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ATTRIBUTES TO CORPORATE GOVERNANCE AND ENTERPRISE RESTRUCTURING IN THE MACEDONIAN ECONOMY

Mico Apostolov[1]*

Abstract

Corporate governance is most often defined in terms of the roles, responsibilities, and interactions of top management and the board of directors. Using information on Macedonia, obtained through various sources, this study is an attempt on determining some of the factors that influence the development of governance and enterprise restructuring in this economy.

This study is founded on governance-conduct-performance paradigm in strategic management. We will examine the possibilities that lead to the fallowing outcomes: A) The degree to which governance and enterprise restructuring is positively related to foreign direct investments, exports and value added (industry and services) in Macedonian economy; B) The degree to which governance and enterprise restructuring is related to: listed domestic companies, market capitalization of listed companies and stocks traded, and presumably that relation is somewhat ambiguous, nonetheless important.

Keywords: *corporate governance, enterprise restructuring, transition, SEE, Macedonia.*

JEL Classifications: G30; G3; G34; G38; L33; O11; P31.

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*) e-mail:
mico.apostolov@sssup.it
mico_apostolov@haas.berkeley.edu

Introduction

Corporate governance is most often defined 'in terms of the roles, responsibilities, and interactions of top management and the board of directors' (Thomas L. Wheelen & Hunger, 2008). Using information on Macedonia, obtained through various sources, this study is an attempt on determining some of the factors that influence the development of governance and enterprise restructuring in this transition economy.

In transition economies the processes of transformation are grave, much turbulent and thus our analysis will observe some of the factors that influence the development of governance and enterprise restructuring in Macedonia. Consecutively, we will be interested to see weather corporate governance and enterprise restructuring, as defined by European Bank of Reconstruction and Development (EBRD) through the indicator 'governance and enterprise restructuring' (EBRD, 1994-2009), has certain relations to some of the country's performances and what these supposed relationships are in particular.

This project is founded on governance-conduct-performance paradigm in strategic management (Hitt, Hoskisson, Johnson, & Moesel, 1996; Hitt, Keats, & DeMarie, 1998; Iii & Waring, 1999). It examines the possibilities that lead to the fallowing outcomes:

I. *The degree to which governance and enterprise restructuring is positively related to foreign direct investments;*

II. *The degree to which governance and enterprise restructuring is positively related to exports ;*

III. *The degree to which governance and enterprise restructuring is ambiguously related to: listed domestic companies, market capitalization of listed companies and stocks traded;*

IV. *The degree to which governance and enterprise restructuring is positively related to value added (industry and services).*

Theoretical and literature framework

As countries undergo serious system transformations the managers are faced with complex decision-making environment (Sanders & Mason, 1998), and thus it is closely regarded that the performance of large enterprises should be linked to managerial flexibility in making strategic decisions within the context of the firm's governance. Furthermore, there aren't many sources that can point towards emerging corporate governance mechanisms in South-East Europe, although prior research suggests that independent managers and board of directors (corporate governance) may be an important necessity for managerial ability to undertake performance-enhancing strategies (Hoskisson, Eden, Lau, & Wright, 2000).

Before restructuring, the revenues were generated by monopolistic structure through a handful of specialized state-owned companies. As the reforms progressed towards free market economy in environment with sluggish internal demand, adopting better strategies may be closely linked to better financial performance of the firm (Luo & Peng, 1999). Moreover, we can see that previous research has linked strategies with performance (Hoskisson et al., 2000; Makhija, 2004), governance directly with performance (Djankov & Murrell, 2002; Peng, 2004), and consequently in this research we will make an essay to implement the governance-strategy-performance paradigm (Hitt et al., 1996; Iii & Waring, 1999).

The introduced economic reforms in Southeast Europe (and also Macedonia) aimed at increasing enterprise efficiency and making the products internationally competitive, therefore reforms were tied to structural crisis (Uhlenbruck, Meyer, & Hitt, 2003). The pre-reform environment was characterized by import protection and export promotion through monopolistic, state-owned foreign trade companies, which in many terms crip-

pled the enterprises to meet overseas threats and as a result made the internationalization of their work very difficult.

As liberalization of the market forces and privatization progressed, they were meant to eliminate the constraints imposed on managers by state ownership and command economy system (Hoskisson et al., 2000; Makhija, 2004). In the case of the Southeast Europe, companies were privatized using range of methods (Djankov & Murrell, 2002). Thus, the privatization process resulted with diverse range of ownership structures and corporate governance mechanisms (Newman, 2000). Through recent research has been found that performance and internationalization strategies depend and can be enhanced by bigger managerial independence, however it is clear that the second depends of firm's corporate governance, and in particular of the ownership structure and board composition (Hoskisson et al., 2000; Uhlenbruck et al., 2003).

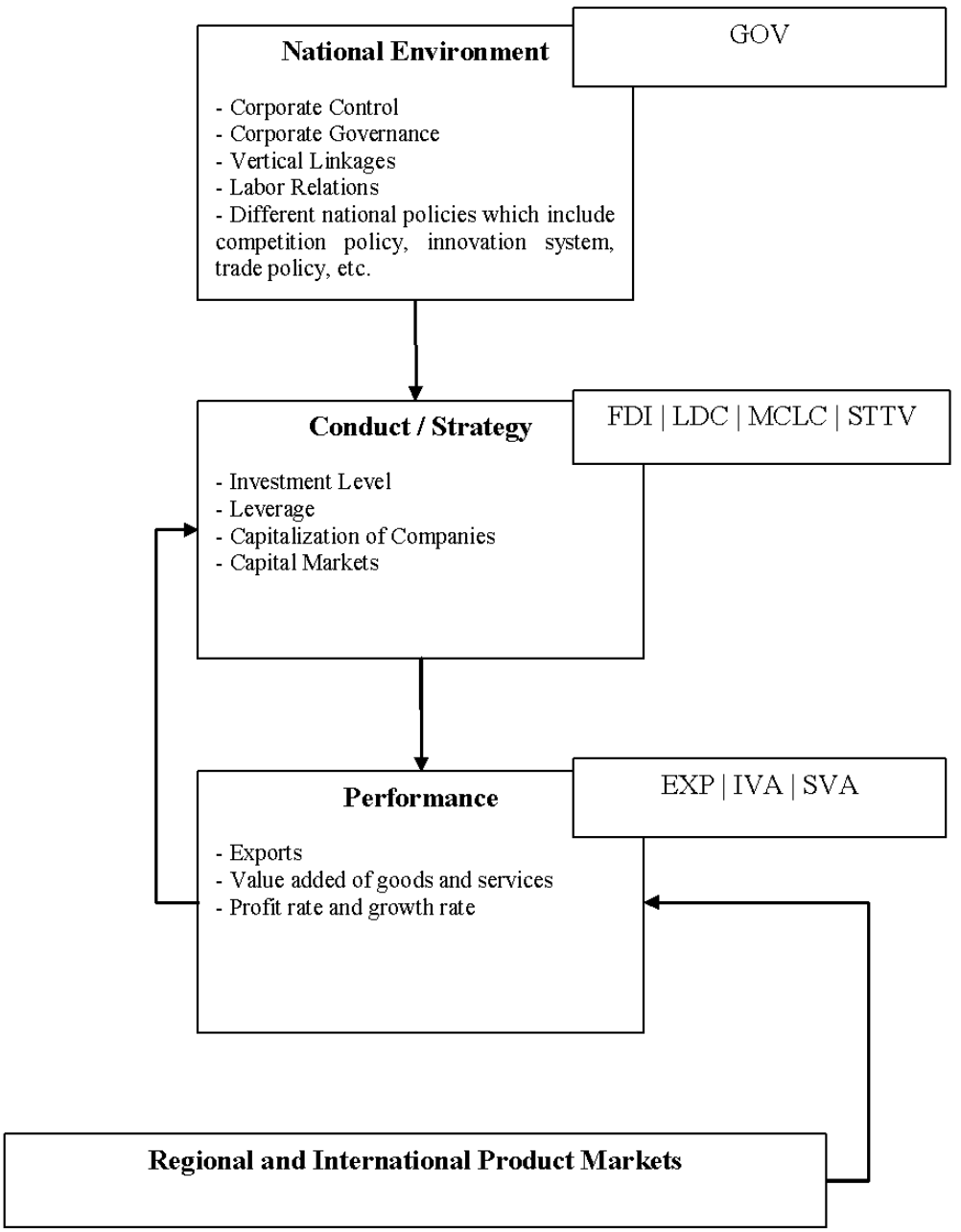
The corporate governance affects enterprises restructuring and financial performance (Hoskisson et al., 2000; Peng, 2004). Indeed, when firms from transition economies are involved in international activities, they are likely to develop their capabilities (Sanders & Mason, 1998), which implies a positive relationship between governance exports and financial performance (Luo & Peng, 1999).

As a consequence of the peculiar characteristics of the capital market in Macedonia i.e. lack of developed capital markets, limited portfolio diversification and liquidity, it is often stated that large shareholders could wish to utilize potential upside of a particular business strategy, but they are frequently restrained and affected adversely by the company's idiosyncratic risk[1] (Maug, 1998). Due to this phenomenon they chose to impose sub-optimal strategies on managers. Moreover, large shareholders in transition countries where the protection of minority investors is low, most often endeavor to take advantage of their power and grasp "private benefits of control". This 'expropriation' can be found in a range of forms, such as 'related party transactions, use of transfer pricing, assets stripping and other forms of "tunneling" of revenue and assets from firms' (La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 2000; Porta, Lopez-De-Silanes, Shleifer, & Vishny, 1997). Therefore, in such economies high ownership concentration was investors' response to low levels of protection of minority shareholders in emerging markets (Shleifer & Vishny, 1997).

Even though we analyze and focus specifically on Macedonia, variations in governance regimes indicate sufficient international analyses of the links between governance and enterprise restructuring and other parameters of the national economy (La Porta et al., 2000; La Porta, Lopez▪de▪Silanes, Shleifer, & Vishny, 1998; Porta, Lopez-De-Silanes, & Shleifer, 1999; Porta et al., 1997; Shleifer & Vishny, 1997).

1) Another term for unsystematic risk. The variability in the returns of an investment as a result of factors specific to that investment only.

Figure 1 *Governance-Conduct-Performance paradigm*



Analytical Framework

1. Sample selection and Data

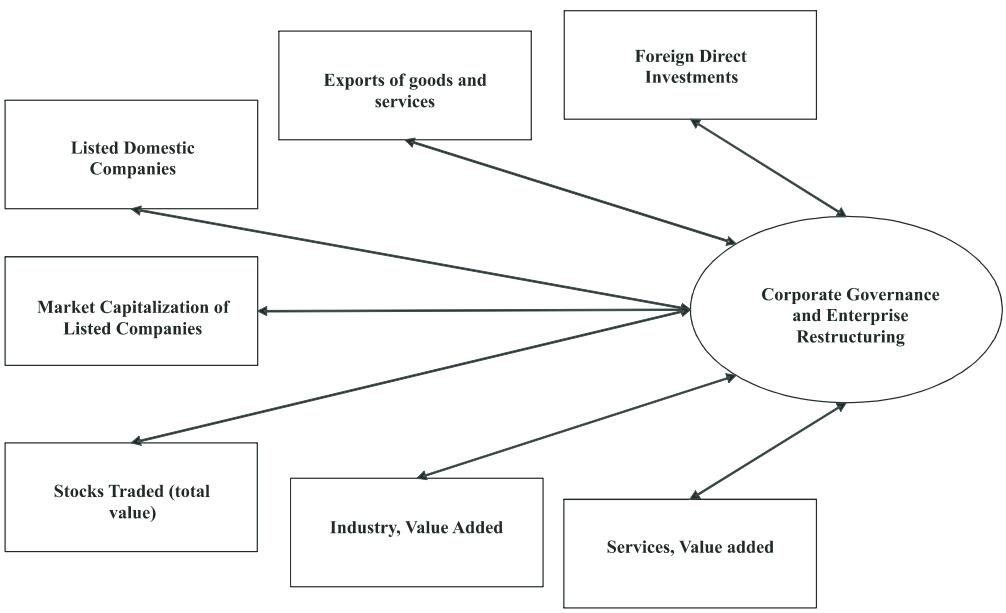
This study is based on sources provided by the data bases of the European Bank for Reconstruction and Development (EBRD) (EBRD, 1994-2009), the World Bank Database,[2] the National Bank of the Republic of Macedonia[3] and the Macedonian Stock Exchange,[4] for the period of 1996-2008.

Further, the World Bank Database is comprised of many sources gathered from: Standard & Poor's and supplemental S&P data, World Bank national accounts data, International Monetary Fund, International Financial Statistics and Balance of Payments databases, Global Development Finance, Emerging Stock Markets Factbook, OECD GDP estimates, OECD National Accounts data files.

The data sample of the European Bank for Reconstruction and Development (EBRD) i.e. Transition Report publication series used in this research are taken from their index structure 'economic statistics and forecasts' (EBRD, 1994-2009). The scale used in shaping the transition indicators ranges from 1 to 4+, 'where 1 represents little or no change from a rigid centrally planned economy and 4+ represents the standards of an industrialized market economy'(EBRD, 1994-2009).

The data taken from the Macedonian Stock Exchanges and the National Bank of the Republic of Macedonia is relatively good and viable for research, as the institutional requirements are close to those in developed countries, as the European integration processes and the implementation of European Directives keep the standards constantly up to date.

Figure 2 *Analytical Framework*



2) World Bank Database, Available at: http://data.worldbank.org/
3) National Bank of the Republic of Macedonia: http://www.nbrm.gov.mk/
4) Macedonian Stock Exchange: http://www.mse.org.mk/

2. Model and Econometrics

The econometric model that is used in this study is a regression model where we have estimated the fallowing equation (Freedman, 2005; Gelman, 1996; Gilks, Richardson, & Spiegelhalter, 1996):

$$\gamma i = \beta_o + \beta_1 x_{1i} + ... + \beta_p x_{pi} + \varepsilon_i \quad \textbf{(1)}$$

$$i = 1,...n \quad \textbf{(2)}$$

Thus, applied to our research this model has the fallowing shape:

$$GOV_{i,t} = \beta_o + \beta_1 FDI_{i,t} + \beta_2 EXP_{i,t} + \beta_3 LDC_{i,t} + \beta_4 MCLC_{i,t} + \beta_5 STTV_{i,t} + \beta_6 IVA_{i,t} + \beta_7 SVA_{i,t} + \varepsilon_{i,t}$$

- where ***the dependent variable***, $GOV_{i,t}$, shows governance and enterprise restructuring;

- the ***independent variables***, are as follows:
  1. $FDI_{i,t}$ foreign direct investments;
  2. $EXP_{i,t}$ exports of goods and services
  3. $LDC_{i,t}$ listed domestic companies, total
  4. $MCLC_{i,t}$ market capitalization of listed companies
  5. $STTV_{i,t}$ stocks traded, total value
  6. $IVA_{i,t}$ industry, value added
  7. $SVA_{i,t}$ services, value added

- β is a p-dimensional ***parameter vector***;
- ε is the ***error term*** or *noise*.

Figure 3 *Definition of variables*

Definition of variables *dependent variable*	
0. GOV - Governance and Enterprise restructuring	*Governance and Enterprise restructuring* Effective corporate governance and corporate control exercised through domestic financial institutions and markets, fostering market-driven restructuring. The corporate governance is most often defined in terms of the roles, responsibilities, and interactions of top management and the board of directors. *Source: EBRD*

independent variables	
1. FDI - Foreign direct investment, net inflows (BoP, current US$)	*FDI are Foreign direct investment, net inflows (BoP, current US$)* Foreign direct investment are the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments. This series shows net inflows (new investment inflows less disinvestment) in the reporting economy from foreign investors. Data are in current U.S. dollars. *Source: International Monetary Fund, International Financial Statistics and Balance of Payments databases, and World Bank, Global Development Finance.*
2. EXP - Exports of goods and services (% of GDP)	*Exports of goods and services represent the value of all goods and other market services provided to the rest of the world.* They include the value of merchandise, freight, insurance, transport, travel, royalties, license fees, and other services, such as communication, construction, financial, information, business, personal, and government services. They exclude compensation of employees and investment income (formerly called factor services) and transfer payments. *Source: World Bank national accounts data, and OECD National Accounts data files.*
3. LDC - Listed domestic companies, total	*Listed domestic companies, total* Listed domestic companies are the domestically incorporated companies listed on the country's stock exchanges at the end of the year. This indicator does not include investment companies, mutual funds, or other collective investment vehicles. *Source: Standard & Poor's, Emerging Stock Markets Factbook and supplemental S&P data.*
independent variables	
4. MCLC - Market capitalization of listed companies (% of GDP)	*Market capitalization (also known as market value) is the share price times the number of shares outstanding.* Listed domestic companies are the domestically incorporated companies listed on the country's stock exchanges at the end of the year. Listed companies does not include investment companies, mutual funds, or other collective investment vehicles. *Source: Standard & Poor's, Emerging Stock Markets Factbook and supplemental S&P data, and World Bank and OECD GDP estimates.*
5. STTV - Stocks traded, total value (% of GDP)	*Stocks traded refers to the total value of shares traded during the period.* This indicator complements the market capitalization ratio by showing whether market size is matched by trading. *Source: Standard & Poor's, Emerging Stock Markets Factbook and supplemental S&P data, and World Bank and OECD GDP estimates.*

6. IVA – Industry, value added (% of GDP)	*Industry corresponds to ISIC divisions 10-45 and includes manufacturing (ISIC divisions 15-37).* It comprises value added in mining, manufacturing (also reported as a separate subgroup), construction, electricity, water, and gas. Value added is the net output of a sector after adding up all outputs and subtracting intermediate inputs. It is calculated without making deductions for depreciation of fabricated assets or depletion and degradation of natural resources. The origin of value added is determined by the International Standard Industrial Classification (ISIC), revision 3. *Source: World Bank national accounts data, and OECD National Accounts data files.*
7. SVA - Services, etc., value added (% of GDP)	*Services correspond to ISIC divisions 50-99 and they include value added in wholesale and retail trade (including hotels and restaurants), transport, and government, financial, professional, and personal services such as education, health care, and real estate services.* Also included are imputed bank service charges, import duties, and any statistical discrepancies noted by national compilers as well as discrepancies arising from rescaling. Value added is the net output of a sector after adding up all outputs and subtracting intermediate inputs. It is calculated without making deductions for depreciation of fabricated assets or depletion and degradation of natural resources. The industrial origin of value added is determined by the International Standard Industrial Classification (ISIC), revision 3. *Source: World Bank national accounts data, and OECD National Accounts data files.*

Results and Effects

The study adopts variables that are compatible to governance-conduct-performance paradigm in strategic management (Hitt et al., 1996; Hitt et al., 1998; Iii & Waring, 1999), and using OLS regression gives answers to the posed hypotheses:

1. The degree to which governance and enterprise restructuring is positively related to foreign direct investments

The results of the OLS regression, depending on the model, show different significance ($p < 0.01$, $p < 0.05$ and $p < 0.1$). This points out that there is evidence that governance and enterprise restructuring is positively related to foreign direct investments (FDI).

The ownership structure of the companies that produce most of Macedonia's domestic product is moving towards dominant participation of foreign direct investments, hence members of board that are foreigners, which is important impact on the way corporate governance is conducted and its future prospects (IFC, 2008).

2. The degree to which governance and enterprise restructuring is positively related to exports

Exports (EXP) are very important component of country's economy, as they represent the value of outputs that are compatible on international markets, thus exports stand for the core value of the economy. The models in this study show significance of $p < 0.05$ and $p < 0.1$, which can be taken as evidence in support to this hypothesis.

This variable shows good and stabile results in different models always giving results that go in favor of the posed hypothesis. Hence, it is evident that governance and enterprise restructuring is positively related to exports, which is at length explained in the literature through many case studies and empirical examinations (Aulakh, Kotabe, & Teegen, 2000; Bernard & Bradford Jensen, 1999; Clerides, Lach, & Tybout, 1998).

Figure 4 *OLS on Macedonia*

Figure 1 OLS on Macedonia

OLS	*Dependent Variable* Governance and enterprise restructuring										
	Macedonia										
Independent Variable	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	[11]
FDI	0.0004198	0.0003968	0.0006149	0.0006066							
	[0.0003011]*	[0.0002 313] *	[0.000185] ***	[0.0002 495] **							
EXP	0.0128715	0.0138421	0.0120253	0.0026239	0.0221788	0.0187067					
	[0.0096059]*	[0.0065 788] *	[0.0061 497] *	[0.001181]*	[0.0072 646] **	[0.0066181] **					
LDC	0.0023395	0.0021274	0.0028694			0.0021813	0.0033271	0.0030523	0.0030526		
	[0.0015107]*	[0.0010 159] *	[0.000819] ***			[0.0011 321] *	[0.001 6764] *	[0.002217 2]	[0.001451 9]*		
MCLC	-0.0019121						-0.0003502	0.0070824		0.0030523	
	[0.0085776]						[0.009578 3]	[0.011526 5]		[0.008375 7]*	
STTV	0.0102849						0.0442949	0.0631784		0.0080859	
	[0.047734]						[0.049270 3]	[0.059898 4]		[0.0465195]	
IVA	0.0452572	0.0458168		0.0875782	0.0725762	0.1047018	0.1716308		0.2256834		0.2110 666
	[0.0714842]*	[0.060383 6]		[0.0681573]	[0.0602511]	[0.0553 845] *	[0.0583034] **		[0.046851] ***		[0.0536 74] ***
SVA	0.0792699	0.0781704		0.1057383	0.1426811	0.148559	0.2023326		0.2560758		0.277 355
	[0.0753913]*	[0.063892 4]		[0.074738]	[0.0621 923] **	[0.0546022] **	[0.065463] **		[0.052214] ***		[0.0593 40] ***
Constant	-4.288757	-4.270065	1.544574	-6.609103	-8.906548	-10. 17887	-14. 61289	2.041323	-19. 24564	2.15636	-19. 86619
	[6.265517]	[5.31911 5]	[0.235429] ***	[6.216735]	[5.09977]	[4.518894] *	[5.330305] **	[0.110471] ***	[4.242581] ***	[0.075419] ***	[4.9029 35] ***
Observations	104	78	52	65	52	91	78	52	52	39	39
R-squared	0.9276	0.9268	0.8947	0.8805	0.8478	0.896	0.8445	0.6274	0.7922	0.549	0.6902
Adj R-sqrd	0.8262	0.8745	0.8596	0.8208	0.7971	0.8441	0.7334	0.5032	0.723	0.4588	0.6282
Time period	1996- 2008										
Standard errors are in parentheses.											
Significance Level:	*** p < 0.01	** p < 0.05	* p < 0.1								

3. The degree to which governance and enterprise restructuring is ambiguously related to: listed domestic companies, market capitalization of listed companies and stocks traded

The relation of governance and enterprise restructuring to the variables representing listed domestic companies, market capitalization of listed companies and stocks traded was tested and gave rather mixed results.

The variable showing listed domestic companies (LDC) in almost all models showed significance ($p < 0.01$ or $p < 0.1$). Hence, it could be claimed that the increase and presence of domestic companies that are capable to fulfill the criteria to be listed on the Macedonian Stock Exchange is important attribute to governance and enterprise restructuring.

As for the other two variables, market capitalization of listed companies (MCLC) and stocks traded (STTV) there aren't significant outcomes.

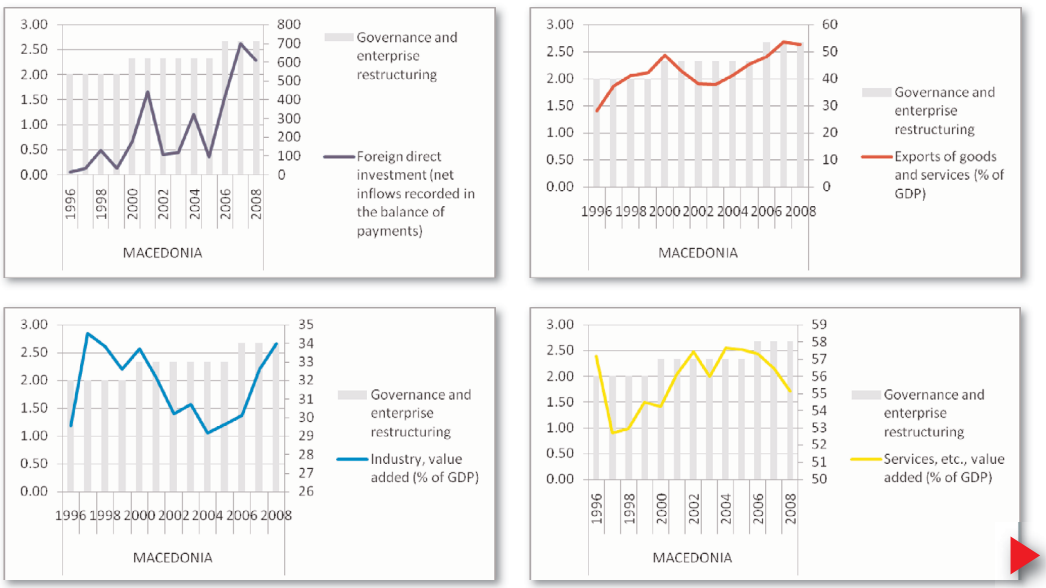
4. The degree to which governance and enterprise restructuring is positively related to value added (industry and services)

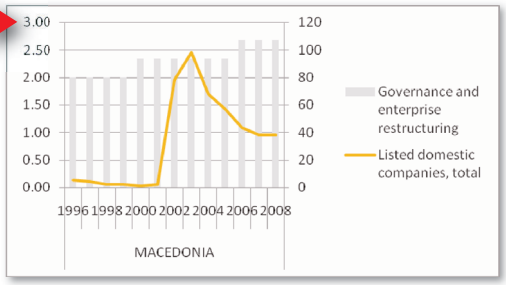
The variables explaining value added in industry (IVA) and value added in services (SVA) were tested for a relationship with governance and enterprise restructuring.

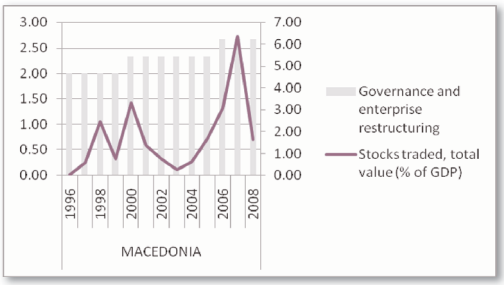
Further, the results on value added in industry (IVA) in most of the OLS regression models comport with decent significance ($p < 0.01$ or $p < 0.5$). Thus, this demonstrates a relation of value added in industry to overall governance and enterprise restructuring.

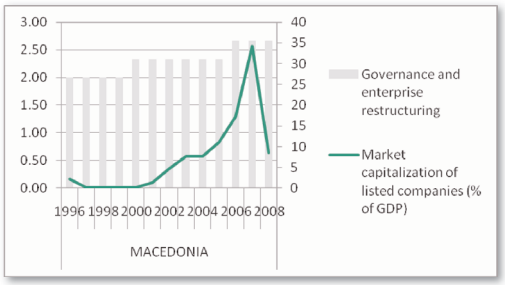
As far as the variable explaining value added in services (SVA) is concerned, the outcomes and conduct is almost the same as IVA, even though the curve it gives is quite different from that of value added in industry.

Figure 5 *Variables' movements in governance and enterprise restructuring*









Discussion

The purpose of this analysis was to test four hypotheses, that is, the extent to which governance and enterprise restructuring is positively related to foreign direct investments, exports and value added (industry and services), as well as, the extent to which governance and enterprise restructuring is related to listed domestic companies, market capitalization of listed companies and stocks traded. Further, as a conceptual framework the study used governance-conduct-performance paradigm in strategic management.

Hence, the findings of the regression analysis point out that there is evidence to tie positive developments in governance and enterprise restructuring to foreign direct investments, exports and listed domestic companies. On the other hand, there is inconclusive evidence on market capitalization of listed companies and stocks traded to the extent of their impact on corporate governance and enterprise restructuring. Finally, there are significant results on value added in industry and services.

This paper is a contribution to the research developing the business aspects of Macedonian economy, as there is constant lack of scientific papers that deal with the specific issues of corporate governance and enterprise restructuring.

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FISCAL REFORM AND TRADE LIBERALIZATION PROCESS

Elida Liko
University of Tirana, Faculty of Economics
elida.liko@unitir.edu.al

Tonin Kola
University of Tirana, Faculty of Economics
tonin.kola@unitir.edu.al

Abstract

The main objective of this paper is analyzing the impact of trade liberalization on fiscal balance in Albania. A strategy that is broadly used in literature is combination of reduction in custom tariffs as a consequence of trade liberalization with an increase of consumption taxes, basically the increase of VAT and the increase in excise rate of imports. The main findings are that reduction of custom taxes in not being reflected in total fiscal income. This means that tax reform in Albania has been successful in having sound fiscal incomes during the trade liberalization process. An important contribution related to this performance has been played by VAT reform, and changes of excise duties.

Keywords: *Fiscal reform, trade liberalization, transition*

Introduction

The focus of this work will be the impact of trade liberalization on fiscal balance in Albania. The general trend of the EU trade policy toward developing countries has been increase of trade liberalization and simplification of trade regime; see Auboin and Laird (1998), Woolcock (2007). For the EU applicant countries, opening of economy toward foreign trade have brought about many domestic policy adjustments. Trade liberalization is generally accompanied by fiscal adjustment to maintain fiscal consolidation. This adjustment is important and needs to be studied as it is related to political decision, with implication not only with regards to short term macroeconomic stability but also for longer period of time.

The trade policy followed by Albania during transition process has been that of trade liberalization.[1] Albania has signed bilateral trade agreements with eight countries, Macedonia, Croatia, Bosnia and Herzegovina,

1) 16 September 1999 the council of minister resolution on export–import regime liberalized foreign trade and created facilitation

Serbia and Monte Negro, Rumania, Bulgaria, Kosovo, und Moldavia. All these agreements have become effective during the period 2002 - 2004. Besides these bilateral trade agreements, Albania has also signed other important agreements, such as that of March 2000 with European Council in Lisbon, saying that Stabilization and Association with west Balkan countries should be oriented towards asymmetric trade liberalization. The European Union signed in July a memorandum on liberalization and stabilization of trade with eight countries, including Albania. With regards to bilateral level, stabilization and association agreement with Albania started in February 2006. Albania has become a WTO member from 2000 and has liberalized customs regime in accordance with WTO disposal.

The goal of this study is to analyze fiscal reforms undertaken by governments, in different stages of trade liberalization. The investigation will try to find out whether these policies have been successful in maintenance of fiscal stability which on its part is necessary in definition of future course of fiscal policy.

Background

According to economic theory, the early effect of trade liberalization in trade balance will be the increase of trade volume, expecting increase both in volume of imports and exports. A strategy that is broadly used to combine reduction of custom tariffs, as a consequence of trade liberalization, is an increase of consumption taxation; basically increase of VAT and of excise rate for imported goods. Adjustment of both these taxes has been the center of fiscal reform in developing countries and has simplified them surpassing of substantial fiscal losses especially in short run in fiscal balance, see Emran and Stiglitz (2005), Bird and Rotman (2005), Aarnes (2004), Baunsgaard and Keen (2005), Tanzi and Zee (2000), Stosky and WoldeMariam (2004).

In their work, Tanzi and Zee (2000), besides the increase in consumption tax as part of fiscal reform, consider also the increase in income tax. Although use of this tax is limited, based on negative impact it has on investment and administration costs, this work will investigate for all possible strategies used by government to deal with fiscal losses caused by trade liberalization.

Imports are subject of VAT and excise taxes, and exports are generally excluded. Some authors such as Fitoussi (2005), argue that "[one possible hidden purpose for consumption tax could be the attempt to increase the competition. In reality, taxation of consumption between other things means taxation of imports and exclusion of export]". A similar conclusion was drawn by Cnossen (2005) on excises applied on imported goods, he argues that "[excise tax brings about a discrimination of imported goods because exports are excluded]. Other authors such as Avi–Yonah and Margalioth (2006) have found evidence that the use of VAT has been more efficient than import taxes, because it does not discriminate between domestic and imported goods.

This work trying to make a comparison among countries' VAT and excise structure will investigate for possible competitiveness incentives. Excise literature review puts VAT adjustment in the center of fiscal reform in developing countries and shows that this tax has been more efficient compared to import taxes. This study after making a complete analysis of fiscal package will focus more on the efficiency of fiscal adjustment in short run and will investigate if initial adjustment needs further adjustment in order to maintain fiscal stability.

Taxes of foreign trade and fiscal income

The following graph shows total fiscal income versus customs income from year 1997. In the beginning of year 1997 customs tax was accounting for about 45% of total fiscal income, in year 2000 it accounted for about 14% and, in year 2005 it was about 9.5%. The trend has been decreasing in time. Albania actually uses five levels of customs tariffs, as follows, 0%, 2%, 5%, 10% and 15%.

The period of time, when these agreements have been in power, is very important, because the higher effect in fiscal income is expected to be during the first year of customs reduction, where reduction is higher than the following years, where it is less. During 1999 - 2000 there has been exerted an intensive work by gov-

ernment to reduce fiscal evasion. During 2001 - 2005 the state administration returned normality and the possibility for fiscal evasion was significantly reduced.

As seen from the reported figures the total tax income has been increasing during whole period under survey. The total customs taxes and their share versus total tax revenue have been decreasing in time but without affecting total tax incomes. This means that tax reform in Albania has succeeded in ensuring sounds fiscal incomes during trade liberalization process.

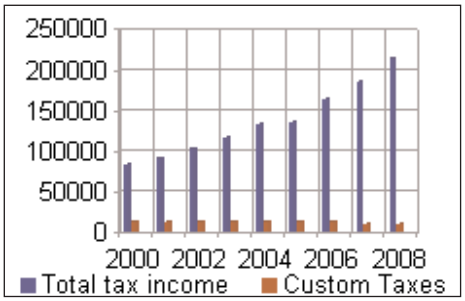


Table: *Customs reduction according bilateral agreements*

Year	2002	2003	1 January 2004	1 January 2005	1 January 2006	1 January 2007
Macedonia	22 March	90%	80%	70%	50%	0%
Croatia	27 September	80%	65%	50%	35%	20%
Bosnia and Herzegovina		23 April	60%	40%	20%	0%
Bulgaria		26 March	60%	40%	20%	0%
Serbia and Montenegro		13 November	60%	40%	20%	0%
Bulgaria		21 February	60%	40%	20%	0%

Source of data bilateral agreement

Albania Membership in WTO

Albania membership in WTO was approved on 17 July 2000. It became a member of WTO on 8 September 2000. Albania, in the framework of obligation from this membership, started since 2000 a process of reduction of customs tariffs, a process which went on with a continuous reduction year after year. The law number 8981 "On approval of customs tariffs" has been the basic law. This law has suffered amendments each year, reflecting changes in customs tariffs. These amendments are reflected in laws number 9159, 9330, 9462 for years 2003, 2004 and 2005 respectively.

EU and Albania

During 1992 was signed an agreement on trade cooperation between Albania and EU in the framework of Phare program. In year 1999 started the EU process of Association Stabilization with five South–East European countries, including Albania. The same year Albania gained trade preferences with EU. Year 2000 marked an increasing access of Albanian goods, without customs taxes with EU.

In the following table is calculated the RCA index which measures the comparative advantages of a country for specific commodity related to foreign trade partners.

$$RCA_i^j = \frac{(x_i^j - m_i^j)}{(x_i^j + m_i^j)}$$

RCA_i^j Measures the comparative advantage of a country in the production of a specific commodity i related to a given country j

x_i^j is the value of export of commodity i in the given county j

m_i^j is the value of imports of the commodity i in the given county j

Table: *RCA index with main trade partners*

Code	Commodity	Italy	Greece	Gernany	Turkey	Others
	Total	-	--	---	---	---
SITC 1	Food, beverages, tabocco	--	---	--	---	---
SITC 2	Minerals fuels, electric current	+	---	---	---	--
SITC 3	Chemicals, rubber products	---	---	---	---	---
SITC 4	Leather and leather manufacture	--	--	---	++	-
SITC 5	Wood and paper products	-	--	---	---	---
SITC 6	Textiles, clothing, footwear	+	+	+	---	---
SITC 7	Construction materials and metals	-	--	--	---	--
SITC 8	Machinery and transport equipment	---	---	---	---	---
	Others	--	--	---	---	---

RCA values between 0.7 and 1 (+++)
RCA values between 0.35 and 0.7 (++)
RCA values between 0 and 0.35 (+)
RCA values 0 (0)
RCA values between 0 and -0.35 (-)
RCA values between -0.35 and -0.7 (--)
RCA values between -0.7 and -1 (---)

The presence of Albania in EU markets is specialized in textiles and footwear. Of course there is a strong tendency to preserve and improve this situation in the future. Trade with neighbor countries, Albania has comparative advantage in group of products Leather and Leather manufactures. From the above reported data the foreign trade position of Albania is not very good. There is much to be done from our government in order to improve the foreign trade position of the country.

Customs incomes and VAT

One strategy for compensation of incomes reduced by customs tariffs is by increasing consumption tax, basically VAT. All imported goods in Albania are VAT subject. In developing countries reduction of customs tariffs with an increase in VAT taxation has been in center of the reform (M. Shahe Emran & Josef E. Stiglitz 2005). (Richard M. Bird & Joseph L. Rotman 2005) – If VAT could be administered in an adequate way, it offers the best way to substitute the losses due to trade liberalization). (Dag Aarnes 2004) – Reduction of imported tariff as part of trade liberalization is possible to cause losses in short term budget incomes. These losses could be eliminated through reduction of tariff exclusions in existing tax system, through excise rate for imported goods, or through consumption tax like VAT changes. (Vito Tanzi, Howell H. Zee 2000) – Reduction of customs tariff in developing countries, as a requirement of WTO membership, or bilateral agreement on free trade signed between countries could translate into important consequences in budget income in these countries. Reduction of tariff, if not accompanied with other trade barriers, generally brings about lower levels of effective protection. It also could bring important budget losses, at least in short term before the imported goods volume has sufficient time to be adapted. Other measures very often involve increase in consumption tax; rarely increase in income tax because of the negative impact in investment and administration. (Reuven Avi –Yonah, Yoram Margalioth 2006) – The tax reform in developing countries is substituting custom taxes with consumption taxes. The aim of this substitution is generally improvement of macroeconomic stability and introduction of the profits from foreign trade in developing countries. VAT is more effective than imported taxes, because this tax doesn't discriminate the goods produced in a given

country and imported goods. By eliminating import taxes, domestic consumer profits from lower prices in competition created between domestic and foreign producer, this strengthen the domestic producer to be more efficient and focus their efforts in comparative advantages).

In Albania VAT is constituted by Law No. 7928 of 27 April 1995. For imported goods is applied a standard rate of about 20%. For imported machineries and equipment from persons that are registered in tax offices is applied specific reimbursement of VAT. For this category of goods are not adapted customs duties.

Table: *Development of VAT in Albania*

1995	2001	2004	2005
VAT 0% for exported goods and international services	Are excluded machineries and equipment	Are excluded from VAT: Renting public building, university services, casinos	Is placed VAT for the first sale of residences, for airplanes flying, for leasing services. Are excluded subcontracts and some services related to merchandise

Source: Ministry of Finance

Excise tax

The Law on excise in Republic of Albania that corresponds with time under survey in our study are:

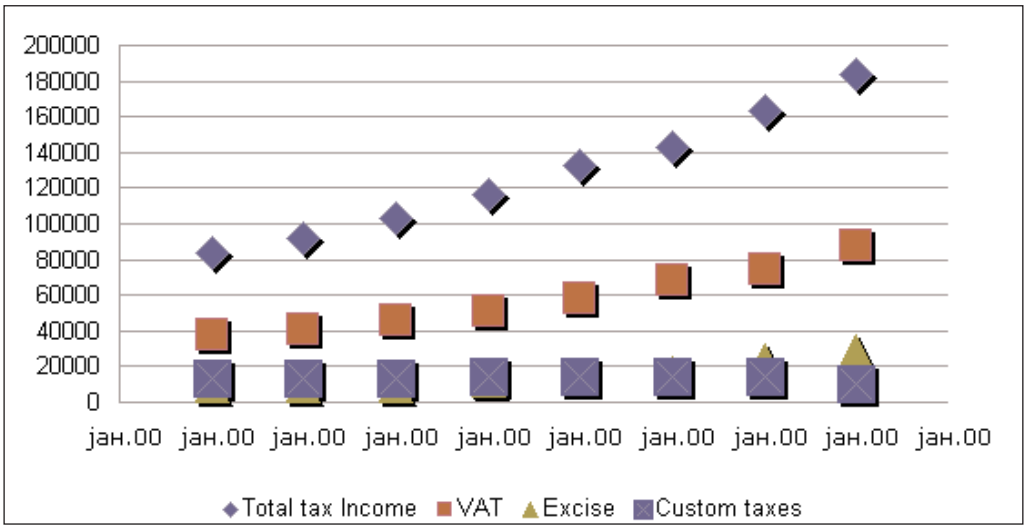
Law No. 8437 of 28 December 1998 "On excise in Republic of Albania," Law No. 8717 of 15 December 2000 "Related to alcoholic drinks and tobacco," Law No. 9136 of 18 December 2003 and Law No. 9328 of 6 December 2004 "On taxable commodities in Republic of Albania and excises"

Table: *Changes in excise duties*

	6 December 2004	4 August 2006	9 July 2007
First group: Coffee	40lek/kg -250lek/kg	Increase 10lek/kg-20lek/kg	50lek/kg-100lek/kg
Second group:			
Non alcoholic drinks	2 lek/liter	N/O	N/O
Third group: Alcoholic drinks	20lek/liter-200lek/liter	Increase 20 lek for strong alcoholic drinks with alcohol more than 12%	N/O
Fourth group: Tobacco	1500lek/kg-2240lek/kg	N/O	N/O
	25lek/for tobacco stick	Increase 15lek	40lek
Fifth group: Oil	13lek/liter-38lek/liter	N/O	37lek/liter-50lek/liter
	40lek/kg for residuals	N/O	N/O
Sixth group:			
Cosmetic commodity	60% of their value	N/O	N/O

Source: Ministry of Finance

Performance of both these taxes versus total tax income is graphically presented from 2000 until 2009.



Both VAT and excise taxes have marked a positive impact on total fiscal revenues. Both taxes have been increasing during all the period of trade liberalization process. Adjustment of excise in year 2006 has reflected a small positive impact in budget income generated by it. It is noticed a significant positive impact due to a broadening VAT base during 2005, in level of total income generated by this tax during next year. Therefore both taxes have positively contributed in generating fiscal incomes and avoiding the negative impact of customs taxes reduction during trade liberalization process.

Conclusion

Trade liberalization in Albania is followed as expected by an increased volume both in import and export. Regardless the fact, that during 2002 - 2005 it is noticed a faster increase in export versus import, the trade balance deficit in Albania has been high and increasing as tendency. Trade with neighboring countries, Albania has free bilateral trade agreements, is low as opposed to total trade volume of the country. Liberalization process has marked a positive impact in increasing total trade volume with these countries.

Total customs taxes share versus total budget revenue has been decreasing in time, without being reflected in total fiscal incomes generated by the government. This means that tax reform in Albania has succeeded in ensuring sound fiscal incomes during the trade liberalization process. An important contribution related to this performance was played by VAT reform and changes in level of excise.

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HAS THE FINANCIAL CRISIS BROUGHT TRUST IN THE EUROPEAN UNION AND HIS CURRENCY INTO QUESTION?

Neda Popovska - Kamnar, MSc[1]
National Bank of the Republic of Macedonia
E-mail: neda@mol.com.mk

Abstract

The main purpose of this paper is to present the views of the households in the Balkan countries, and in some of the emerging countries towards the European Union and it currency, after they experience the consequences of the recent financial crisis. The main incentive for the paper is the surveys which were conducted by the Gallup Balkan Monitor, Austrian central bank and Eurobarometar. In spite of the fact that each of the surveys is conduct on their special mode, and there are not fully comparable, we can still get a broader picture of the opinions and the attitudes that the households have towards European Union, in this period of uncertainties and vulnerabilities. The first part is focus on the financial difficulties that the households have after their salaries and jobs were put in a question, because of the crisis. The second part is showing the attitudes that the households have towards the European Union and its institutions, and their views about the functioning of the local governments, showing the lack of optimism and trust, comparing with the previous years. In the last part of the paper, we focus on the opinions of the households towards the European currency - euro. Regarding this findings, we can see that in spite of the decrease trust of the households in the European Union and euro as a currency, still it is higher than the trust that the households have in their local currencies and their local government institutions.

Keywords: *households, European Union, euro, local currencies, government institutions*

1. Introduction

The phenomen of today's crisis for long time will be a subject of discussion not only among the state and financial institutions, but also by science that deals with character and dynamic of global economic processes. The financial crisis came as a storm affecting all the countries on the global market, from the richest to

1) The views and opinions expressed in this article are the authors' own and do not necessarily represent the official one(s) of the National Bank of the Republic of Macedonia.

the poorest. None of these countries were protected from this storm. The recession wave the institutions, the companies, the households, putting the governments in a position to defend and fight with their economic and financial policies. One of the initial findings that the future researches will be based on, is the efect of the global character of this crisis that has on the countries which did not participate in the disorder of the financial markets. However, these countries still face the challenges in overcoming the negative external factors, which were transferred over the global financial influence. If the countries belong to the group "developing countries" then their "vulnerability" of the crisis is expressed through high rate of unemployment and lower wages. The crisis causes redistribution of the social wealth, globally and on national level. The most vulnerable are those with lowest salaries, especially in the countries, which are still not ready to implement different social programs.

During these three years since the crisis started, the focus of the most of analyzes were the problems that the financial sectors and the companies faced. The reason for that was that they were the ones that experience the biggest financial failures. Still the households were not immune of this situation. The lack of liquidity of the banks and companies affect the labor market, bringing uncertainties among the households in their expectations towards working engagements and salaries. The shortage of work, force many of the companies to lay out their workers, making many households to face with financial difficulties, as they haven't face in years. Suddenly, the economies they believe in, and the institutions, which guarantee their safe future, started to fall apart in front of their eyes. So no wonder that the people started to loose their fait in the system they live in.

2. Households face bigger financial difficulties then before

Reaction of labor market in the time of crisis corresponded with its eminent characteristics which are described in the neoclassic theory. Decreased demand of products and services initially caused employee layoffs in the most sectors that are highly export oriented. In the development countries export oriented sectors in large part are labor intensive sectors where on average the employees are not highly qualified and knowledgeable, compared to the export sectors which rely on knowledge based economies. Such example is the export sector of the Balkan countries especially Macedonia, Albania and Bosnia and Herzegovina. Their export oriented sectors in the time of crisis look for strategy in lowering their expenses and that is mostly in expenses related to the work force. These leads to more layoffs of mostly lower qualified employees. National labor force market are increasingly growing with this kind of individual profiles considering that many families in this countries receive financial support from other family members that are working in developed countries. During the crisis major changes in demand of products and services occurred on the markets in the developed countries and its result was numerous closures of companies up to big changes in ownership structures of large corporations. The further consequence layoffs of less qualified workforce, majorly coming from Balkan countries, directly influence the increase of supply of the workforce on the national labor markets as well as decreased the border of social tolerance among the lower income classes in this countries.

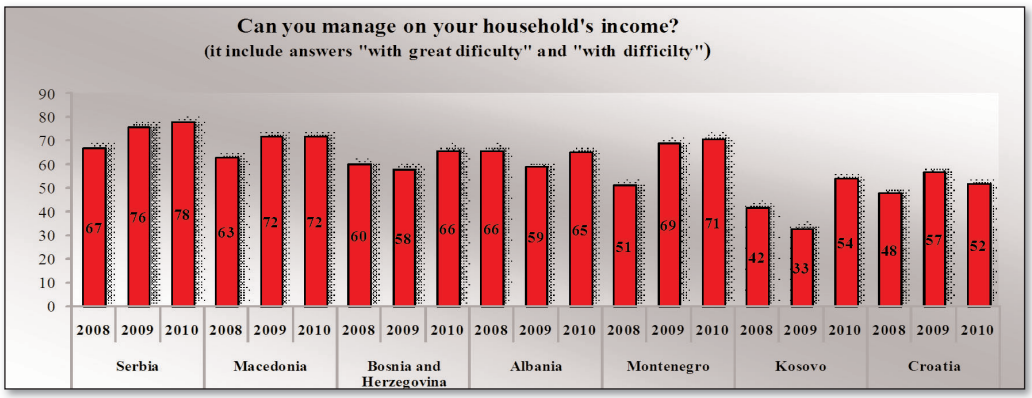
The survey that was conduct by Gallup Balkan Monitor[2] in june-july 2010 shows that most of the households in the countries of the Western Europe during this year face with financial difficulties. Comparing with the previous year there is an increase of the numbers of households who struggle to manage their lives on the household income in almost all survey countries, except in Macedonia and Croatia. Still, the lowest number of households with financial difficulties was register in Croatia (52%) while the highest number in Serbia (78%). On the other hand, the most intensive worsening of the financial situation of the households is found in Kosovo, where the number of households who cannot manage on their income increased from 33% in 2009 to 54% in 2010. According to Balkan monitor, one of the strongest effects from the crisis on the Balkan countries has been the shortfall of remittances. Because of negative developments on labor market, many of workers came home or send less money to their families. This was especially case in Kosovo, where its

2) Gallup Balkan monitor: insights and perceptions, November 2010. In the Balkan monitor survey, following countries were included: Serbia, Macedonia, Bosnia and Herzegovina, Albania, Montenegro, Kosovo and Croatia.

registered decrease of the households who rely on help from outside from 56% to 36%, on annual base, which is not surprise having in mind, that most of the Kosovo citizens have a family members who works in the other advance countries.

Can you manage on your household's income?

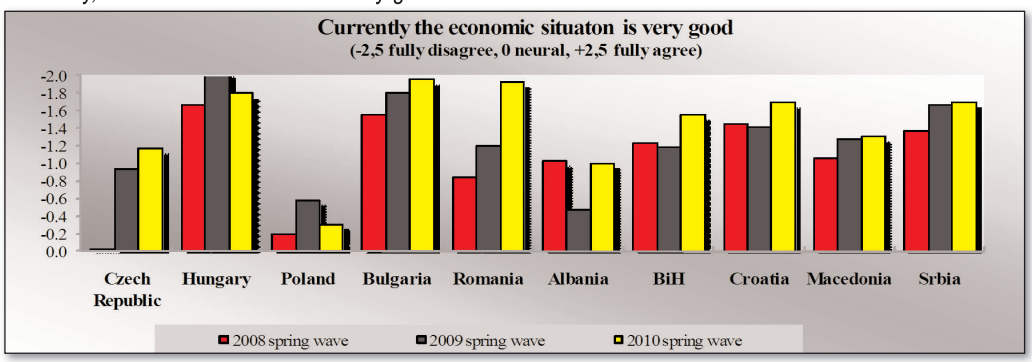
(Include answers "with great difficulty" and "with difficulty", in %)



Source: Balkan monitor, November 2010

So what are the expectations of the households in this time of crisis? The expectations are determined by many different factors. Among them, are also the ones with the political nature. The "memory" of inefficient management by the governments, effect on increasing the distrust, especially in times when big challenges needs to be faced. In spite of some recent improving in the macroeconomic data of the countries, the households do not believe that their economies are yet getting better. According the Survey, in all countries (except in Croatia) there was an annual increase in the percentage of people feeling that the economic situation in their countries was getting worse. The most pessimists are in Serbia, around 70% of the respondents, while the most optimists are in Montenegro and Kosovo (30% of the respondents in the both countries). This is also shown in the Euro Survey by the Austrian central bank[3] which was conducted during may-june 2010, when is register an increase of the people who doesn't agree that the economic situation in their country is good, especially this is the case in Macedonia, Albania and Romania. In addition, the households are not very optimists about the future developments, where they mostly disagree that the economic situation in their countries will improve.

Currently, the economic situation is very good



Source: OeNB Euro Survey, December 2010

3) Euro survey, Central bank of Austria, December 2010. In the Euro Survey, following countries were included: Czech Republic, Hungary, Poland, Bulgaria, Romania, Albania, Bosnia and Herzegovina, Croatia, Macedonia and Serbia.

We are use to hear that people in these countries, especially from Balkan countries have problems in meeting their financial obligations. Especially for people living in the countries that are in the process of development, adjusting new reforms and new systems of functioning. However, it is quite surprising when we read that people in most advance countries cannot pay their every day bills. However, this financial crisis faces us with many surprises. Many of the households of the advanced European countries found themselves struggling with every day obligations, trying to cover their elementary financial needs. EU statistics shows that 17% of the people across the EU, which is around 80 millions Europeans, live below the poverty threshold. One in six EU citizens express having great difficulty in paying household bills, like buying food, on at least one occasion during the 2009, while 15% described this as a constant struggle.[4]

The knowledgment that "the EU citizens are living worse then before", for the people in the less developed countries, as the Balkan countries have a relative meaning. They are informed that the differences between the social programs in their countries and in developed countries are very big. The social programs in the Balkan countries are mainly inefficient in securing the elementary needs of the social deprived classes.

The finding of the surveys shows that all the households no matter are they from emerging country, Balkan or European country are facing with money issues and great uncertainties, because of the financial crisis. However, should the households pay this financial crisis? Who would help them, having in mind that they are the outsiders in this financial chaos which was produced by the most powerful and richest? When the big banks faced with financial difficulties and their incomes were not enough to pay the expenses and the obligations to their clients, the governments decided which is too big to fall and rush to save them, giving them an opportunity to continue. On the other side, the households, the ordinary workers were left alone, to struggle in finding new jobs and new financial opportunities.

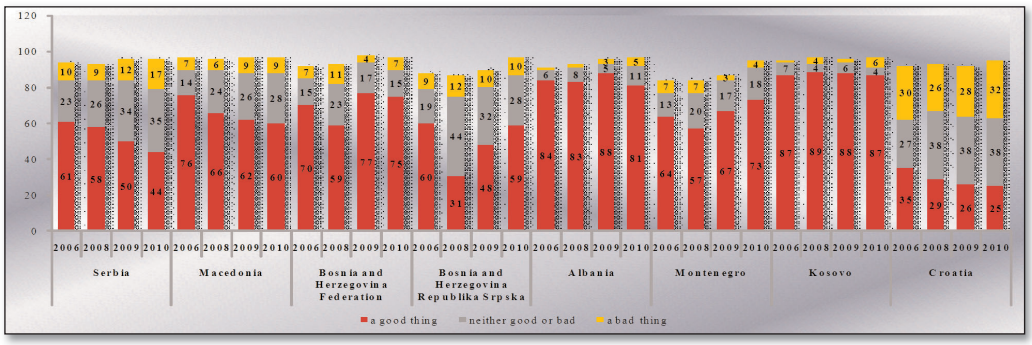
3. Decrease trust in European union, but still higher then in the local government

The financial crisis proves that even the most powerful and most riches can found themselves on a verge of disaster. The “perfect” picture that many of the people had about the European Union was shadowed from all this news about the financial problems that the countries from the union have, and their struggling in finding a way out. Few months ago, it was the bail out of Greece with her huge debt problems. Recently, it is Ireland, and there are projections that soon Spain and Portugal will be found in this same situation. Therefore, it is quiet upsetting when countries powerful like this face with such a huge financial problems, and in same questioning their well know systems. We cannot but ask the question how powerful is European Union in order to protect and supervise her countries, in same time when they face their biggest challenges? Is this an effect only of the transmission on the American financial crisis, or it is also affect of the “double standards” that the European Union have. For example, by the Maastricht criteria and the Pact for Stability and Growth, each of the countries are allowed to have budget deficit to 3% of GDP and public debt to 60% of GDP. In the past, when a European country used to exceed the given criteria, it did not pay any fine. On the other side, these criteria must be obey by countries, which are struggling to found their way to the European Union, and criticized if they do not meet.

Therefore, the findings by the Gallup Balkan Monitor about the household’s attitudes towards European Union and its currency are not surprising. They show that, the households reduce their confidence in the European Union. The visa liberalization that some of the Balkan countries received had a little effect on the respondents views of the EU accession. According to Survey of Gallup Balkan Monitor, the share of people thinking that EU accession would be a good thing fell from 62% to 60% in Macedonia and from 50% to 44% in Serbia (2009/2010). This percentage rise in Bosnia and Herzegovina from 48% in 2008 to 69% in 2010.

4) Flash Eurobarometar-Survey of measuring public perceptions of poverty, June 2010

Do you think that country's membership of the European Union would be a good thing, a bad thing or neither good or bad?

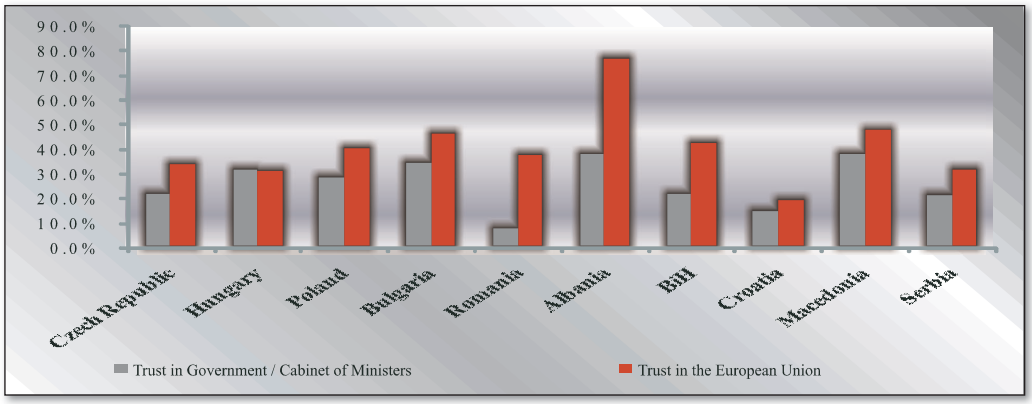


Source: Gallup Balkan monitor 2010

According to Euro Survey by the Austrian central bank, there is also a decrease of trust in the European institutions. For example, comparing with the previous results, in 2010, the biggest decrease of households who believe in the European institution is record in Bulgaria, Romania and Macedonia, and smallest decrease of households is registered in Czech Republic. On the other hand, comparing with the previous year, more households who believe in the institutions of EU can be found in Poland, Albania, Bosnia and Herzegovina and Serbia. Its interesting to see, that Croatia which is the most advanced in her negotiation for entering the European union comparing with the other Balkan countries, have the lowest number of households who believe in the institutions of the union (around 19%), while the highest is in Albania (around 70%).

In spite of these developments, still the trust that households have in the European institutions is higher then in the local government of their countries. In all of the survey countries, we found a smaller number of households who believe in the local government and their institutions than those who believe in the European institution. Comparing with the survey from 2009, there is big decrease of households who believe in the local government in Czech Republic (from 42, 4% to 21, 6%) and in Romania and Macedonia (from 17, 8% to 7, 4% and from 49, 1% to 38, 3%, respectably).

Trust in EU institutions and institutions of local government (in %)



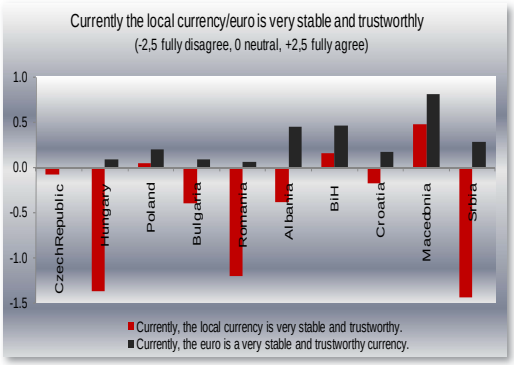
Euro Survey, Austrian central bank, spring wave 2010

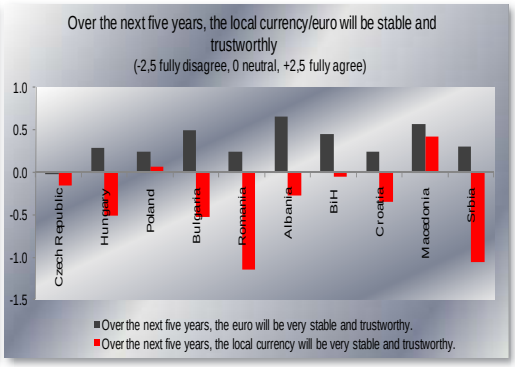
4. The trust in euro, higher then in the local currency

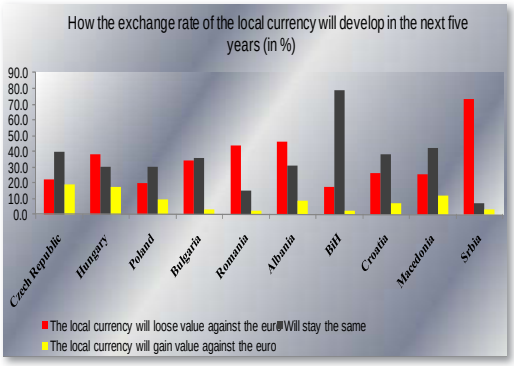
The decrease of trust in the European Union brought a decrease in trust of its currency. According to Euro survey by the Austrian central bank there is a declain of trust in the euro among the countries included in the Survey, with the exception of Poland. In the uncertain surrounding of the euro area, it is not surprising to see the lowest level of trust in the countries, since the introducing of the survey (2007). Recent data from the markets shows lowest value of euro Vis-a Vis the u.s dollar. The decrease of trust in euro is a signal that there is a need for faster overcoming the consequences of the financial crisis in the real and monetary sector.

However, on the other side, the Survey, shows that the recorded lowest trust in euro, it is higher then the trust in the local currency. The lowest trust in the local currency is recorded in Serbia (where there is a depreciation of the currency), Hungary and Romania. For the future expectations, the countries are also more optimists about the developments of the euro, then in their local currency. The biggest pessimist in stability of the local currency in the next five years are Romania and Serbia, while the biggest optimist are Poland and Macedonia. According to Survey in Albania, Serbia and Romania their is a currency depreciation of the local currency against the euro since the beginning of the crisis, while in Hungary, Poland and Czech Republic the depreciation was recorded during the crisis but became stable afterwards. In Bulgaria, Bosnia and Herzegovina, Macedonia and Croatia, the exchange rate was stable, having in mind that in the first two countries their is a currency board, in Macedonia is fixed exchange rate, while Croatia implements the exchange rate regime of managed floating.

Household trust in euro currency and local currency and their expectations







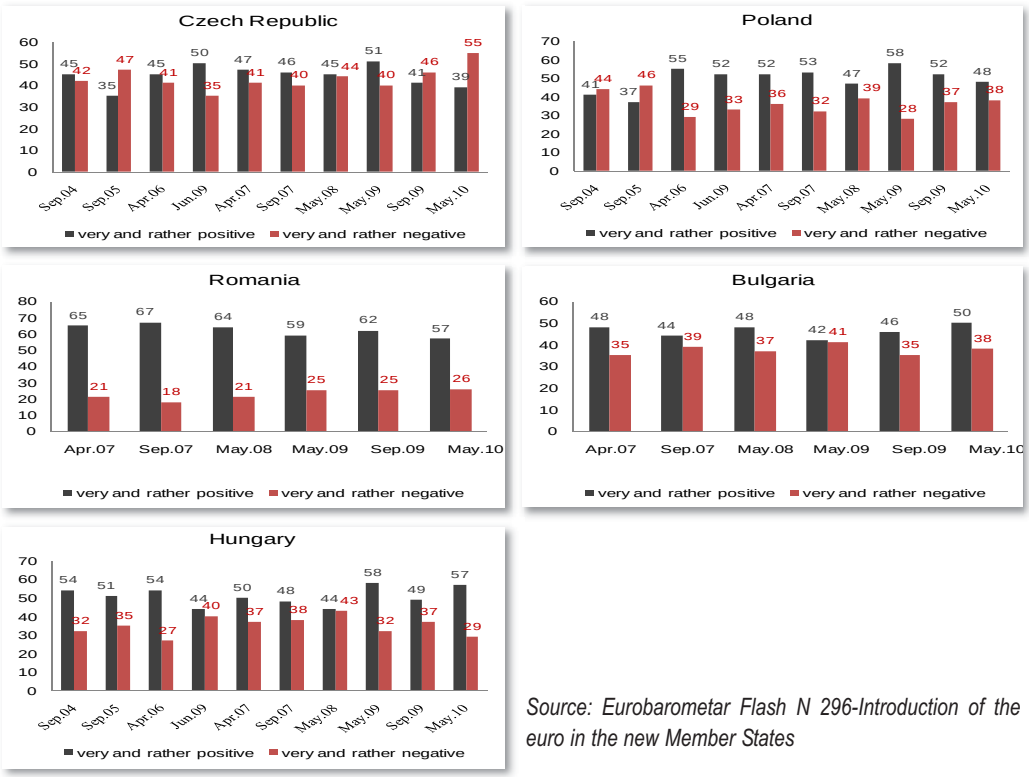
Source: OeNB Euro Survey, 2010

Analyzing the opinion of the citizens if their local currency will lose or gain value against euro we can notice that there is a bigger share of households who believe that their currency will lose value, especially in Serbia, Romania, Albania and Hungary. This is specifically noticeable in Serbia, which is expected considering dinar currency situation during the past few months. In spite of intervention of the National bank of Serbia on the foreign exchange market in order to ease the volatile of the exchange rate, still dinar continued to lose his value against euro. This depreciation pressures were generated mainly of elevated risk premium and lower capital inflow from FDI, bank,

and enterprise external debt payment.[5] Therefore, it is not a surprise that among the survey countries, Serbia is the only country where it has not registered a decrease of attractiveness of foreign currency deposits.

On the other hand, according to Flash Eurobarometar,[6] there is a decrease in the proportion of the citizens who believed that the Euros introduction would have a positive impact at a national level. In May 2009, the percentage of the citizens who said that there would be a positive outcome was 55%, which decrease to 52% in September 2009 and to 49% in May 2010.

Consequences of the Euros introduction at a national level
(% of the respondents for very and rather positive and % of very and rather negative)



Source: Eurobarometar Flash N 296-Introduction of the euro in the new Member States

According to Translantic trends survey[7] when asked whether using the euro has been a good or bad thing for their country's economy, almost all majorities in the euro zone sample responded negatively. Majorities of the British (83%) and Polish (53%), and a plurality of Bulgarians (42%), thought that using the euro would be a bad thing for their economies. However, more than half of the EU respondents (57%) felt that economic difficulties in Europe should lead to greater commitment to build a stronger European Union.

The candidate countries are still looking the European Union as a "space for faster development". In the time of crisis, is normal that the people in these countries will put more attention on short-term goals, which means securing the existence of their families, then towards long-term goals, which include participation in the EU.

5) Inflation report, November 2010, National bank of Serbia
6) Flash Eurobarometar, Introduction of the euro in the new member states, report July 2010 (the countries which are included in the survey are Poland, Romania, Bulgaria, Czech Republic, Estonia, Hungary, Latvia and Lithuania)
7) German Marshall Fund of the United States, Translantic trends survey 2010, which measures broad public opinion in the United States, Turkey, and 11 European Union countries

5. Conclusion

The recent financial crisis has been analyzed from all aspects, economical, political, social, and still the true view of all the events is unclear. One of the basic questions is the crisis could been predicted if financial control systems had analyzed enormous growth of financial assets on the market more systematically. The other guest on is the character of its feed-back: causes-consequences. If the character of crises causes are economics ones, is the “diffusion” of its consequences through many countries have only economic nature, or have political influences depending of one country position on the global financial market. It is interesting to see how this crisis is developing. The United Stated of America, the country where began the global financial chaos three years ago are now on "their feet again", improving in economical and political sense. On the other hand, the countries in EU although they where only part of transmission road of the crisis, they are still weak, facing more debt challenges then before crisis. In addition, there are the "developing countries", among them Balkan countries and some new members of EU, which are also fighting with the economical and social challenges that the crisis brought. Further on, we witness weakening of the euro, vis-a-vis the dollar. If we concentrate to consequences of the crises, will say the ultimate truth that they are distributed independly of their causes: the worst position have got countries, regions or citizen which are on the lowest level of endurance. Usually they have their development and social problems. In spite of the facts they did not participate in the crises causes, the negative effects have damaged them strongly longer than others. Therefore, while, the governments are giving billions of Euros to save those who cause the financial crisis, the ordinary people, the households are left on the edge of disaster, to fight for survival, not by their choice. So it’s no surprise that in this time of crisis, the entrust spread among the households. Entrust to the companies they work in, in the banks they used to save, in the system they function, and in the government they vote for it. We can confirm this from the analyzed surveys that are showing decreasing of the trust in the local governments and local currency, which is smaller than the trust in the European Union and its currency. Reason for it is that European Union, in spite of her weakening in the last period, still presents a powerful union with strong regulations and system of functioning. On the other hand, the households from the survey countries refuse to believe in their local governments, after they were left on the street with the explanation "there less demand for export services and goods from advanced markets". In the countries could be expected, the long-term character of the crises.

The crisis, are part of economical cycles, and they did happened in the past and it will happened in the future. So they should not be used as an excuse for not managing the situation on the right way. The crisis highlights the weakness of the economies, the negative elements of the system and of the governments that were present before the crisis happen. This current crisis showed many weaknesses but one of the most important was the weak social programs and unprotected labor market with efficient regulation systems. All these aspect emphases once again the urgent need for global reforms and developments in this area.

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