



**EUROPE AND THE BALKANS: ECONOMIC
INTEGRATION, CHALLENGES AND
SOLUTIONS.
An introduction**

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ABSTRACT: This special issue includes seven papers related to the South Eastern European countries macroeconomic performances, analyzed from the EU integration perspective and in the eye of the current crisis. It includes both policy oriented papers and empirical studies. The findings provide interesting insights on the economic, financial and institutional development in the Balkans, with a specific focus on the growth and technological challenges of the region, on its banks, pension systems and public finances.

KEYWORDS: Balkans, Europe, Economic integration, Growth, Finance

JEL Classification: E0, F0, G0, H0, P2, P3

The economic and political status of the Balkans is a subject of high interest at the European level as the political decision to enlarge the European Union to Bulgaria and Romania and the current financial crisis put the Balkan countries in a new situation and challenges their ability to adapt to the European and global environment.

Most of these issues related to Balkan countries' transition and EU integration are addressed in this Special Volume of EAST-WEST Journal of ECONOMICS and BUSINESS. This special issue is composed of selected papers presented at the international conference "Europe and the Balkans: Economic Integration, Challenges and Solutions"¹ that took place in Orléans (France) on February 3-4, 2011. The purpose of the conference was to bring together economists of the Balkan countries, European and international institutions to discuss the main economic problems the region is facing.

Even if the articles included in this special issue do not reflect all the diverse subjects debated during the conference, they are all dealing with specific macroeconomic issues related to the South Eastern Europe performances in the eye of the crisis and from EU perspective. These issues are assessed in a policy strategy perspective and/or are analyzed empirically through detailed studies developed on different Central and South-Eastern European countries in general and on Romania, Bulgaria and Montenegro in particular. The questions this special issue is answering to are the following: what is the impact of the current crisis on the Balkan countries? How does it affect the capacity of Balkans' countries that are not EU members to advance in their catch-up process? What are the factors that influence the foreign currency loans in Central and South-Eastern Europe and what were the effects of the crisis on the demand for foreign currency loans? How should policy react to it? What are the solutions to be applied in order to get stronger and healthier institutions in the Balkans? How the Eastern European capital pension schemes react to the ongoing financial crisis? Are the Romanian electoral cycles connected to the country's budget unbalances and economic growth? Has Bulgaria's EU integration accelerated the country's export performances and competitiveness? How Montenegro's growth model should be changed?

The paper that opens this special issue is based on Ansgar Belke's keynote speech "Financial crisis, euro perspectives and the Balkans". In this paper, Ansgar Belke analyzes the Euro-area crisis management and its consequences on the Balkan countries and their EU integration perspective. Within this

¹ This conference has been jointly organized by *LEO* (Laboratoire d'Economie d'Orléans) UMR CNRS 7322 and its scientific partner *Le STUDIUM* (Institute for Advanced Studies). The institutional partners of this conference were the Center Regional Council, the Loiret General Council and the Orléans City Hall as well as the European Commission through its European Fund for Regional Development. This conference has gathered participants from different research centers and institutions from twelve European countries and the US. Three keynote speakers have been invited to this conference: Ansgar BELKE (University of Duisburg-Essen and DIW Berlin), Fabrizio CORICELLI (University Paris 1, University of Sienna, PSE, CEPR) and Meglena KUNEVA (BNPARIBAS, European Commission).

framework, the author argues that new banking regulations and the introduction of a European Monetary Stability Fund would be a preferable blueprint. He also assesses some other open issues related to crisis management, with a specific focus on the interaction between private and sovereign debt and on the economic performance of the Balkans (Croatia, Macedonia joint with Turkey) with respect to their EU integration in the eye of the current crisis. Ansgar Belke concludes that the future of the Balkans will heavily depend on a clear and sustainable institutional solution of the EU debt crisis.

A specific analysis of different countries from Central and South-Eastern Europe is provided in the note “The Impact of the crisis on foreign currency borrowing of households in CESEE – Implications for economic policy” by Elisabeth Beckmann and Helmut Stix. Based on previous research and micro evidence conducted semi-annually since fall 2007, the authors argue that in four EU new member states and in five potential candidates the crisis increased the risk perception related to foreign currency loans, generally viewed as economic growth factors, but not to such an extent that this would offset their perceived advantages. It seems that in the analyzed countries the demand for foreign currency loans is stable, being driven by factors that are seen as not dramatically changed by the crisis. Further, the authors show that the determinants of foreign currency loans differ across the CESEE region and therefore, economic policy design needs to differentiate between countries.

A different analysis of the Central and especially South-Eastern European countries, from an institutional perspective, is provided in Momchil Karpouzanov’s paper “Corrupted transition: the painful re-education of the Balkan leviathans”. The author analyzes the economic and political situation of Central and South-Eastern European countries, with a specific focus on Bulgaria and Romania, and argues that due to their specific transition paths, the Balkan countries have difficulties to establish strong reliable institutions. He shows, on the one hand, that EU integration is a major incentive to create an institutional framework in the Balkan countries in line with the one of the EU. However, on the other hand, the author underlines that once the countries join the EU – as it was the case of Romania and Bulgaria – the initial discipline effect created by the EU integration diminishes and therefore countries may become unable to enhance a strong institutional building and remain dependent on EU funds and assistance. Within this framework, one suggested solution would be the deepening of the liberalizing oriented reforms (i.e. further privatization of public services).

The article entitled “Capital pension schemes in Bulgaria, Hungary and Slovakia under the impact of the ongoing financial crisis” by Jeko Milev and Nikolay Nenovsky describes how the recent financial crisis has affected capital pension schemes in three Eastern European countries: Bulgaria, Hungary and Slovakia. The analysis is focused on these countries as their pension systems have been reformed in recent years by the introduction of defined contribution schemes. The authors investigate whether the structuring of portfolios with different risk profiles leads to a reduction in the effects of the crisis and to better results achieved by the pension companies.

Furthermore, an analysis of Romania’s economic development is provided in the paper “Political changes and economic development in Romania” by Carmen Pintilescu, Danut Jemna and Daniela Viorica. The authors argue that Romania’s real convergence with respect to the EU countries has been strongly affected by different economic unbalances registered during 1990 – 2009. They first characterize the economic disparities within EU and underline Romania’s position within different groups of EU countries. Further, they focus on the Romanian macroeconomic situation and show that the sustained economic growth went along with bigger budget deficits. The size of the latter was accentuated by the fiscal and salary policies adopted especially during electoral periods. Thus, the authors estimate an econometric model that shows that budget balances and electoral cycles are linked in the Romanian case during the analyzed time period (1990-2009).

Bulgaria’s trade performances in the framework of EU accession are analyzed by Paskal Zhelev and Tzvetomir Tzanov in the paper “Bulgaria’s export competitiveness before and after EU accession”. The results show low export performance in terms of diversification, factor intensity and technological sophistication and a significant lagging of Bulgaria behind countries like Hungary, Slovakia, and in certain fields Romania. This is mostly due to low-level sector specialization. The authors argue that Bulgaria’s EU integration has not accelerated country’s technological catch-up: unexpected export growth is registered in traditional industries as Bulgaria overwhelmingly remains steadily anchored in low value-added competition on international markets.

Finally, the paper “Critical overview of Montenegro’s growth model” by Nikola Fabris and Marijana Mitrovic analyzes the economic development of a candidate to the European integration: Montenegro. The authors investigate existing Montenegro’s growth model and show why it is not viable in the long-term. They further underline the challenges that Montenegro will face in the upcoming period

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and provide some elements that should be taken into consideration while constructing the new Montenegrin growth model.

In conclusion, the articles included in this special issue tried to provide a relevant picture of the economic, institutional and financial evolution of the Balkan countries. They set a framework that can encourage further academic and policy discussions on this topic.