EEMR

Economics, Entrepreneurship and Management Research

Vol. 1 No. 1 (2022), e-ISSN: 2955-9014 str. 21-38

Jugoslav Anicic[1]
Olgica Nestorovic[2]
Dusan Anicic[3]

Review article *UDC: 332.1(497-15)*
330.341(497-15)
338.23:330.101.54
COBISS.SR-ID 76267529

Macroeconomic trends of economic development in the Western Balkan countries

Abstract

The economic growth in the Western Balkan countries in the period of transition was based on the investments into the service sector rather than the industry and other manufacturing sectors, which resulted in low productivity and competitiveness of companies in the international market. The basic characteristics of the transitional period are undeveloped institutions, low level of private and public investments, unfavourable demographic situation, widespread grey economy and high foreign debt. Although these countries have complementary economies that suit one another, they have not yet sufficiently overcome small and fragmented national markets, and that is mostly reflected in the unfavourable structure of their export. This paper provides the analysis of the results achieved by the economies of the Western Balkan countries between 2016 and 2020, compared to the surrounding EU member countries. The indicators analysed point to the slow economic recovery in these countries, as well as the fact that the Western Balkan countries have not reduced their huge delay in development, that a long period of time will be necessary to overcome it, especially with negative consequences of the pandemic in mind because it has affected these countries to a greater extent than the developed countries.

[1] Faculty of Economics and Finance, University "Union - Nikola Tesla" Belgrade, Cara Dušana 62-64, 11158 Beograd, e-mail:janicic@unionnikolatesla.edu.rs.

[2] Faculty of Economics and Finance, University "Union - Nikola Tesla" Belgrade, Cara Dušana 62-64, 11158 Beograd, e-mail:olgica.n@yahoo.com

[3] Faculty of Economics and Finance, University "Union - Nikola Tesla" Belgrade, Cara Dušana 62-64, 11158 Beograd, e-mail:anicic.dusan@yahoo.com

Keywords: *economic development, transitional period, growth rates, the Western Balkan, pandemic*

Introduction

One of the main characteristics of the economic growth model in the Western Balkan countries (WB) in the transitional period is that the economic growth was mostly based on service growth (financial intermediation, transport and telecommunications, wholesale and retail trade), not the growth of industry or other production and tradable sectors. The economic growth was primarily the result of global economy tendencies, growing liquidity in the world capital market, significant foreign capital inflow and credit boom, not real progress in the economic reforms in these countries. Consumption grew faster than the economic growth which resulted in foreign debt growth, with extremely high unemployment rates that reached even more than 20%. Privatisation process from public to private property was not accompanied by suitable institutional solutions, and therefore the effects were far from the objectively possible. Generally speaking, the transition characteristics in these countries could be reduced to the public capital privatisation, deindustrialisation and unfavourable foreign direct investment sector structure.

Relatively high levels of foreign direct investments in some countries created a false image of the possibility to achieve the economic growth and development dominantly in service sector, that foreign and domestic deficit could be constantly covered by capital from other countries, that expenditure could be higher than production, that high investments were possible with low savings, that current consumption growth was possible regardless of low productivity etc. The characteristics of economy in these countries are undeveloped institutions, low level of public and private domestic investments, high share of grey economy in gross domestic product and unfavourable demographic situation caused primarily by the departure of young educated personnel abroad, etc. In such an economic environment modest results of economic growth were achieved in relation to the countries of Central and Eastern Europe, as well as EU members, and that is best reflected in GDP per capita data; it is many times lower than the EU average and its achievement would take a number of years.

This paper analyses the economic development in the Western Balkan countries (Albania, North Macedonia, Serbia, Bosnia and Herzegovina, Montenegro), as well as the former SFRY countries (Slovenia, Croatia) and the EU member countries from the immediate surroundings (Romania, Bulgaria). The aim of this paper is to analyse development trends of the above mentioned countries in the period from 2016 to 2020, their positive and negative aspects, and establish whether these countries are moving closer to the developed EU countries. The paper also provides views on global trends in the international financial market, measures and possibilities for overcoming current global crises and its impact on future growth in these countries.

The paper uses the methods of analysis, synthesis, compilation and comparison. The most important indicators of economic development of these countries are foreign direct investment in absolute terms and their share in gross domestic product, GDP in absolute terms and GDP growth rates by country and by year, as well as GDP per-capita, which is considered a key indicator development of the country because it expresses its productive capacity measured per capita. The main source of data used in this paper is World Bank data.

Economic development of the Western Balkan countries in the transitional period

The conditions for economic reform implementation in the Western Balkan countries were reflected in investment quality, structure and extent achieved in the transitional period. In most of the Balkan countries privatisation was delayed due to the political turmoil and military conflicts devastating industrial capacities and severing production connections among the companies in the region. While industrial capacities were insufficiently used, closed down or devastated in military conflicts in the Balkan countries, foreign investors participated in ownership, financial and organisational restructuring of the companies in Central and Eastern Europe. In these countries, reindustrialisation processes intensified, especially after 2008, while in the Balkan countries deindustrialisation processes continued (Bartlett, 2008).

The main causes of delayed economic recovery in the Balkans are not poverty, high unemployment, the absence of work ethics, bad geographical position or lack of mineral resources, but inappropriate economic policies and extractive economic and political institutions that create economic misery. The institutions could not be the cause of a bad geographical position of a country or its mineral resources, but they could be the cause for the absence of work ethics, unemployment, poverty, grey economy, tax payments avoidance or a mess in public companies (Milenković, Vujović, 2020).

Some of the main characteristics of the economic growth model in the Western Balkan countries from 2000 to the crisis of 2008 are that the economic growth was based on service growth (financial intermediation, transport and telecommunications, wholesale and retail trade), not on industry growth or any other production and tradable sector growth. The economic growth was primarily the result of the tendencies in the global economy, growing liquidity in world capital market, significant foreign capital inflow, as well as credit boom, rather than the real progress in the economic reforms (Murgasova, 2015).

Consumption increased more rapidly than the economic growth which resulted in foreign debt increase, with unemployment rates outstandingly high, reaching over 20%. Privatisation process of public into private property was not followed by suitable institutional solutions, and therefore the effects were far less than possible. Foreign investors were only interested in activities and companies profitable in the former system, so they included these into their transnational companies' production networks through acquisitions during the privatisation process. Foreign direct investment (FDI) sector distribution further intensified decline in production (Kolotay, 2010). Most Balkan countries only attracted a small share of FDI into production. Generally speaking, the transition characteristics of the Balkan countries could be reduced to public capital privatisation, deindustrialisation and unfavourable FDI sector structure (Ranđelović et al., 2019).

Fairly high level of FDI in some of the countries created a false image that economic growth and development would be possible to create mainly in service sector, foreign and domestic deficits would be covered by capital from abroad, it could be spent more than produced, high investments were possible with low savings, current consumption growth was possible regardless of low productivity, etc. In these conditions, the economies of the Western Balkan countries grew at an average rate of 5% per year, but this type of growth was interrupted under the influence of the global recession so the rates were considerably lower from 2009. On the other hand, high share of public debt in GDP forced some countries to reforms in terms of fiscal consolidation.

Less developed European countries, such as the Western Balkan countries, should have a systematic more rapid growth than the economically developed countries, with an annual convergence rate (overreach) of about 2%. Two percent convergence rate was obtained from several various empirical researches and it is also called the 'iron law of convergence' (Barro, 2015; Rodric, 2013). Therefore, the economic growth of 3.5% in the Western Balkan countries is inadequately compared to the economic growth in the EU countries because the European countries at a lower level of development should have significantly higher growth rates. More rapid economic growth in less developed countries is the consequence of the fact that a considerable share of this growth is the result of technology and knowledge transfer from the developed countries, which is an opportunity the developed countries lack because their economic growth depends upon their own innovations and technological progress to a larger extent, and that is a slower process.

One of the biggest causes of low economic growth in the transitional period in the Western Balkan countries is insufficiently developed institutions. The institutions represent the rules established by laws, tradition, morality, and these rules regulate accepted, mass interactions between economic entities repeated at regular intervals constantly, permanently, in a transparent manner (Madžar, 1997). As rules determining economic and politic life, the institutions could be extractive and inclusive. Inclusive economic institutions guarantee the safety of private property, the appropriate legal system contribute to the economic activities, productivity growth and economic progress. On the other hand, extractive economic institutions possess the properties opposite to the inclusive economic institutions, and they are called extractive because their basic function is to take away income and wealth from one social subset for the benefit of another. They set various barriers to market entry, and direct market functioning towards the benefit of a small number of people.

All models of development that ignored institutions proved unsustainable. Since the rules exist in order to be obeyed, it follows that it is the basic function of efficient institutions, and in their totality, they form the infrastructure of rules in society and economy. In contrast to the efficient institutions, various infrastructure quasi-rule forms have existed in some transitional countries, leading to the imitation-interest and dysfunctional (vertical) institutional order, frequently referred to as 'institutional fundamentalism' (Rodrik et al, 2013). A lot of theoretical and empirical research proved direct connection between the institutional development and economic development, as well as the level of knowledge and economic development. Therefore, we could make a logical assumption and draw a conclusion that the aforementioned causal relations might be connected into the relation: knowledge-institutions-economic development, with the mandatory category of investment into knowledge (Delibašić et al, 2014:172).

Economic integration might be the key factor for the achievement of higher living standards the Western Balkan aspires to. New opportunities are necessary to accelerate growth, which implies overcoming small and fragmented national markets. This process may be supported by the uncompetitive nature of export in these countries because the export baskets of the Western Balkan countries are quite different despite the common history. They are not competition in the same EU market or FDI attraction of the same EU companies. Furthermore, the differences in production specialisation patterns offer possibilities for more regional integration, including the integration into the value chains in the sectors such as food industry, car industry or tourism (Milenković, Vujović, 2020).

Demographic situation is unfavourable in most Western Balkan countries because the aging population exerts a great pressure on the pension system and healthcare. Demographic processes also affect labour force reduction as well as the increase of dependency rate for the elderly, which is not only reflected on the economic performances in the society but it also reduces the potentials for social security funding, relying heavily on labour taxation. Considering that emigration implies strong 'brain drain' in most of the countries, it encourages the issues of investment priorities in education, while politics that could attract repatriates and/or use the advantages of well-educated emigration should be thought about.

Investments are some of the economic growth key factors because investment level and efficiency reflects the economic policy and institution quality. The investments also have impact on other factors of the economic growth, such as technical progress and employment. The impact of the investments on the economic growth also depends on the institutional environment, economy openness and competition intensity. Levin &Renelt (1992) point out that the investments and the degree of openness of an economy are the most significant factors of the economic growth. A number of empirical studies were dealing with the issues of public and private investment impact on the economic activity and economic growth. A certain number of empirical studies studied the effect of government investments both in the short term and in the long term, in particular, the impact of 2008 crisis reinforced the issue of whether increasing public investment could accelerate the economic growth (Ilzetzki et al. 2013, Gechert 2015, Auerbach and Gorodnichenko 2012, Petrović et al. 2018). The research showed that public investments had a short term effect on the aggregate demand, but also a significant medium-term effect on production, overall employment and investments encouragement in private sector.

Empirical research also showed that the countries with higher domestic savings had higher investments and faster economic growth. Thus, for example, Feldstein &Horioka (1981) showed that the differences among countries in terms of investment rates were almost equal to the differences in terms of domestic savings. Aizenanmann et al. (2007) showed that the developing countries financed about 90% of their capital from their own savings, and the countries where domestic savings had a higher share in investment funding also had a higher economic growth. Furthermore, high domestic savings reflected good institutions, good economic environment and suitable economic policy. Aghion et al. (2006) emphasise the significance of domestic savings in the developing countries because it enables the acquisition of advanced technologies. This is especially important because some part of FDI is placed into low-accumulation and labour-intensive activities which do not contribute to the advance in technology for the host country.

According to Besley (1995) and Lim (2014), there are three groups of factors identifying the differences in investment efficiency among certain countries. They are institutions because property rights security depends on them, as well as the equality among the market participants. The second factor is the structural characteristics of the economy, such as financial system development, the openness of the economic system, demographic characteristics of the population, etc. The third factor is the economic policy with the domain of tax policy, inflation level, public debt level, earnings and productivity dynamics, etc. The economic policy has a stimulating impact on private investments if macroeconomic stability is maintained, contained in low inflation, stable exchange rate, low and relatively stable interest rates, and if there is no danger of public or private debt crisis (Aizenman, Nancy, 1993).

Domestic investments (both public and private) are very low in the Western Balkan countries, while FDI level is rather high. The basic reasons for low domestic private investments are unfavourable general conditions for business and low domestic savings. Public investments are low due to the state inefficiency, as well as the fact that current spending is given advantage over the investments. On the other hand, FDI level is high due to cheap labour, free trade, low taxes, high subsidies, as well as ad hoc foreign investors protection from the inefficient legal and administrative systems.

According to the data in table 1 for the Western Balkan countries, we can see a high share of FDI in GDP in Albania, Serbia, Montenegro and North Macedonia. This is higher than in the immediate surrounding countries, EU members, such as Slovenia, Croatia, Romania and Bulgaria.

Table 1 *FDI share in GDP from 2016 to 2019*

	2016	2017	2018	2019
Albania	8.8	7.9	7.9	7.8
Bulgaria	2.8	3.4	2.7	3.0
Croatia	0.8	0.8	1.9	1.9
Montenegro	5.2	11.6	8.8	7.5
North Macedonia	5.1	3.4	5.1	4.4
Romania	3.3	2.8	3.0	2.9
Serbia	5.8	6.6	8.0	8.3
Slovenia	3.2	2.5	2.8	4.0

The source: World Bank (2022), Created from: World Development IndicatorsSeries: Foreign direct investment, net inflows (% of GDP)

One of the characteristics in the Western Balkan countries is also a high share of grey economy in overall economic trends, leading to poorer quality and less quantity of public services, as well as lower economic growth rate on that basis. The causes of such a high share of grey economy are numerous, from political, followed by social and administrative to economic ones. Complicated legal procedures with frequent legislature changes, high tax rates and failures in supervision, inefficient organisation in tax and other inspection authorities are some of the factors contributing to the spreading of the phenomenon. Grey economy means unfair competition to a healthy economy, followed by a part of the healthy economy turns into the grey area, reducing budget income and investments, violating the employees' rights, reducing quality and product health safety, etc.

Macroeconomic indicators for the Western Balkan countries from 2016 to 2020

The main cause of delayed economic recovery in these countries is not poverty, high unemployment, bad geographical location or lack of mineral resources, but unsuitable economic policy, extractive economic and political institutions creating economic misery. The institutions can not be the cause of poor geographical position of a country or lack of mineral resources, but they can be the cause of the absence of work ethics, unemployment, poverty, grey economy, tax evasion or the mess in public companies (Milenković, Vujović, 2020).

During the observed period from 2016 to 2019, Western Balkan countries had positive growth rates, but it did not result in the reduction of the gap behind the developed EU countries. On the basis of the data in table 2, we can reach the conclusion that between 2016 and 2019 the lowest growth among the Western Balkan countries was in North Macedonia (18.12%) and Bosnia and Herzegovina (19.43%), approximate in Serbia and Montenegro (between 26 and 27%), and the highest growth was recorded in Albania 29.8%. Romania recorded the highest growth among the neighbouring countries 32.8%, and it had the maximum GDP in absolute terms at the same time. It is also distinctive that Slovenia had the equal to or higher GDP in absolute terms than the countries with a far smaller population.

Table 2 *GDP in absolute terms per country for the period between 2016 and 2020*

Country	2016	2017	2018	2019	2020
Bulgaria	53.954	59.199	66.363	68.915	69.889
Albania	11.861	13.019	15.156	15.400	14.887
Bosnia and Herzegovina	16.914	18.079	20.177	20.201	
Montenegro	4.374	4.844	5.504	5.542	4.769
North Macedonia	10.672	11.307	12.683	12.606	12.263
Romania	188.128	211.695	241.457	249.881	248.715
Serbia	40.692	44.179	50.640	51.514	53.335
Slovenia	44.736	48.469	54.137	54.178	53.589
Croatia	52.295	56.214	62.247	62.246	57.203

The source: World Bank (2022), Created from: World Development Indicators, Series : GDP (current US$)

As far as GDP growth rate per year – table 3, we can observe that all the countries had approximate growth rates in 2016, but great differences appeared in 2017; thus, for example, Romania achieved extremely high growth rate of 7.3%, while North Macedonia only had 1.1% growth rate. In the following 2018, Montenegro achieved the highest growth of 5.1%. In 2020, GDP fell due to the pandemic impact on the economic trends, with the smallest decrease in Serbia (0.9%), and the largest in Montenegro as high as 15.3%, followed by Croatia 8.1%.

Table 3 *GDP annual growth rate per country between 2016 and 2020*

Country	2016	2017	2018	2019	2020
Bulgaria	3.0	2.8	2.7	4.0	-4.4
Albania	3.3	3.8	4.0	2.1	-4.0
Bosnia and Herzegovina	3.1	3.2	3.7	2.8	-3.2
Montenegro	2.9	4.7	5.1	4.1	-15.3
North Macedonia	2.8	1.1	2.9	3.9	-5.2
Romania	4.7	7.3	4.5	4.2	-3.9
Serbia	3.3	2.1	4.5	4.3	-0.9
Slovenia	3.2	4.8	4.4	3.3	-4.2
Croatia	3.5	3.4	2.9	3.5	-8.1

The source: World Bank (2022), Created from: World Development Indicators, Series : GDP (annual growth rate)

Developing countries often build their development strategy on foreign direct investments – FDI. Undoubtedly, they bring certain advantages and positive effects for the recipient country: access to the technologies often inaccessible to the less developed countries, access to foreign markets, especially when globally present big multinational companies invest, raising managerial culture and work discipline, etc(Filipović, Nikolić, 2017).

On the other hand, we can observe a number of arguments for limiting national economies' dependencies on FDI due to the negative effects they have. Some of these are excessive profit repatriation and increasing import dependence, intensified balance of payment problems, home companies being squeezed out of the local capital market, and high expenses of FDI attraction (tax exemption, various types of incentives). In addition, monopoly in the home market is frequently bought through FDI, with all negative consequences, old and obsolete technologies are brought, FDI choose the countries with cheap labour, disregarding the rules on environment protection, etc.

References highlight the example of Japan and the role of foreign investments in its development, where four stages in foreign accumulation inflow in terms of foreign direct investments are clearly differentiated. The first stage involves the investments based on the natural resources, and the second stage the investments in modern and efficient infrastructure build-up. Investment in innovations for economic development design and investment in knowledge dominate the third stage, while the fourth stage stands for 'postindustrial' society stage, service and knowledge intensive technology domination.

Romania had by far the most foreign investments in the observed period, followed by Serbia (table 4).

Table 4 *Foreign direct investments, inflow per country and year*

Country	2016	2017	2018	2019
Bulgaria	1.488	2.007	1.809	2.075
Albania	1.044	1.022	1.204	1.201
Bosnia and Herzegovina	313	509	601	437
Montenegro	226	560	485	417
North Macedonia	549	380	648	549
Romania	6.252	5.952	7.343	7.365
Serbia	2.355	2.894	4.071	4.268
Slovenia	1.446	1.196	1.538	2.151
Croatia	418	476	1.212	1.170

The source: World Bank (2022), Created from: World Development Indicators, Series : Foreign direct investment, net inflows (BoP, current US$)

According to the data in table 5, we may observe that by far the highest GDP per capita was in Slovenia in 2020 – 25, 517 US$, followed by Croatia with 14, 134 US$, and Romania with 12, 896 US$. According to this indicator, the Western Balkan countries lag far behind, and their GDP per capita runs between five and eight thousand US$, far behind in comparison to the above mentioned countries from the neighbourhood. If we compare it to the EU average in 2020 in the amount of 37, 968 US$, we may observe a huge backlog that will surely take many years to overcome.

Table 5 *GDP per capita in the Western Balkan countries from 2016 to 2020*

Country	2016	2017	2018	2019	2020
Albania	4.124	4.531	5.287	5.395	5.246
Bosnia and Herzegovina	4.995	5.394	6.070	6.119	6.079
Bulgaria	7.569	8.366	9.446	9.879	10.079
Croatia	12.527	13.629	15.227	15.311	14.134
North Macedonia	5.149	5.450	6.108	6.070	5.917
Romania	9.548	10.807	12.399	12.899	12.896
Serbia	5.765	6.292	7.252	7.417	7.720
Slovenia	21.663	23.455	26.104	25.943	25.517
Montenegro	7.028	7.784	8.845	8.910	7.677

The source: World Bank (2022): Created from: World Development Indicators Series : GDP per capita (current US$)

Development challenges after the corona virus pandemic

The specific of the economic recession generated by the pandemic is the consequence of the extreme uncertainty caused not by any economic or political factor that could be affected, but by health conditions that are difficult to influence. This primarily refers to the consequences of the so called lock-in of the economy. The economic policy of a state should consider these uncertainties and risks, and try to reduce them in order to the make economic conditions for business as tolerable as possible. It must be taken into account that the shock of the pandemic affected both the aggregate supply side and the aggregate demand side, which makes it necessary for the economic policy to be complex and incorporate the measures affecting both sides (Praščević, 2021).

Special attention should be devoted to helping the population to overcome the consequences of the crisis, in particular the most endangered segments of population existing in large numbers in the Western Balkan countries. All these aid packages for economy and population demand large funds unavailable to all countries, and therefore we can expect higher indebtedness in these countries, with long term economic consequences present in the years following the end of the pandemic.

The increased level of globalisation and national economies interdependence has led to the fact that nowadays, apart from perhaps a few exceptions, there are no closed economies independent from the events in the financial market. These conditions make it more difficult to lead an independent economic policy, and the economic policies of large countries (such as the USA or the EU) make great impact on a number of countries. It is sufficient to have a look at Fed and ECB impact on financial markets around the world, as well as on the national economies. In these situations small countries often adopt 'forced' economic policy measures in order to adapt to the 'actions' of large countries (Fabris, 2021).

Global economic scene is in the shadow of covid-19 pandemic because the economic activity has not been developing in a normal manner since the beginning of the pandemic. Covid-19 crisis has had huge consequences in terms of social crisis and inequality increase. Covid-19 pandemic also has a prominent social dimension: it affects small countries far more than the large ones, the poor rather than the rich. In the pandemic crisis, the resources are more susceptible to redistribution made by governments, without enough responsibility and expertly founded measures. The crisis will cause economic problems through the change of the environment assumptions for free business, association and cooperation. The research on pandemic crisis requires not only common economic methods, but an interdisciplinary and unconventional approach that would address several different aspects of structural and factor impacts.

According to most of historical experiences, a crisis is also understood as a chance for development, mainly from the point of the structural changes representing the law according to which reality changes evolutionally, conditioned primarily by technological progress. On the other hand, structural changes appear as both forced and fast process caused by crisis. A crisis is always a challenge for development on a different technology, employment and production structure.

The entire world economy fell into deep recession due to covid-19 pandemic. Although a falling tendency of the economic activity was registered even before the pandemic outbreak, the pandemic only intensified this tendency. In parallel with the declining world demand and restrictions in people and goods movements, there was a reduction in world trade. Small open economies, including the Western Balkan countries, are faced with the protectionism challenges in the international trade and its consequences for their export. An increased level of foreign debt carries additionally more or less risk, depending on the degree of the country's indebtedness. It is the risk of foreign capital sudden escape due to the external shocks generating the crisis (Kovačević, 2021).

In developing countries, fiscal expansion leads to foreign debt increase through budget deficit growth in response to the pandemic, especially in the countries with shallow domestic capital market. Foreign debt increase could deteriorate balance of payment characteristics and generate problems in the future. Therefore, it is important for the Western Balkan countries to control budget deficit growth, as well as proportional growth of its external component. The ratio of current account balance and foreign exchange reserves, as well as their interdependence in movements affect other macroeconomic indicators, primarily economic growth. It is important for all the countries with a long-term current account budget deficit to assess the sustainable level of foreign debt in order to finance this debt.

Manufacturing and employment volume, ie, overall economic growth, as well as trade and capital flows are significantly reduced in the world economy. However, in comparison with the developed countries, this impact was more strongly experienced by the developing countries, mostly because they accumulated significant financial vulnerability embodied in large debts during the period before the pandemic outbreak. Although G20 made some effort to liberate the most vulnerable developing countries from the pressure of overdue debts, this relaxation only applied to a small share of debt arising from bilateral creditors. Moreover, the IMF stipulated most of the newly approved loans for the developing countries by the application of austerity measures at the time when a strong fiscal response to the emerging problems was necessary (Radonjić, Zec, 2021).

The achieved level of open economy in these countries, as well as their relations in the international financial and capital market, imposed the issue of the pandemic consequences for the economy. The relations between chronic trade deficit and current account deficit with the sources of funding indicated the susceptibility of these economies to the external shocks. Directing FDI into the export sectors would facilitate the process of structural adjustments in the economies of these countries.

The characteristic of the global financial crisis of 2008 was that it was not concentrated on individual regions, but more or less covered all the developing countries, as well as the poorest countries in the world. This wave of crisis took off in in the situation of financial market deregulations and financial innovation profiling. In these circumstances, along with large pumping of liquidity into financial sector in the developed countries and globally low interest rates, speculators became active in order to exploit interest differentials (carry trade). The markets in the developing countries were attractive in these situations because they became the source of large profit, even in the circumstances of low yield rates. This was the way to activate the current flow of borrowing that led to the unprecedented growth in overall debt, both public and private. On the other hand, it significantly increased the likelihood of occurrence and the potential strength of the financial crisis impact in the time to come (Kose et al. 2020).

We can also observe a shift towards risky financing sources increasing vulnerability of the developing countries in relation to sudden changes in investor sentiments or the transition to restrictive monetary policy of the developed countries. In fact, financial institutions of an extremely risky profile are an important source of debt financing in the developing countries. Most loans come from the capital market and regional banks, while global banks are in withdrawal. Unregulated and highly risky non-banking financial institutions are particularly active in capital markets, they fall into the category of shadow banking, such as hedge funds, institutional investors in money markets, etc. They provide loans for risky lenders who, in principle, have no access to traditional bank loans.

Vulnerability of the developing countries also increases the growing share of the short-term in the overall debt, particularly after 2009, which is worrying especially for the economies where foreign exchange reserves did not grow due to exports, but on the basis of borrowing. Public and private sector debt financing has moved significantly towards riskier types, from the source, method of financing and maturity of debts. The fact that most of the accumulated debt is not used for real investment financing, but is focused on high-risk and unproductive speculative activities and current consumption is of particular concern. Therefore, it is highly unlikely that most of the developing countries will be in a situation to settle the debts and provide necessary fiscal measures to support production and economic growth.

Stagnant economic growth, along with business pessimism and explosion in financial market, especially its speculative part, have further deepened the inequality in income and wealth distribution within the countries, as well as between the countries. The growth of speculative flows leads to the displacement of real and productive investments and their direction towards speculative and low-productivity sectors, such as real estate and personal services, so called "gig" economies.

Conclusion

In the transition period, the Western Balkan countries based their economic growth on the service growth, instead of the industry growth and other production sectors growth. The privatisation process of public and state property into private property was not followed by the appropriate institutional solutions, and the growth achieved in such a manner is the result of foreign capital inflow and borrowing rather than the economic reforms and sustainable growth, based primarily on the domestic investment into manufacturing sectors. The transition process in these countries could be reduced to the public (state) capital privatisation, deindustrialisation and unfavourable FDI sector structure. Fairly high FDI in some of the countries created false image of possible economic growth and development dominantly in service sector, that external and internal deficit could always be covered by foreign capital, as well as that current consumption growth could be possible regardless of low productivity.

On the other hand, the processes of healthy institutions' creation were neglected, there was widespread grey economy, domestic investments were low, and it was accompanied by the "brain drain" abroad. Therefore, there is a priority task for the economic policy of these countries: to create a healthy economic environment, encouraging the economic growth because the results achieved are far below the countries of Central and Eastern Europe, as well as the EU members, so it will take a number of years to achieve this goal. The consequences of the pandemic, which affected the developing countries far more than the developed countries in the world, will also have a great impact on the course of approaching the developed countries.

References

Aghion, P., Diego, C., Howit, P., (2006), „When Does Domestic Saving matter for Economic Growth?", Working Paper 12275 NBER

Aizenman, J., Nancy, M., (1993) Policy Uncertainty, Persistence and Growth, Review of International Economics 1:145-63.

Aizenman, J., P., B., Pinto, Radziwill, A., (2007) „Sources for Financing Domestic Capital – Is foreign Saving a Viable Option for Development Countries", Journal of International Money and Finance 26, pp. 682-702

Asemoglu D., Robinson Dž. A (2014). Zašto narodi propadaju – Poreklo moći, prosperiteta isiromaštva, Clio, Beograd

Auerbach, A., Gorodnichenko, Y., (2012) Measuring the Output Responses to Fiscal Policy, American Econ. J.: Econ, Policy 4 (2): 1-27.

Barlett(2008) Europs Troubled Region, Economic Development, Institutional Reform and social Welfar in the Westwern Balkans, Routlage

Barro, R.J., (2015) Convergence and modernization, The Economic Journal, 125 (585), 911-942

Besley, T., (1995) „Property Rights and Investment Incentives: Theory and Evidence from Ghana", Journal of Political Economy, Vol. 10, No 5.

Gechert, S., (2015) What fiscal policy is most effective? A meta-regresion analysis, Oxford Economics Papers (1): 1-28.

Delibašić, M., Grgurević, N., (2014) Institucionalni pluralizam i ekonomski razvoj, Ekonomske ideje i praksa, br. 12

Djukić, P., (2021) Ekonomsko-politički i razvojni izazovi kovid krize, Ekonomska politika u Srbiji i svetu u 2021. – u susret globalnim šokovima i rastućoj neizvesnosti, NDES i Ekonomski fakultet Beograd, str. 13-27

Ilzetzcki, E., et al. (2013) How big (small?) are fiscal multipliers? Journal of Monetary Economics 60 (2), 239-254.

Fabris, N., (2021) Esej o izazovima ekonomske teorije u promenjenom globalnom ambijentu, Zbornik adova: stanje i perspective ekonomske misli – uticaj ekonomskih recesija u prvim decenijama XXI veka, NDES i Ekonomski fakultet Beograd, str. 61-77.

Feldstein, M., Harioka, C., (1980), „Domestic Saving and International Capital Flows", the Economic journal 90(358), pp. 314-329.

Filipović, M., Nikolić, M., (2017) Razvojna politika Srbije u 2017: predlozi za promenu postojeće politike podsticaja, Ekonomska politika Srbije u 2017. godini, NDES sa Akademijom ekonomskih nauka I Ekonomski fakultet Beograd, str. 157-176.

Kolotay, K., (2010). Patterns of inward FDI in economies in transition, Eastern Journal of European Studies, 1 (2)

Lim, J. J., (2014), „ International and Structural Determinants of Investment Worldwide", Journal of Macroeconomics, vol. 41(C), p 160-167.

Levine, R., Renelt, D., (1992), „ A SensitivityAnalysis of Cross-Country Growth Regressions," American Economic review, American Economic Association, vol. 82(4) p. 942-963, September.

Kovačević, R., (2021) Posledic epandemije Covid-19 na svetsku trgovinu i eksterna pozicija Srbije, Ekonomska politika u Srbiji I svetu u 2021. – u susret globalnim šokovima i rastućoj neizvesnosti, NDES i Ekonomski fakultet Beograd, str. 27 – 39

Kose, M. A., Nagle, P., Ohnsorge, F., Sugawara, N., (2020) Global Waves of Debt: Causes and Consequences, World Bank Group

Madžar, Lj., (1977) prelazak u novi privredni sistem: društveni rizici i strateške dileme, Financing, br. 7-8.

Murgasova, Z., Ilahi, N., Miniane, J., Scott, A., &Vladkova-Hollar, I. (2015). The Western Balkans: 15 years of economic transition. Washington DC: International Monetarz Fund.

Milenković, D., Vujović, T., (2020) Privredni razvoj i institucionalna tranzicija zemalja Zapadnog Balkana, Časopis Ekonomskog fakulteta Brčko, Vol. 14, Sveska 1, str. 35-44

Petrović, P., Arsić, M., Nojković, A., (2018) Is Increase in Government Investment Effective Policy in Bad Times: Evidence from Emerging EU Economies, Working Paper, August 2018.

Praščević, A., (2021) Uticaj ekonomskih recesija na razvoj savremene makroekonomije, Zbornik radova: stanje i perspective ekonomske misli – uticaj ekonomskih recesija u prvim decenijama XXI veka, NDES i Ekonomski fakultet Beograd, str. 3-39

Radonjić, O., Zec, M., (2021) Finansijska kriza na vratima: pandemija korona virusa i rast u globalnim divergencijama, Ekonomska politika u Srbiji i svetu u 2021. – u susret globalnim šokovima i rastućoj neizvesnosti, NDES i Ekonomski fakultet Beograd, str. 39 - 59

Ranđelović, S., Gligorić M., Tanasković S. (2019). Tri stuba ekonomske održivosti privrede Srbije, u zborniku radova Institucionalne promene kao determinant privrednog razvoja, Ekonomski fakultet Univerziteta u Kragujevcu

Rodric, D. (2013). Unconditional convergence in manufactoring, The Quarterly Jurnal of Economics, 128 (1), 165-204