

# MANAGEMENT OF SUSTAINABLE DEVELOPMENT OF THE WESTERN BALKAN ECONOMIES DURING THE COVID-19 PANDEMIC

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**Abstract:** *The free flow of goods, services, people and capital, and the development of information and communication technology have all made local problems global. The 2007 financial crisis very quickly became global. The COVID-19 pandemic caused a worldwide health crisis, which quickly became an economic one, with threats of becoming a social one as well. The macroeconomic costs of the pandemic are visible in the form of shrinking GDP, the rise of unemployment, as well as fiscal and external imbalance. In all countries fiscal policy was the cornerstone of economic policy in the fight against the consequences of the pandemic. What we can say for certain is that the shock of the pandemic hit the economy both from the aspect of aggregate demand, as well as aggregate supply. In this paper we take a look at how the pandemic affected the economies of the Western Balkan countries, and the scale of the economic downturn they will face in 2020. We will also analyze how effective the public sector, the medical system, and education have been in the fight against the consequences of the pandemic..*

**Key words:** *Economic growth, Western Balkans, Pandemic COVID-19*

## 1. INTRODUCTION

The economist Nasim Nicholas Taleb coined the term „Black swan“ in the 2000-s to describe unforeseen events of great proportions. The COVID-19 pandemic led to global economic changes that caused the biggest recession after World War II in a very short timespan, which represented a „Black swan“ to the general public.

The consulting house „McKinsey“ calculated that this crisis was 4.5 times more devastating than the global financial crisis of 2008. Namely, the 2008 crisis was created by the financial system and was a crisis of demand. The current crisis appeared outside the economic system and was a crisis of both supply and demand simultaneously. Small manufacturers which were not under a lot of debt were not severely impacted by the 2008 crisis, but they were in the worst position in the current crisis due to the fact that their stores were closed. On the other hand, the reduction of household income affected the drop in demand. The IMF estimated a 4.9% drop in global activity. If this pandemic taught nation states anything, it would be that it is smarter to have industries within their own countries. However, it is paradoxical that countries are not able to overcome the current crisis by themselves, and that global cooperation is, and will remain to be crucial. It has been shown yet again how capitalism by itself is unsustainable and how the invisible hand of the market is unable to self-regulate, or regulate anything on its own. At least not without interference of the state, or of collective social solidarity – two things that are at odds with the essence of (neoliberal) capitalism. As with every economic crisis thus far, the state was the one to intervene with the market, that is, help capitalists in trouble. The global crisis caused by the COVID-19 pandemic showed the importance for an economy to have a developed industrial sector and to be as independent as possible from imports from abroad. The impact of reduction of public debt and investment into healthcare and research and development also became abundantly clear, as

these sectors were the driving force of the battle against the pandemic.

## 2. WHY DID THE PANDEMIC CATCH THE WEST BALKAN COUNTRIES OFF GUARD?

The West Balkan countries faced a significant reduction of GDP after the breakout of the 2008 financial crisis, but they were even less prepared to face the global pandemic. Instead of following the example of the Baltic countries (which had an even bigger dip during 2009 than our region did), that is, applying savings measures, restructuring and privatizing businesses, the West Balkan countries

chose instead to increase borrowing, as the means to fund systematic inefficiencies. That was the way of delaying reforms. Since countries are predominantly financed by taxation, and since the economic activity was low, and income through taxes was unreliable, the West Balkan countries began to incur debt on the international financial markets. (Milenković, Vujović, 2020, str. 35). While they entered the financial crisis with an average /national debt/ of 30%, which increased to 37% of their GDP in 2009 and 44% in 2011, that West Balkan countries entered the global pandemic with an even greater average public debt of 52.74% (table 1).

**Table 1.** The public debt of West Balkan countries in 2019-2020. (as a % of GDP)

	PUBLIC DEBT 2019	PUBLIC DEBT 2020
<b>MONTENEGRO</b>	77,2	83,1
<b>BOSNIA AND HERCEGOVINA</b>	33,1	37,1
<b>NORTHERN MACEDONIJA</b>	40,2	45,0
<b>SERBIA</b>	49,7	55,9
<b>ALBANIA</b>	63,5	71,2
<b>WEST BALKAN</b>	<b>52,74</b>	<b>58,46</b>

**Source:** West Balkan, /Regular economic report no. 17, spring 2020, the economic and social impact of COVID-19, World Bank Group

As the public sector, that is, public finance and the capacity of healthcare systems are the cornerstone of the battle against the pandemic (and therefore, their abilities to provide workers and businesses support during the crisis), the West Balkan countries found themselves in a precarious situation. Even adjusted to the local expenses, their public healthcare spending per capita amounts to 15% of the level of Germany (and only one third of the level of wealthier countries of Central and Eastern Europe, such as Slovenia). As a consequence, the governments of West Balkan

countries have decided to greatly restrict economic life (to an even greater extent than many other parts of Central, Eastern and Southeastern Europe). The following table shows the public spending on healthcare per capita of each of the West Balkan countries, as well as their average (569 \$). This spending is significantly lower than the European average, which is 3.137 \$. For that reason, the citizens of West Balkan countries are forced to supplement the lack of funds with their own capital.

**Table 2.** Key indicators of the healthcare sector

	Public spending on healthcare per capita (USD)	Personally funded costs (% of total)
<b>MONTENEGRO</b>	509	43
<b>BOSNIA AND HERCEGOVINA</b>	681	28
<b>NORTHERN MACEDONIJA</b>	539	37
<b>SERBIA</b>	812	37
<b>ALBANIA</b>	307	50
<b>WEST BALKAN average</b>	<b>569</b>	<b>39</b>

**Source:** West Balkan, /Regular economic report no. 17/ The economic and social impact of COVID-19 (Healthcare systems)/, spring 2020, page 3

These costs amount to 37% in Serbia and Northern Macedonia, 43% in Montenegro, 28% in Bosnia and Hercegovina, and 50% in Albania. (West Balkan, Regular economic report no.17, 2020, page 3). These are the costs personally funded compared to the total costs that citizens pay for healthcare (table 2).

The West Balkan countries have not conducted economic reforms. They are still consumer economies in which the main driver of economic growth is spending and imports and not investments, exports and the growth of

productivity. The structure of their economies is founded on services, services that increase demand, such as telecommunication, banking (financial services), and large and small scale retail, and tourism, to be more precise. The West Balkan countries need to reinforce their industrial sector. In other words, they need reindustrialization. From the above mentioned reasons it is easy to conclude why we were not ready to handle the new crisis caused by the COVID-19 pandemic and why the fall of economic activity was higher than in 2008. (table 3).

**Table 3.** Growth rates in 2009 and 2020

	GDP growth rate in 2009	GDP growth rate in 2009*
<b>MONTENEGRO</b>	-5,80	-12,4
<b>BOSNIA AND HERCEGOVINA</b>	-3,0	-6,5
<b>NORTHERN MACEDONIJA</b>	-0,36	-5,4
<b>SERBIA</b>	-2,73	-2,5
<b>ALBANIA</b>	3,35	-7,5

Source: World bank, Transparency International

### 3. THE EFFECT OF THE PANDEMIC ON THE ECONOMIES OF THE WEST BALKAN COUNTRIES

The COVID-19 pandemic and the response of countries to it have (and will continue to have) a deep and lasting impact on the West Balkan. Borders are closed, economies are crumbling, emergency measures have been adopted in all countries, be it officially or de facto, the citizens are under isolation and the pandemic represents a deadly threat to the local population, as well as to people around the world. In hopes of fighting the COVID-19 pandemic, Serbia and Northern Macedonia adopted emergency measures. While the other countries have not taken that step, they enforced similar equally radical restrictions. National resources, and especially healthcare systems are weak and not capable of handling the outbreaks of the COVID-19 disease on the same scale that Italy, Spain, or France faced, but which were better equipped before the start of the pandemic. Democracies are weak and institutions brittle and so there is a risk that they will not be able to recover quickly after emergency measures will have been adopted throughout the region. The COVID-19 pandemic represents a crisis, the scales of which will undoubtedly alter the course of history. To a certain extent it already played the role of accelerating current trends, such as the crisis of democracy and nationalism. On the other hand, it dramatically impacted the world, including

the West Balkan over the course of just a couple of weeks by reinstating the rise of the nation state and rapid deglobalization.

The effect of dynamic Chinese diplomacy based on giving aid at the height of the crisis will not necessarily lead to strengthened influence in Europe and on the West Balkan area. Even though the Serbian president Vučić declared European solidarity a “fable” and explicitly expressed gratitude to China for the aid, with emotions and public expressions of sympathy aside, the reality that the long-term interests of China remain on the EU, and not small West Balkan markets still remains. Therefore, we should observe the geopolitical discourse of the West Balkan within the context of the future relations between the EU and China. (The Western Balkans at the time of the global pandemic, Policy Brief, april 2020. godine, str.11).

According to the data from „Our world in numbers?“, Serbia was the eighth most vaccinated country per capita in the world and second in Europe. This was the result of geopolitical circumstances.

The COVID-19 pandemic revealed the severity of the problems of mass emigration of healthcare workers from the West Balkan countries, as well as the fact that the retention of healthcare personnel within the country is of utmost importance. It also revealed the systemic weaknesses of the healthcare system, decades of insufficient investment into

staff, facilities, and equipment. Last but not least, it completely revealed the weaknesses built up by decades of insufficient funding of the West Balkan countries in education, science, research and development. On average, these countries spend less than 0.4% of their GDP on research and development. In comparison, the amount that other countries spend in this area is as follows: 4.3% in South Korea, 4.2% in Israel, 3.4% in Japan, 3.2% in Finland, and 3% in the EU. Before the pandemic it was widely known that thousands of healthcare workers, including doctors, nurses, technical personnel, and healthcare providers left the West Balkan every year. In Bosnia and Hercegovina, the national health worker association announced that around 300 highly qualified doctors left the country in 2016. The canton hospital Zenica in Bosnia and Hercegovina issued a statement in which it mentioned that this city, along with its over 100.000 residents no longer had the necessary neuro-pediatric healthcare. Between June 2013 and March 2016, 4.213 residents of BiH got a job in the German healthcare sector, bringing the total number of citizens of BiH employed in this sector in Germany up to 10.726. The data from the German employment agency show that in March of 2016 1.102 doctors from Bosnia were employed in Germany, which means that between June 2013 and March 2016 there was an increase of 20%, which was a sudden rise compared to previous years and it is estimated that for every six doctors working in Bosnia today there is one working in Germany. The Serbian health department issues around 800 „proofs of good reputation“ yearly – documents necessary for doctors to apply for jobs abroad. (Zapadni Balkan u doba globalne pandemije, Policy Brief, April 2020. godine, str.23).

The effects of the COVID-19 pandemic on employment and earnings will outdo the ones following the global financial crisis in 2008. The fall of inflows will have a negative effect on several countries of the region in terms of their income (which makes up 10% of the GDP of Bosnia and Hercegovina and over 15% of the GDP of Kosovo, according to data from the World Bank), due to the fact that migrant workers from the region will lose jobs throughout the EU. A drop in income from imports is expected, due to the fact that the demand for goods and services from the Balkan countries will likely decrease and the chains of supply and demand will be broken if multinational countries cease their business in the region. This process is already beginning to unfold, namely in the Fiat factory in Serbia which halted its production due to the lack of supply of Chinese components necessary for their automobile factory in Kragujevac.

## CONCLUSION

The COVID-19 pandemic and the response of countries to it will have a deep and long lasting impact on the West Balkan. Its consequences are impossible to predict completely, due to the fact that the human, political, social, and economic costs of the pandemic still remain unknown. National resources, and especially healthcare systems are weak and not capable to withstand the outbreaks of the COVID-19 virus on the scale that the shock up healthcare systems of Italy, Spain or France have, and which were better equipped before the start of the pandemic. The fact is that the West Balkan countries have not learned their lessons from the last global crisis. While they entered the financial crisis with an average national debt of 30% of their GDP with increased to 37% in 2009 and 44% at the end of 2011, the West Balkan countries entered the COVID-19 pandemic with an average national debt of 52.74% of their GDP. Considering that the public sector is at the core/ of the pandemic, it is clear that the West Balkan countries had no choice but to enforce rigorous policies, implement emergency measures and isolation. Beside public finance (the ability of countries to provide support to workers and businesses throughout the crisis), the capacity of healthcare systems is the other pillar in the fight against the pandemic. Public spending in healthcare in the West Balkan countries is only at 15% of the level of Germany (and only at about 1/3 of the level of richer countries of Central and Eastern Europe such as Slovenia)

The West Balkan countries have not conducted reforms of their economies. They are still consumer economies in which the main driving forces are imports and spending, and not investments and the growth of productivity. Their economies encourage demand, more specifically domestic demand. Their dominant sectors are transportation, telecommunication, banking (financial services), large and small scale retail, and tourism. The West Balkan countries need to strengthen their industrial sectors, that is, they need reindustrialization. From the above mentioned reasons it is abundantly clear why we entered the new crisis, caused by the COVID-19 pandemic unprepared and why the fall of economic activity was even greater than in 2008.

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## SUMMARY

An unforeseen event of great ramifications, such as the COVID-19 pandemic caused a recession on a previously unthinkable scale and altered the global image of the world. The West Balkan countries entered the crisis unprepared, with unreformed economies, with services (the untradable sector) making up large parts of their economies and with high national debts. This crisis showed countries that it is of utmost significance to have developed industries domestically, low national debt, and a strong public sector (healthcare and education), which was the cornerstone in the battle against the pandemic. Due to the unenviable state of healthcare and fragile institutions, emergency measures have been enacted in many of the West Balkan countries, either officially or de facto. The global pandemic changed the world, including the West Balkan in just a couple of weeks by reinstating the rise of the nation state and rapid deglobalization.