

II International conference on economic development and standard of living - EDASOL 2012

Theme:

**IMPROVING LIVING STANDARDS AND
SOCIAL INCLUSION IN TIMES OF CRISIS**

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**Speech by Prof. Jakupović: “An Overview on the Economy of
the Western Balkan Countries in terms of current crisis and
determination the exit strategies for sustainable, smart and
inclusive growth in the light of ‘Europe 2020’ Strategy”**

EDASOL 2012 conference – Opening / Keynote address

Banja Luka, 12 October 2012

**Respected Chairwoman Professor Grandov,
Distinguished President of the Steering Board Mr.Uremović & Director Mr.Aleksić,
Honorable rectors, vice rectors, deans of faculties,
Dear colleagues, participants of EDASOL conference,
Ladies and gentlemen,**

It is a great pleasure to be able to address you today and thank you for your consistent commitment to support the Conference Series on economic development and standard of living-EDASOL, which we had lunched last year by organisation of the Pan-European University Apeiron Banja Luka and its Faculty for Business Economy.

Today we are very delighted in fact that among us are respected colleagues, participants from 14 countries, Slovenia, Serbia, Macedonia, Croatia, Bosnia, Italy, Austria, Germany, Turkey, Romania, Albania, Montenegro, Belgium and Poland. It is now four countries more than in the previous year in EDASOL 2011. We hope that this trend will continue to expand in the future.

As defined at the beginning, when it was established the first idea about the launching series of conferences, the concept "EDASOL "arises from the assumption that economic development and the standard of living are connected, and therefore both must be the subject of research and analysis.

The conference's aim this year is to gather together the academic community and other relevant participants in the function of a comprehensive review and to present research results in relation to the level of living standards and social inclusion in developing countries (LDCs) in the age of crisis. Special attention will be devoted to the fight against poverty and social exclusion in the light of fulfilling *Millennium Development Goals* and goals from the *Europe Program 2020*, particularly from the aspect of the countries in the Western Balkan region. Consequently, the conference „EDASOL 2012“ will attempt to determine and include the possible strategies that are offered and/or available to different countries in order to reduce the impact of the crisis and to overcome it completely. Today on the panel session we are going to have, I hope, a many presentations and speeches about the main topics which we set up in the focus for EDASOL 2012.

As you know, last year we had presentation the Chairwoman Professor Grandov about the main economic indicators and an impact of the foreign direct investments (FDI) on the economic perspectives as well as the trends of the living standard in the Western Balkan region. It was concluded that problems in the economy and typical transitional processes in the Western Balkan countries will also be present in 2012.

Therefore, my presentation now would be targeted on review of the specific main macroeconomic indicators, but in particular I will refer on the situation in terms of the possible exit strategies of respected countries into the Region of Western Balkan in the light of current economic crises, more specifically on that one, which communicate and was already marked as the strategy for sustainable, smart and inclusive growth – call on „Europe 2020 Strategy“. This strategy paper was adopted by the European Parliament in March 2010, but also on the national level for 27 Member States in the form of country specific recommendations.

Now I will try to present the main economic indicators according to the data published by World Bank in the „South East Europe Regular Economic Report“ from June 2012.

- **Growth in SEE6 countries** (Albania, Bosnia and Herzegovina, Kosovo*, FYR Macedonia, Montenegro, and Serbia) **has been relatively sluggish in 2011** and not all countries have yet attained their pre-crisis levels of activity. Both recession and recovery have differed across countries. Those countries which managed to avoid the recession (Albania and Kosovo*) or experienced a modest slowdown in growth (FYR Macedonia) have already exceeded their 2008 real GDP levels in 2010. However, countries that experienced a sharp recession (Bosnia and Herzegovina, Montenegro, and Serbia) are finding it difficult to return to the same level. Moreover, even compared with EU10 and EU15 countries, which were severely affected by the global crisis, the recovery in SEE6 appears sluggish. **The composition of growth has changed towards domestic demand.** Growth in SEE6 averaged 2.2 percent in 2010-2011 compared to 4.9 percent in 2006-2008.
- **Inflation developments mirror those of real economic activity.** Inflation peaked in the first half of 2011, after rising since the end of 2009, and is now

gradually easing. The collapse in domestic demand during 2008-09 led to a drop in inflation. However, beginning with the last quarter of 2009, inflation increased on the back of rising global food and energy prices. Inflation peaked in the first quarter of 2011 as these external price pressures abated. Serbia, in particular, experienced an upsurge in inflation, with its CPI peaking in April 2011 at 14.7 percent year-on-year; it has since eased to 2.7% in April 2012.

- **FDI--an important source of financing, investment, and growth in SEE6-- saw a robust increase of 20 percent during 2011.** FDI more than doubled in Serbia in 2011--which seems an exceptional year because of FIAT's large investment in the auto factory in Kragujevac and the investment of Belgium Delhaise of nearly EUR 1 billion. FDI in FYR Macedonia also doubled as a share of GDP and on a per capita basis. Car parts in the industrial sector (Serbia, FYR Macedonia) as well as financial and agriculture sectors (FYR Macedonia) were the most successful sectors in attracting FDI. In the aggregate, Serbia attracted the largest amount of FDI in the region--about USD 2.4 billion in 2011, followed by Montenegro, which received the highest per capita FDI.
- **The certain growth in SEE6 countries has not been effective in reducing high unemployment.** The sensitivity of the unemployment rate to growth is *much lower* in SEE6 than in EU10 countries. Moreover, the SEE6 unemployment rate, which is overall much higher than in the rest of Europe and in EU10, continued to climb up in 2011 in several SEE6 countries. As a result, unemployment rates in Serbia, Bosnia and Herzegovina, and Montenegro in 2011 were substantially higher than in the pre-crisis period. For example, Serbia's unemployment continued to climb, reaching 23.7 percent in November 2011 - an all-time record since the labor force survey (LFS) was introduced 15 years ago. This reflects continued employment losses in Serbia's industry and services, in part, competitive pressures, restructuring, and increased inactivity rate. In FYR Macedonia, the measured unemployment rate was stable at 31.2 percent in the first three quarters of 2011, but then rose to 31.8 in the last quarter. Montenegro, by contrast, saw a continued decline in the unemployment rate during 2011, from 21.2 percent in Q1 to 18.9 percent in Q4, although Montenegro's unemployment rate shows strong seasonal pattern associated with the peak employment during

the summer tourist season. The latest LFS in BIH was completed in April 2011 when unemployment was 27.6 percent (0.4 percentage points higher than in 2010).

- **Youth unemployment is reaching alarming levels in some countries.** Youth (15-24) unemployment is not only the highest among all age groups, but it has been increasing during 2011 in all countries for which a recent LFS is available. FYR Macedonia has the highest measured youth unemployment (59.4 percent in Q4 of 2011) and also recorded the largest increase during 2011 – a 9 percentage point year-on-year increase in Q4. Similarly, Serbia's youth unemployment was 51.9 percent in November 2011), followed by Montenegro (39.4 percent in Q4 2011).

What can we do to stop these negative trends in our economies, how the politicians and governments in the Western Balkan can response to overcome the current crises? The question is not only about the imbalances, but indeed it take account on the centre of decision making – the political will of our governments and their bodies, their institutional mechanism, who need to tackle with all instruments disposed to strenghten our capacities for making a growth, but not any kind of growth, but a smart growth, inclusive social growth and also sustainable growth.

These last third terms are presenting the main pillars of **Europe 2020 Strategy**, which is the Agenda of the European Union for the implementation of long-term objectives for development process and achivement the better living standard for all citizens within the EU. This strategy puts forward three mutually reinforcing **priorities**:

- **Smart growth:** developing an economy based on knowledge and innovation.
- **Sustainable growth:** promoting a more resource efficient, greener and more competitive economy.
- **Inclusive growth:** fostering a high-employment economy delivering social and territorial cohesion.

To measure progress in meeting the Europe 2020 goals, **5 headline targets** have been agreed for the whole EU:

- I. **Employment:** 75 % of the population aged 20-64 should be employed.
- II. **R&D:** 3 % of the EU's GDP should be invested in R&D.

III. **Climate change/energy:**

- greenhouse gas emissions 20% (or even 30%, if the conditions are right) lower than 1990,
- 20% of energy from renewable,
- 20% increase in energy efficiency.

IV. **Education:** The share of early school leavers should be under 10% and at least 40% of the younger generation (of 30-34-year-olds) should have a tertiary degree.

V. **Poverty/social exclusion:** at least 20 million less people should be at risk of poverty and social exclusion.

In the area of structural reforms, many states in the region have made serious efforts over the last year, but more is indeed. These reforms are indispensable to boost competitiveness and create the conditions for a return to sustainable growth. Particular attention should be paid to unemployment, especially youth unemployment. Current levels are dramatic and unacceptable. The governments in the region can not and must not let unemployment turn to long-term unemployment and social exclusion. They must also pay particular attention to facilitate the entry of young people to the labour market.

On public finances, we are clearly moving in the direction of budgetary and monetary consolidation. On average, deficits are not falling, but they are not going to increase. Now efforts must continue and in several cases fiscal consolidation should be more growth-friendly. Of course, growth requires confidence, and confidence is generated by stability: stability first and foremost in public finance. The choice between stability and growth should not be seen exactly as a choice - we need both – stability and growth and to achieve growth we need fiscal consolidation, we need structural reforms for competitiveness and we need targeted investment.

Europe 2020's objectives do not constitute part of the accession criteria. But accession and convergence is closely interrelated and Europe 2020 strategy shows a clear road map for convergence. Europe 2020 strategy opens up a possibility for regional initiatives to associate their activities more closely with the ongoing EU actions. This is an excellent opportunity to deepen and strengthen cooperation, provide better insight into national reforms and secure „meeting of policies“.

Finally, we, participants of EDASOL 2012 conference, come here with some answers and many questions. What policy objectives and targets could be relevant for our region in the light of Europe 2020? What cooperation structure would be appropriate? What support programmes are needed to reach those targets? We will looking to you today to help us define the best response on the overcoming the current crises and also adopting and implement of Europe 2020 objectives in the region of Western Balkan.

We need to show our determination to go futher. Sizeable challenges remain, and sustained efforts are required as is clear from today's authors contribution papers, before we can say that the crisis is behind us. It is very important for all the citizens within the Western Balkan to understand this: there is no magic bullet, there is not going to be miracle solution, these issues take time and they require sustained effort and coherence.

Therefore, we need here today to show that the academics in our region are an essential part of the solution. That we have the vision and the coherence as well as the holistic approach to act. I hope, we will get at least some of the answers to the questions posed here.

Finally, I wish to announce this year's conference officially open I congratulate you and wish us a successful work today.

I thank you for your attention.