in RS and the RS.

Government and the Association of employers in Republic of Srpska, aimed at efficient solving of problems:

- Maintenance and the growth of employment,
- Continuation of economic reforms to increase the dynamics of economic activity,
- Adoption of Action plan for the enforcement of Employment strategy in Republic of Srpska,
- Stopping the fall of living standard and ensuring social security of workers and citizens of RS.

3.2.2 Brief report about the economic movements in Bosnia and Herzegovina from the position of SSSBiH

3.2.2.1 Review of key economic indicators

Any analysis of economic, social or political situation in Bosnia and Herzegovina has to start with an explanation of the structure of the state and its components – entities. Given that we hope that we insisted sufficiently in our previous meetings and analyses on the complex situation in BiH, we will not remain for long at this segment. It suffices to point out that the complex structure reflects on all segments of the society, and most of all on the economy and economic development. We have been aware of these facts in trade unions, as much as those who decide on our destinies, and yet they do not do much to do anything to finally get things started, although we have been stuck there for more than fifteen years.

Although some macroeconomic indicators suggest that a slow recovery of BiH economy started, majority of economic analysts can state that BiH has not yet come out of recession and that its economy in 2011 stagnated. The indicators on negative movements in the area of foreign direct investment confirm this, as well as budget deficit, growth of inflation, and particularly ever growing unemployment. At the same time, the average salaries of the workers in BiH slightly grew, while the minimum salaries in the Federation of BiH have not changed for the last two decades. This, along with a constant growth of unemployment and reduction in social coverage, significantly influenced the increase in the number of poor people in BiH.

Authorities failed to find systemic solutions for the growing economic and social problems in the country, and they found the solution for the complete financial collapse in a new stand-by arrangement with IMF, loans taken from World Bank and EBRD. The previous period marked such an ambient with inactivity of the authorities at all levels relative to passing required laws and enforcement of measures, numerous strikes, violation of trade unions and workers' rights, disrespect of certain social partners and lack of social dialog at the state level.

As for the negative aspects of BiH economy, we should primarily highlight the high unemployment rate, low salaries and pensions, and a huge gap between the rich and the poor accompanied by disappearance of middle working class, which will not exist in some twenty years at all if these trends continue. Positive trends (if applicable at all) in our economy could be stable national currency (due to the Currency Board), low inflation, and perhaps a lower level of indebtedness (Currency Board again).

As for the recent period, we can also comment the events related to Stand-by arrangement with IMF. Under the pressure of budget imbalance from 2009 and IMF terms from stand-by arrangement, some measures of fiscal policy were enforced as well as structural reforms, which had restrictive character. The requested savings of 10 per cent were achieved through reduction of some emoluments for the budget beneficiaries and the decrease in transfers for social coverage to certain categories of population, and yet there was no change in fiscal policy, the Vat and direct taxes rates remained unchanged, and the pensions were not reduced. The result of these measures was preservation of financial and monetary stability. However, the budgets are not sustainable, and the quality of public finances is still weak.

In June 2008, BiH signed SAA with EU, but ever since then it made a limited progress in enforcement of reforms required for the expediting the process of getting the candidate status. The key reason is lack of consensus among the political leaders on key reform priorities. According to the European Commission on the progress of BiH in 2010, it was noted that BiH achieved a certain progress in harmonisation of legislation, its policies and capacities with the European standards in the area like freedom of movement of capital, intellectual property, education, research, transport, financial control and other matters related to judiciary, freedom and security. Trade unions in Bosnia and Herzegovina have tried for long to serve as a corrective element of the economic policy pursued at levels of authority. We believe that the proposals and demands, referred to in this period, are not different for those in the neighbouring countries. We consider it would be good to list the most important ones:

- Contributions for the working experience of the workers (we want to point out that the state institutions are the biggest employers in BiH and biggest debtors, which is a paradox).
- Combating grey economy and unregistered work – permanent and at all levels (this phenomenon is so common in our society that anyone can be surprised about this).
- Revision of the privatization at all levels (as in majority of countries in transitions, transformation of ownership was done unprofessionally and with criminal elements resulting in a large number of rich people in the category of population, mainly close to the governing structures).
  - Insisting on financial control and discipline.
- Simplification of starting business, especially small and medium enterprises (complicated and expensive administrative barriers – leader in the region).
- Stimulation of economic activity, export orientated companies (as in majority of transition countries, the productive sector is disregarded, and the trend of trading companies is growing as they easily make profit).
- Create efficient employment programmes (this particularly applies to certain categories such as women and the young, given that the unemployment rate is higher in this category).
- Stimulate domestic agriculture, particularly organic (the production in this area is below the capacities in BiH, and with appropriate incentives it could be quickly enhanced thus employ a large number of workers).
- Better coordination between executive and judiciary authorities, and creation of special economic courts (violation of workers' rights are often unpunished, and it is the trend in the country to cheat the workers. Sanctions for the perpetrators should be more rigid).
- Respecting workers' rights (we should be especially careful about the trend of – flex security. In our case, we have more flexibility than security for workers).
- Expecting the principles of social dialog while making decisions (we face the trend of unilateral decisions).

Key economic indicators in BiH– annual indicators

	2007	**2008**	**2009**	**2010**	**2011**	**Half of 2012**
Nominal GDP in BIH (million KM)	24,4	28,116	27,895	27,955	28,693*	29,483
Nominal growth rate (in %)	15.5	15.1	0.8	0.2	2.6	2.8
Real growth rate (in%)	10.4	7.0	1.8	1.0	1.7	2.4
Population (in thousands)	3,842	3,842	3,843	3,843	3,843	3,843
GDP per capita (in KM)	6,357	7,318	7,259	7,274	7,466	7,672
Unemployed in BIH (in thousands)	527	493	498	517	530	542
Average net salary in BiH (in KM)	645	752	790	798	816	827
CPI (consumer price index)	1.5	7.4	0.4	2.1	3.7	2.0
Consolidated BiH budget	(in % GDP)					
Revenues	40.3	38.8	37.1	38.9	38.4	38.0
Expenditures	39.1	37.5	38.2	40.7	38.8	37.0
Balance	1.1	1.2	1.1	1.8	0.4	1.0
External public debt	40.3	38.8	37.1	38.9	38.4	38.0
Money and credits	(in % GDP)					
Money (M2)	42.5	44.1	46.4	48.7	50.3	51.5
Credits to private sector(1)	23.8	24.3	22.9	22.9	23.2	24.1
Balance sheet						
Balance on the current account in million KM	2,328,5	3,464.4	1,502.8	1,498.2	2,233.3	2,208.0
In % GDP-a	9.5	12.3	5.4	5.4	7.8	7.5
Trade balance**						
Export of goods and services (in million KM)	8,123	9,102	7,734	9,196	10,306	10,705
Growth rate in %	15.6	12.1	15.0	18.9	12.1	3.9

Import of goods and services (in million KM)	14,974	17,236	13,284	14,521	16,340	16,814
Growth rate in %	18.5	15.1	22.9	9.3	12.5	2.9
Balance of goods and services (in % GDP)	28.0	28.9	19.9	19.0	21.0	0.7
Gross foreign currency reserves						
In million KM	5,585.4	6,603.4	6,212.1	6,457.7	6,422.5	6,239.6
Per month of import of goods and services	5.2	5.1	4.4	5.6	4.9	4.5
Servicing external public debt						
In million KM	239	152.91	245.9	300.8	340.0	445.6
In % of export of goods and services	2.9	1.7	3.2	3.3	3.3	4.2

3.3 Croatia

Macroeconomic indicators for the Republic of Croatia for 2012, as we as policy pursued to incite economic growth

Economic expert: Boris Feis

3.3.1 Basic statistic and macroeconomic indicators

Table 1 - Selected economic indicators

No.	Indicator	Period to which the economic indicators refers to	Total, percentage
1.	GDP	2011	334 bill. Kuna=46 bill EUR
2.	GDP per capita	2011	10,900 EUR current exchange rate 13,481 EUR PPP 61% EU - 27 PPP
3.	GDP changes	Jan-Mar 2012	-1.3%
4.	Inflation, changes in consumer prices	Jan-May 2012	+3.9%
5.	Cash mass M2	Jan-Mar 2012	-1.0%
6.	Active population	Mar 2012	1.72 mil DZS 1.85 mil Eurostat
7.	Employment among the active population	Mar 2012	7.5% agriculture 15.1 % entrepreneurship and free professions 64.9% employed in legal persons 12.5% unemployed
8.	Employment in % of 19-64 population	Mar 2012	59.5 %
9.	Unemployment	Jun 2012	17.1% HZZ 15.1% Eurostat 12.5% ILO
10.	Unemployment in 15-24 age	Jun 2012	25%

	group		
11.	Budget balance	2011	-4.2% GDP
12.	Public debt, including the issued guarantees	2011	60.5% GDP (45.5% GDP without guarantee)
13.	Balance of cash balance	2011	-1.0% GDP
14.	External debt	Mar 2012	46 bill. EUR = 100% GDP
15.	Foreign currency reserves	Mar 2012	11.5 bill. EUR
16.			
16.	Balance of foreign investment	Mar 2012	22.0 bill. EUR
17.	Average net salary	Mar 2012	5,441 Kuna = 722 EUR 4,550 Kuna = 604 EUR (private sector) 6,050 Kuna = 803 EUR (state and public sector)
18.	Changes in real net salary	Jan-Mar 2012/Jan-Mar 2011	-1.0%
19.	Changes in productivity	2011	+0.5%
20.	Percentage of poor Individual: less than 2,100 Kuna/month Family of 3 members less than 4,400 Kuna/month	2010	20.6%
21.	Gini coefficient	2010	31.5

Source: DZS, HGK, Eurostat; HNB

Abbreviation:

DZS: State Statistics Bureau; FINA: Financial agency; HGK: Croatian Chamber of Commerce; HNB: Croatian National Bank; HZZ: Croatian Employment Bureau.

Average exchange rate of EUR Jan-Mar 2012; 7.53 Kuna/1 EUR

Table 2.Prognosis of the economic changes 2012

No.	Indicator	Total, percentage
1.	GDP	Croatian Government: +0.8% World Bank: -1%

		Economic analysts: -1%
2.	Inflation	Croatian Government: +2.3% HNB: +3.5%
3.	Unemployment, end 2012	World Bank: 13.5% (ILO) Croatian Government: 13.8%
4.	Balance of state budget – general state	Croatian Government: 2.9% GDP
5.	External debt	46 bill. EUR = 98% GDP (Croatian Government)

Source: specified in column III of the Table 2

Comments

In June 2011, Republic of Croatia completed the negotiations with EU, and on 1 July 2013, it will become the 28th member of EU. Croatia will join EU at the level of development of around 61 per cent GDP per capita in EU-27, and this is the level of development of United Kingdom (UK) in 1982-1984. As for the level of standard, if it can be compared at this level of technological development, is the same as it was in UK in 1988-1990. Although the total GDP per capita is in the real balance (without the influence of overrated exchange rate of Kuna towards EUR for about 1/3) about 15 per cent higher than in 1990, the living standard (measured in percentages of net salary for purchasing of units of a certain product) is about 60 per cent higher than in 1990. This was possible due to the increase of net foreign credits for about 43 billion EUR, net influx of foreign investment for about 22 billion EUR, and various non-returnable donations of around 5 billion EUR. The transformation of property was carried out, so that 70 per cent of GDP is generated in private sector. However, that private sector is in a difficult financial position with the net financial debt (private sector without banks and insurance companies) of 73 billion EUR at the end of 2010 (HNB; 6/2011). We can also note extremely low profit rate in private sector of 1-3 per cent GDP for 2009-2011 according to FINA in 2012 (standard percentage in developed EU economies is 7-11 per cent).

The consequences of the current world economic crisis are a permanent unemployment rate of 12-13 per cent of the active population (9-11 per cent in the EU) and previous economic growth related to the import of goods, net influx of foreign capital in form of a debt or purchasing of existing property, which is all related to the service sector (real estate, financial sector, trade, and tourism). Croatia economy faces challenges in the process of EU accession, especially due to the low competitiveness (primarily agriculture), and/or non-profitability of industry, where the ship construction and metal industry are at upfront.

a) Conditioning of socio-economic reality with the current policies in Croatia

Measures of the Croatian Government in the period January-June 2012

1. Measures to reduce the budget deficit:

a) Increase of VAT from 23 to 25 per cent;

b) Reduction of subventions for agriculture and shipbuilding;

c) Reduction of certain expenditures for the civil servants (emoluments on salary, holiday allowance, Christmas allowance, etc.);

d) Rationalization of state governance (ministry of defence, state administration);

e) Change of income tax with the amendments to tax rates (12, 25 and 40 per cent) to tax the above-average income;

f) Prohibition to pay salary without prior payment of tax and contributions, and criminal responsibility for the failing to pay salary;

g) Measures to increase the liquidity of the system of payment within one month for the state companies and two months for the private companies;

h) Amendments to General tax law were proposed, which in addition to the announcement of Register of debtors introduces the responsibility of the businesspersons for the tax debt with their own property.

2. Measures to stimulate economy

a) Reduction of contribution rates for health insurance from 15 per cent to 13 per cent;

b) Reduction of contributions for forests, chambers and similar;

c) HNB has allocated around eight billion Kuna for the credits to commercial banks;

d) Rationalization of procedures for foreign investments;

e) Investment to the energy sector: hydro and power plants (increase of the prices of energy sources and gas for around 20 per cent), renovation of schools, and similar;

f) Amendments to the Labour law, by the change in rules on duration of collective agreements (no unlimited extension of legal rules).

3. Measures to stimulate employment

a) Exempting the employers from taxes and contributions for up to two years in case of new employment;

b) Introduction of internship for staff with university degree, with the salary of 1,600 Kuna per month (215 EUR) on the account of HZZ, for one year;

c) Public works with the payment of emoluments. Public works are for people unemployed, but without unemployment benefits (78 per cent of unemployed persons are without benefit; average benefit is 1/3 of average wage, lasting maximum year and half, dependent on your previous employment record). That is aimed versus long-term, unskilled unemployed: by budget, maximum six month, 114 per cent minimum wage and transportation costs, of maximum 7 per cent of average wage.

d) Measures for education (as of end of year 2012 only 5 per cent of unemployed people are in such programmes: financing maximum six months, by budget, from 5 per cent of average wage to maximum 23 per cent of average wage, as subsidy for educational institution or company.

Trade union proposals for current economic situation:

a. 10 per cent minimum wage increase;
b. broader measures for employment of vulnerable persons financed through the state budget;
c. revision of unemployment benefit regarding inflation;
d. initiative for establishment of fund for unpaid wages for insolvent companies (on a base of 380 Euro minimum monthly wage);
e. broader public investment in environment protection and renewable energy resources;
f. energy costs subsidies for extremely poor;
g. protection of people exposed to credits in CHF by reducing interest rate or fixing credit to average rate Euro: CHF 2005-20010;
h. limiting austerity measures against decreasing wages in public sector for additional 2 per cent, starting from March 2013.

Considering the real economic situation, measures of the Croatian Government, adopted or yet to be adopted, it has always been the interest of trade unions to protect the standards of members and workers. In the process of the Croatian Government measures, trade unions had the following objections and proposals:

1. The increased prices have to be followed by measures of social policy aimed at protection of the most vulnerable categories of population. Thus, the initiative was submitted through the Croatian Parliament as well as General Social Council, to increase the minimum salary (current gross: 2,814 Kuna or 375 EUR, net 1,975 Kuna or 263 EUR) by 10 per cent, given that the living costs were increased that much since the latest correction.
2. Burden of crisis has to be equally shared by all industrial sectors, with the emphasis that this burden has also to be borne by the financial sector.
3. Within the framework of measures stimulating the employment, we should be mindful that the free work is not introduced or the work for inappropriately law price (internship).
4. Measures must not be introduced unilaterally, without consulting the social partners (i.e. attempt to amend the Labour law through amendments of other laws, primarily the Law on representation).
5. Trade unions propose that the potential reduction of taxes and contributions with the rate of 0.5 per cent be redirected to the guarantee fund for the alimony of unpaid salaries (around 1-2 per cent or workers in legal persons work but do not regularly receive salaries).
6. Measures for transformation of shipbuilding industry should include a series of programmes for the re-qualification of workers, and other forms of social protection.
7. Trade unions warned about lagging of pensions behind the changes in net salaries (average earned pension in April 2012 was 43 per cent of the net salary).

3.4 Macedonia

Problems and Challenges

Economic expert: Ljubica Dekovska

Fragile Macedonian economy could not escape the devastating effects of global financial and economic crisis that swept the world in late 2008. As a small and open economy, it was not immune to developments in World and European economies. Real sector mostly felt its impact. Production almost halved, temporary or long-term closures of some manufacturing plants happened, as well as merging and closing of some workplaces and sending employees on forced vacations or dismissal from work. Workers' wages were deduced or frozen. The number of people earning only for food increased. Poverty as well is increased and deeper.

Export sector was directly affected by the fall of prices of major export products and reduced demand for domestic products. Increased uncertainty, refrain from taking risks and investing in general, lead to a reduction in capital inflows into the country. All this led to the deepening of external imbalances manifested by deepening current account deficit. The crisis caused also psychological pressures on domestic subjects, expressed by increased demand for foreign currency, which led to greater pressure on official reserves.

However the Macedonian banking system has managed to remain stable and reliable, but under constant threat to its stability caused by increased macroeconomic risks in the country.

In order to limit the impact of the global economic crisis on the Macedonian economy and above all, to limit the impact of the crisis on productivity and employment, the Government adopted four packs of anti-crisis measures, as well as several other individual measures depending on the needs that were necessary at a given moment.

Under conditions of economic crisis, appropriate action was taken by trade unions. Federation of Trade Unions of Macedonia at the very beginning supported the four-packs of anti-crisis measures adopted by the Government. CCM for the first time had their concept of the proposals to mitigate the economic and social situation of workers and reduce unemployment in the country. In several areas (economic development, unemployment, social dialogue and collective bargaining), CCM tried to give active contribution to the crisis.

3.4.1 Economic development

- Full implementation of the four packages of anti-crisis measures in all subjects involved in this process;
- Taking additional measures to improve the investment climate in the country, to attract foreign and domestic investors, to open new jobs, which will alleviate the unemployment problem;
- Timely refund of enterprises on the basis of Profit tax, and timely fulfilment of obligations of all parties to the state;
- Support through subsidies to preserve jobs in the sectors of the economy, especially in the production of metals, textiles, construction, agriculture and other branches. Inclusion of domestic employers and workers in the construction of the planned public works projects;
- Support for job creation in all sectors of the economy and creating new opportunities for decent work through the promotion and development of sustainable enterprises;
- Creating conditions for determining the minimum wage in the state as an economic and social category by law after the crisis;
- Consistent implementation of the obligation of employers established by law and collective agreement - the regular payment of wages to their employees and salary increases, according to the inflation and productivity trends;
- Openness of the banking sector and easy access to cheap bank loans to enterprises, which will allow the continuation of and increased production to maintain their liquidity;
- Reprogramming of due liabilities of enterprises, and providing smaller interest on investment loans;
- Strategies for budgetary consolidation which ensure growth, mainly funded on cost reduction;
- Fiscal discipline of taxpayers;
- Promotion of economic, social and territorial cohesion and development of infrastructure;
- Full respect of international standards for labour rights in the context of termination of employment on grounds of business reasons or bankruptcy;

- Identification of bottlenecks that impede the development, intentions and ways of coping by inclusion of social partners;
- Development of a social plan for employees who remained and will remain out of work because of the global financial crisis by which the state and employers will provide some aids within the real possibilities.

3.4.2 Unemployment

- Implementing the National Action Plan for Employment 2008-2010, especially in the preparation of programmes for employment of young educated people, and educational courses for retraining and qualification of persons waiting employment for long period, and are without, or incomplete education for their possible employment;
- Promotion of investment in human resources and providing better opportunities and enabling the acquisition of new skills to workers of all age groups;
- Increase investment in infrastructure, research and development, public services and producing healthy food that will enable opening of new jobs;
- Introducing more programmes for public work;
- Introduction of programmes to include the informal economy and the operation of the black sphere of formal work and employment;
- Introduce more retirement conditions in order to create more job opportunities for young people.

3.4.3 Social dialogue and collective bargaining

- Through social dialogue and collective bargaining to provide planned schemes to limit the loss of jobs and support businesses to retain more workers to their jobs;
- Concluding collective agreements at branch level and employers' level, as one of the major mechanisms and elements in the regulation, enforcement and protection of workers.

The aforementioned proposals were in most cases implemented:

- Programmes of public works were adopted;
- A process started to transform temporary jobs into long-term jobs;
- A range of measures were introduced to support companies in reducing the costs of operation;
- better inspection regarding workers' rights, especially in terms of employment, receiving salary and benefits in cases of overtime;
- minimum wage legislation was adopted.

Activities and measures undertaken allowed the state to achieve the following results on the economic plan:

Macroeconomic indicators

No.	**INDICATORS**	**2007.**	**2008.**	**2009.**	**2010.**	**2011.**
0	1	2	3	4	5	6
1.	GDP per capita, in EUR	2 919	3 283	3 269	3 434	
2.	GDP, real growth, in %	6,1	5,0	-0,9	2,9	3,0
3.	Employment rate	36,2	37,3	38,4	38,7	38,9
4.	Unemployment rate According to the poll in country	34.7	33.8	32.2	32.0	31.4
5.	Inflation	2,3	8,3	-0,8	1,6	3,9
6.	Public Debt (billions of euro)	1.057,35	1.109,94	1.324,39	1.424,32	2080,17
7.	Public debt (% GDP)	17,73	16,52	19,84	20,51	27,39
8.	Average net earnings (in EUR)	238,3	262,6	325,5	334,2	339,0
9.	Average pension (in EUR)	128,2	155,6	164,1	165,4	172,3
10.	Minimal net earnings (in EUR)	-	-	-	-	-131
11.	Presence of "Grey economy"				30-40	30-40

	in GDP (%)					
12.	Range of Corruption	3,3	3,6	3,8	4,1	
13.	Commodity exchange surplus/deficit (in millions of EUR)	-1 181	-1.763	-1.560	-1.468	-1.682
14.	The value of Euro in comparison to the national currency	61,1838	61,2654	61,2728	61,5150	61,5289

Source: National Bank of RM, Ministry of Finance

3.4.4 Current situation in Macedonia

Republic of Macedonia continues to deal with Europe's debt crisis and recession, which are having an impact on economic growth and social development in Macedonia. In June 2012, the Government adopted a set of measures and projects aimed to improve the position and competitiveness of people or companies through a systemic approach. There is also a section with a focus on socially vulnerable groups and having direct impact on improving the standard of that social group. For example, families to get rid of the cost by adding a fixed subsidy, or through state intervention in meeting the personal or family needs of socially vulnerable groups, or to facilitate their employment.

Economic activity

The available data on economic activity for the first quarter of 2012 indicates a shrinkage in the manufacturing activity and in the external trade exchange.

- **GDP**
  - GDP for the first quarter of 2012 was - 1.4 per cent;
  - Construction reduction of 9.8 per cent;
  - Mining, manufacturing and electricity, gas and water supply, dropped by 9.6 per cent;

- Transport, storage and communications went down by 0.1 per cent.

- **Foreign trade** - the volume of trade of the Republic of Macedonia in the period between January and March 2012 amounted to 2.406.857 thousand U.S. dollars, of which exports 38.2 per cent and imports 61.8 per cent. In relation to the period from January to March 2011, the volume of trade decreased by 8.6 per cent.

Balance of trade in January-March 2012 was negative and amounted to 566.707 thousand U.S. dollars. Import coverage with export is 61.9 per cent.

- **Industrial Production** - Industrial production registered annual decline seven months in a row. Annual decline in industrial production of 8.5 per cent in March is due primarily to decreased production in 2/3 of the branches.

Retail prices and cost of living

- **The index of retail prices** in May 2012, compared with May 2011, increased by 2.8 per cent.

- **Index of Consumer Price Index** increased by 2.0 per cent.

In early 2012, the rising price of electricity and thermal energy and increased price of the fuels directly influenced the increase in household expenditures, reducing the family budget of the employees and the accompanying value of wages, and causing further endangering of their living standard and quality of life. This price shock has hit the poorest the most, those who barely managed to meet the minimum necessities of life, but the price shock hit and severely worsen the standard of other categories of the population that had no problems at least to manage to settle basic necessities for a decent life. In Macedonian families more than 60 per cent of the salaries is spent on food (European average is below 30 per cent) and 45 per cent of the average wage they should allocate to pay the cost of housing.

Therefore, CCM offered and asked of the Government ***Measures to protect standard of employee:***

1. Exemption from taxation of the lowest wages. For this purpose, the tax exemption for 2012 amounts to 8.050 MKD/ month or 96.600 MKD/year. (As defined amount of the minimum wage for 2012).

2. Exemption from payment of fees for Personal Income Tax on cost of employment:

- Vacation bonus;
- Jubilee Award;
- Compensation for sick leave continuously for more than 6 months caused by injury at work or occupational disease that is paid by the employer in the amount of an average monthly wage paid per employee in RM in the last three months;
- Christmas bonus.

3. Involvement of social partners in process of determining the price of electricity and thermal energy by the Regulatory Commission of Macedonia, through discussion in the Economic and Social Council.

4. Adoption of programmes by the Government to subsidise energy consumption, for the most vulnerable families as subsidy for energy consumed. The programme to subsidise the consumption of energy to cover all family households receiving social assistance and all employees receiving the minimum wage up to 8.050 MKD.

5. Providing packages for vulnerable with food, medicine and hygiene.

6. Involving CCM in the campaign against the informal economy and unregistered labour by opening a hotline in CCM and better cooperation with the State Labour Inspectorate.

7. In order to protect the standard of the workers who lose employment due to business reasons and taking into account recent changes made to the Law on Employment and Insurance in the event of unemployment, we believe that salaries should be set in accordance with article 97 (paragraph 1) of the Labour Law.

In this context, Federation of Trade Unions of Macedonia for protection of disadvantaged families against energy poverty demanded:

1. Adoption of Government's Program for subsidising energy consumption for vulnerable families as subsidy for energy consumed,

The subsidizing program for energy consumption to include all family households receiving social assistance and all employees receiving minimum wage to 8.050 MKD.

Government of the Republic of Macedonia in the next four years will realize the Project for protection of energy poverty, to the socially vulnerable families by subsidizing part of energy consumption (600 MKD or 10 euros per month, and this amount will be harmonized each year with growth cost of living from previous year);

Article 97 paragraph 1 of the Labour Law states:

(1) In case of cancellation of the employment contract for business reasons, the employer is obliged to pay to the employee severance payment as follows:

1) to 5 years of employment – in amount of one net salary;

2) 5 to 10 years of employment - in amount of two net salaries;

3) 10 to 15 years of employment - in amount of three net salaries;

4) 15 to 20 years of employment - in amount of four net salaries;

5) 20 to 25 years of employment - in amount of five net salary;

6) over 25 years of employment - in amount of six net salaries.

Trade Union asks for the number of salaries given as severance payment to increase. For example:

a) to 5 years of employment – in amount of three net salary;

b) 5 to 10 years of employment - in amount of six net salaries;

c) 10 to 15 years of employment - in amount of ten net salaries;

d) 15 to 20 years of employment - in amount of eight net salaries;

e) 20 to 25 years of employment - in amount of ten net salary;

f) over 25 years of employment - in amount of twelve net salaries.

Labour market

First quarter of 2012:

- **Active population** age 15 to 64 is 941.019 people,
- The activity rate for men is 68.3 per cent, for women is 44.5 per cent,
- The employment rate was 38.6 per cent,
- The unemployment rate is 31.6 per cent
- The rate of youth unemployment, i.e. age group 15 -24 years, is 55.9 per cent.

According to the Employment Agency of Republic of Macedonia in April 2012 the number of registered unemployed was 272,392. Compared with same month in 2011, the number of registered unemployed persons decreased by 14.7 per cent.

The Programme of the Government of the Republic of Macedonia for 2011-2015 identified active programmes and measures for employment of different target groups, which will be included in the implementation of annual operational programmes and measures. Considering the conditions, opportunities, needs, and the European strategy for smart, sustainable and inclusive growth - Europe 2020, the Government through the MLSP and Employment agency started with implementation of specific programmes:

1. Smart growth - Programme to prepare for employment;

2. Sustainable Growth - Self-Employment Programme, Programme for financial support to legal entities (small and medium enterprises, craftspeople) for creating new jobs;

3. Inclusive growth - subsidy program, internship program, a pilot programme to subsidize owners of state agricultural land, municipal programme for useful work, programmes with combined packages of employment support.

Salaries

In Macedonia the amount of wages is relatively low.

Recent data indicate that:

- Average gross salary for March 2012 is 30.876 MKD (502 euro),
- Average net salary for March 2012 is 21.081 MKD (342.78 euro),
- 70.88 per cent or 451.568 employees work in sectors where the average salary is up to average wage in RM of 21.061 MKD (342.78 euro).

By adopting the Law on minimum wage corrections are expected or salary increase for vulnerable groups of workers (about 65.000 workers) who received salaries between 4.000 and 5.000 MKD (65-81 euro). Bearing in mind that policies may pay an important role in achieving sustainable economic development by increasing domestic demand, and that the objectives of social justice must have an essential place in the creation of macroeconomic policy, trade unions through the promotion of social dialogue must impose and set the agenda for discussion of these issues.

Signing of collective agreements at national level, which provide application of already acquired rights and signing of collective agreements at the level of employers that provide greater rights for workers, taking into account the real economic power of the employer, are inexhaustible field for the work of trade unions.

3. 5. Montenegro

Challenges and Problems

Economic experts: Stanica Dragaš and Lela Perović

EU Summit in Brussels resulted in the long expected decision to start negotiations with Montenegro in the process of joining EU, which is a reward for the already started reform processes, and its constructive role in regional relations.

Macroeconomic indicators

Real sector

Industrial production in Montenegro, in May 2012, showed the growth of 4 per cent in relation to the same month of the previous year, while it showed the decrease of 17 per cent in relation to the average one-month production compared to the previous year, and 25.9 per cent in relation to the previous month.

Industrial production for five months of 2012, in relation to the same period of the previous year, showed the decrease of 6.3 per cent.

Observed in sectors, in the period January – May 2012 compared to the same period of the previous year, the is only one processing sector which showed the growth by 9.8 per cent, while the other two shoed the decrease: the extraction of ore and stone by 19.9 per cent and the supply of power, gas, steam, and air conditioning by 23.8 per cent.

According to the indicators of **tourist turnover**, Montenegro had around 4.2 per cent tourists more in May 2012, with the increase in number of overnights by 5.8 per cent compared to May of last year. Of the total number of overnights: 15.0 per cent were made by national and 85.0 per cent by international tourists.

Turnover in **retail trade** in May 2012 (current prices) showed the annual growth by 9.8 per cent, including the growth of 5.6 per cent compared to the previous month, which is mainly conditioned by increasing and legalization of turnover in trade.

Value of the **construction works** in the 1st quarter of 2012 is higher by 1.7 per cent compared to the same period of the last year, and the effective number of working hours is lower by 2.4 per cent.

During the first five months of 2012 compared to the same period of the last year, number of passengers in **railroad traffic** is higher by 7.5 per cent, and the transport of goods (in tons) is lower by 42 per cent.

In **road traffic** number of transported passengers is lower by 12.6 per cent and the transport of goods is lower by 61.3 per cent.

In **air traffic** number of passengers is higher by 3.8 per cent and the transport of goods is lower by 50 per cent.

In **maritime traffic** transport of goods is lower by 48.3 per cent.

Telephone services for fixed lines are higher by 6 per cent, and for mobile telephony are higher by 22.2 per cent.

Prices

Monthly **inflation** in May, measure by index of consumer prices, was 0.4 per cent, while the annual was 3.5 per cent, whereby the growth of prices of tobacco, water supply, solid fuels and electrical power had the biggest impact.

Employment and income

Positive trend of the employment growth and reduction of unemployment continues.

Number of the employed in May 2012 was 165,776 which is the increase by 1.8 per cent compared to May last year.

Number of the unemployed in May 2012 was 30,126 which is the decrease by 3.7 per cent compared to the same month last year. The number of those who look for the first time for employment increases (with the university degree: 32.0 per cent), while the number of the number of the registered job seekers with the university degree is increased by 44.3 per cent, which suggests the problem with employment of the young professionals.

Average income (gross) in May 2012, in Montenegro, was 727 EURO, while the average income without tax and contribution (net) was 487 EURO.

Public finances

The **budget surplus** of 1.56 million EURO was registered in May 2012. The budget rebalance was agreed in May 2012, conditioned with the negative deviation in revenues compared to the planned, but also a bigger level of expenditures.

State debt at the end of April 2012 was 1,634.5 million EURO or 48.0 per cent of the average GDP (3,405.0 million EURO), of which the external debt amounts to 1,210.4 million EURO or 35.5 per cent GDP.

Banking sector and liquidity

The growth of total **deposits** and satisfactory **liquidity of banks** marked monetary movements in May this year. Total deposits had the monthly growth of 0.5 per cent, and annual of 1.4 per cent at the same time, there was the increase in the deposit of the economy by 7.9 per cent and savings of the population by 6.9 per cent compared to the same month last year. Although some signs of credit activities encourage, they are still insufficient for the real sector. Real sector is still burdened with a high illiquidity.

Foreign exchange and investments

Foreign exchange deficit that amounted to 544.8 million EURO or 14.0 per cent more in the period January-May 2012 compared to the same period last year is conditioned with the decrease in export and low rates of increase of import.

According to the preliminary records, total **foreign direct investments** for the period January-April 2012 amounted to 121.4 million EURO. Net foreign direct investments were 79.8 million EURO, which is by 54.2 per cent less than the net FDI in the same period of the previous year. According to the structure, investments are 73.7 per cent (investments to companies and banks

22.5 per cent and investment to real-estate 51.2 per cent), inter-company debt 25.8 per cent, and other investments are 0.5 per cent.

Macroeconomic indicators

	2011	May 2012
GDP in current prices (million EURO)	3,273	
GDP real growth, %	2.5	
Industrial production	-10.3	4.0
Inflation, %	3.5	3.5
Average income (net)	484	487
Unemployment rate, %	11.6	13.0
Unemployment rate (ARS), %	19.7	20.7*
Foreign exchange balance (million EURO)	-634.5	-133.1
Balance on the current account in % GDP	-19.4	-3.9
State debt (million EURO)	1,487	1,634.5
State debt in % GDP	45.4	48.0

Identification of problems and challenges, priority tasks and measures

Montenegro is determined to the protection of environment and sustainable use of natural resources, faster and more balanced economic and social development, and the EU accession process, which defines the directions and objectives of its development. Concomitantly, Montenegro faces in the first years of the 21 century with ample and complex challenges and problems, which need to be overarched, so that these objectives may become feasible.

Macroeconomic movements

Key challenges are: maintaining macroeconomic stability, expediting economic growth, completion of privatization process, increase of efficacy and strengthening the competitiveness of the economy, as well as securing balanced development at the regional level and at the level of various social layers, a higher degree of integration and protection of environment in all segments of economic policy.

Macroeconomic policy in the coming period should be directed towards overcoming of these challenges and/or maintenance of the achieved macroeconomic stability and creation of more favourable environment for the faster and balanced economic growth and development. Identification of comparative advantages of Montenegro and building recognizable and qualitative product, and preservation of specific values, which result in these advantages should serve as a basis for the creation of economic policy. Strengthening of competitiveness of national economy (including restructuring and privatization), stimulating entrepreneurship, attracting the investments remain dominant economic issues.

Montenegro has to use experiences and models tested in developed European economies, so that it can easily use double benefit – in the implementation of concept of sustainable development on the one side, and in the EU accession process on the other side.

Regional development and employment

Montenegro is characterized by significant regional differences in the degree of development, which are primarily manifested in undeveloped north and somewhat more developed central and southern regions. In addition to the economic difficulties, the undeveloped northern region faces also the limitations in relation to the social development (through limited access to the institutions and services) and intensified risks related to the unsustainable usage of natural resources (primarily forests).

On the other hand, the resources available to this region are remarkable, especially in terms of agriculture (67 per cent farming areas and 70 per cent cattle fund) and forestry (71 per cent of the wood mass). The northern region also has a significant potential for the development of various forms of tourism, especially those which could add to the tourist offer and total sustainability of the tourism sector. Southern region is at the same time the most densely populated area of Montenegro, to which (together with the central region) the influx of population is still growing.

Creation of new jobs and improvement of the characteristics of unemployment (especially the reduction of gender inequality, incentives of the employment of the youth and people with disability) represent one of the key challenges for the sustainable development. Other crucial challenges are related to the acquiring of labour rights (reduction in frequency of unprotected work – unregistered work or grey economy) and especially for the finding of solution for the unemployment of displaced persons and refuges, Roma as the category of population in which the unemployment rate is about 10-20 per cent higher than the average.

The basis for the creation of policies in the future should be the aspiration towards the reduction of regional development inequalities and improvement of the living conditions in less developed areas, primarily through increased support for the development of northern region and rural areas, along with the optimal use of the comparative advantage, which these regions do have.

Special attention should be focused on possibilities of creation of “green jobs”, that is, creation of new jobs in the economic activities favourable from the point of protection of environment.

Priority tasks of the economic development are:

- Development of the small and medium enterprises and the increase of employment (priority for the northern region: the mountain, eco-tourism, food production, especially organic, and sustainable forestry);
- Improvement of infrastructure (transport, water supply, sewage, power supply) as the prerequisite for development.

Observed regionally, the priorities of the northern region are the road infrastructure, power and water supply (particularly rural areas), while along the Adriatic coastline, the priorities are the water and power supply, and sewage systems – filtering of wastewaters.

Tourism

Development of tourism is one of the priorities for the Montenegrin economy.
However, numerous big infrastructure problems burden the development of tourism.

They primarily pertain to:

- Insufficient and low quality road infrastructure;
- Unresolved matter of the treatment of wastewaters and solid waste;
- Problems of water and power supply, especially during the high tourist season.

From the position of the sustainable tourism, the following issues and/or limitations can also be identified:

- Short season;
- Unbalanced deployment of accommodation capacities;
- The pressure of investors onto the shore and the most attractive locations;
- Lack of qualified personnel;
- Unfavourable age and education structure in rural areas;

Priority tasks are:

- Creation of versatile tourist offer (development of rural, agro, eco, mountain, cultural, sports and other forms of tourism, especially in the north of the Republic) which serve to extend the season, improve the quality of offer, and attract guest with better paying capacities (with the ultimate goal – increase of direct and indirect revenues from the tourism);
- Approval for the developmental tourist projects.

Agriculture and rural development

Agriculture, along with the tourism and services, is on top of the priorities of the development of Montenegro. There are numerous restrictions related to the development of agriculture, including:

- Small parcels and production in difficult natural conditions;
- Agriculture is mainly only an additional profession, which slows the modernization and market orientation of cooperatives;
- Low educational and professional level of producers who engaged in agriculture as economic activity;
- Insufficient infrastructure in the villages;
- Insufficiently strong financial sector to credit agriculture.

Priority tasks for the development of agriculture and fishery are:

- Securing stable and good quality offer of food through enhancing the competitiveness of national producers and sustainable management of the cooperatives;
- Rural development and securing decent living standard for the rural population.

The improvement of the legal framework is noted in the sector of agriculture, yet it is essential to continue with strengthening of implementation of legislation, and particularly to emphasize administrative capacities of the authorities responsible for photo-sanitary policy and food safety.

To strengthen further the agriculture, it is important to use all available resources intended for strengthening different segments of agriculture, starting from the administrative capacities to the production and adoption of standards. Resources are secured through programmes and IPA projects, European Commission funds, Danish government funds, and other sources.

Energy

Sector of energy, both from the position of the production and the consumption, has a crucial relevance for the economic development of Montenegro.

In this context, the following problems may be identified:

- Low level of energy efficacy and high level of power losses during the transmission and distribution;
- Unfavourable structure of consumption with a large share of power from the primary energy sources;
- Extremely unfavourable structure of consumers;
- Extremely high import dependency while meeting the needs for power;
- Inadequate degree of connections and integration with the electrical power systems in the area;
- Low level of utilization of its own natural power sources, especially the water potential.

Three main challenges for the energy policy in Montenegro are:

- Sustainability;
- Security in power supplies;
- Competition in the energy market.

Another challenge for the energy sector pertains to the inevitable introduction of market prices for the electrical energy, which under the current situation opens other social and economic issues.

Montenegro has to big potential for energy from small hydro stations and other alternative sources. Currently the activities are in progress to create conditions for building small hydro stations, and to achieve a higher degree of consumption of renewable energy sources (such as sun and wind).

Industry

The current industrial structure is extremely unfavourable, and there are several reasons for that:

- Old and outdated technology and equipment, which is related to low efficacy and negative impact on environment;
- Structure of industrial capacities in which big legal persons dominate, while the share of small and medium enterprises is far below the global average;
- Structure of capital which is overwhelmed with basic capital, along with the chronic shortage of working capital;
- From the position of energy, the energy intensive consumers dominate;
- Low quality partners in new privatization;
- Dissatisfied and unmotivated workers and their level of professionalism.

Directions of development:

- Revitalization and modernization of industry (priority of metal industry),
- Solutions for the current illiquidity;
- Good quality management.

3.6 *Serbia*

Challenges and problems

Economic experts: Ph.D Sanja Paunović, Ph.D. Rajko Kosanović, Zlata Zec, Ph.D. Zoran Ristić

Situation of the economy in the Republic of Serbia

The world economic crisis has caught the economy of Serbia, in 2008, in a situation, which was also characterised by high unemployment rate, high inflation, extreme deficit on the current accounts, high percentage of grey economy, high rate of non-liquidity of legal persons, unfinished privatization, accompanied by numerous flaws, high external debt, difficulties related to the exchange rate of dinar, huge corruption, high percentage of poor population, and so much more. These characteristics have still been present, yet in even worse form.

Economic crisis in Serbia, therefore, is not the result of the world economic crisis. Serbia was in crisis even before the global economic crisis. In its major part, it was a “Serbian crisis”, “a crisis of national production”, primarily caused by inappropriate economic policy measures, for which reason the influence of the world economic crisis on Serbia was even more intensive. The best indicator is about 260,000 workers who lost their jobs between October 2008 and the present day, accompanied by several dozens of thousands closed companies.

World economic crisis in Serbia, among other things, is also reflected in withdrawal of capital from Serbia; reduction of foreign investment; reduction of the volume of industrial production; additional increase of unemployment; reduction of already low export; reduction of consumer basket abilities; fall of living standard of population and increase of poverty.

Proposal of measures, which need to be taken

Urgent measures are needed to:

- Boost the employment rate;
- Secure control and lower prices of basic consumer goods, energy sources, communal and other services;

- Ensure regular payment of contributions for mandatory social insurance;
- Ensure the respect of labour rights related to the labour relations;
- Review and rectify all doubtful privatizations;
- Ensure removal of political influence from public companies;
- Instigate procedures for determining and sanctioning of criminal and other liability of all those who violated the law, in any possible way.

Measures to revive economic activities and expedited economic growth, including the increase of employment and living standard of population, within the framework of new economic strategy which needs to include:

- Starting the process of re-industrialization of Serbian economy;
- Opening of Serbian development bank (this bank needs to ensure the incentive for the development bank, which would secure the large infrastructure projects and new employment);
- Reform of the fiscal system, aimed at securing that the taxes are proportionate to the strength of taxpayer, to stimulate production, investment, and employment, and de-stimulate import and grey economy. The contents of fiscal reform also has to:
- Reduce taxes and contributions from the income resulting from regular employment,
- Increase the non-taxable part to the level on minimum income,
- Exemption from taxes and contributions to meal allowance and holiday allowance up to the amount defined in special collective agreement,
- Revision of para-fiscal liabilities on national and local level;
- Incentive for financial sector to support the economy (passing of the Law on system of credit guarantees, through private-public partnership);
- Programmes for the development of export;
- Measures to resolve the matter of non-liquidity (of state and economy) – introduction of order in the system of payment, and especially to:
- Limit the maturity terms,
- Settle debts with tax administrations aimed at finding the way out of crisis and the incentive for liquidity.

Measures to reduce public expenditures, through a comprehensive reform of public sector and administration:
Urgent adoption of strategy and action plan for the reform of public sector, which will also remove the politics from the public sector and increase the level of professionalism in governance of public sector, significantly reduce the costs of public administration in the budget;
Reform of the state administration, system of pension and disability insurance, health insurance, education and other.

Measures to fight corruption:
Primarily in the area of public procurement, by the introduction of audits, establishment of central register of public tenders and defining terms for participation in tenders. Any company which applies for the tender and/or takes part in public procurement must have a minimum annual turnover in line with the category of public tender, a certain number of employees, permanent business premises, proof of a regular payment of off payables towards the state, long experience in the activity which requires the participation in public tender, sufficient number of professionals who can perform the required tasks, as well as certificates in special cases.

Measures for suppressing all forms of informal economy, which is a huge problem and the break for the development of Serbia. Employees, who work as unregistered workers, do not exercise rights guaranteed in applicable legislation (Labour law, Law on occupational and health safety, Law on pension and disability insurance, Law on health insurance, Law on health protection, Law on insurance from unemployment, and other laws), collective agreements (special and collective agreements with the employer) and labour contracts. The worker who works as an unregistered worker cannot exercise any rights from the labour relations, such as protection of life and health at work (consequences – recent example of death of four workers who worked on arranging the gliding terrain in Belgrade); the contributions for health and pension insurance is not paid; worker does not have the right to a limited working hours, breaks, holidays, leave of absence, etc.

The labour inspections should intensify their activities, and the legislation should be accordingly amended (i.e. labour contracts have to be in the registered office of the employer).

Efficient work of the Tax administration on the control and collection of taxes and contributions for mandatory social insurance (anticipate the possibility to control the collection of contribution for mandatory social insurance by the Fund for pension and disability insurance, Fund for the health insurance, and National service for employment, given that the system of collection which existed until 2012 proved to be efficient).

Efficient and impartial judiciary, especially in terms of debt-trustee relations and labour disputes.

Enforcement of laws, carry out their amendments in parts which proved to be inapplicable or inadequate (i.e. Law on occupational and health safety, Law on planning an building, Law on public tenders, Law on privatization, as well as passing other legal solutions which will create additional, more favourable assumptions for further economic development (i.e. Law on public-private partnership, Law on farming cooperatives, and other laws), with a full respect for the proposals and positions of the representative trade union organisations.

MACROECONOMIC INDICATORS OF SERBIA*

no.	**indicators**	**2007**	**2008**	**2009**	**2010**	**2011**
0	**1**	**2**	**3**	**4**	**5**	**6**
1.	GDP per capita in EUR	3,856.6	4,444.5	3,945	3,981	4,543
2.	GDP, real growth, in %	5.4	3.8	-3.5	1.0	1.6
3.	Employment rate		44.2	40.8	37.7	35.3
4.	Unemployment rate Questionnaire about RS	18.1	14.0	16.6	19.2	23.7
5.	Inflation	11.0	8.6	6.6	10.3	7.0
6.	Public debt (billiard of EUR)	8,875.3	8,781.4	9,849.3	12,156.9	14,466.6
7.	Public debt (% GDP)	30.9	29.2	34.5	44.0	47.7
8.	Average net income (in EUR)	347.6	358.4	337.9	330.1	372.5
9.	Average pension (in EUR)	171.89	199.32	206.36	188.53	203.41
10.	Minimum net income (in EUR)	130	145	158	151	164
11.	Share of grey economy in GDP (in %)				35-40	35-40
12.	Corruption – scale	79 (3.4)	85 (3.4)	83 (3.5)	78 (3.5)	86 (3.3)
13.	Goods exchange – surplus/deficit (in million EUR)	-7,519.1	-9,049.2	-5,543.4	-5,228.6	-6,010.3
14.	Value of EUR related to dinar (national currency)	79.24	88.60	95.89	105.50	104.64

***** Source: National bank of Serbia – Bulletin of public finances, December 2011; Ministry of finances– Bulletin of public finances, February 2012; Republic Statistics Bureau – Questionnaire about the labour force, November 2011; Institute of economic sciences – Macroeconomic analysis and prognosis, No. 1-2/2012.