Chapter 3.

INFLUENCE OF WORLD CRISIS ON WESTERN BALKANS COUNTRIES – UNDERTAKEN MEASURES AND EXPECTED EFFECTS[1]

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Abstract

This paper has attempted to analyse certain influence aspects the global crisis has had on the Western Balkans countries, above all on Serbia, Croatia, Bosnia and Herzegovina, Macedonia and Montenegro. Our analysis focuses on events on stock exchanges, for which we have applied comparative analysis method and noticed that indexes at Western Balkans countries stock exchanges have significantly more fallen (from -46,09% to -73,86%) for the same period of time from 1 January 2008 until 20 August 2009 than indexes at leading world stock exchanges, which have fallen in the ratio of -25,00% to -35,59%. In addition, we have discovered that reinforcement of the global crisis has led to a notable capital withdraw in Western Balkans countries; investors have lost trust in banking and financial system, as well as to a number of other negative occurrences. The world crisis has proven to have had a rather strong influence on countries in this part of Europe, which is an additional issue for governments of certain countries in finalising transition process and quicker accession to the European Union (EU). Different countries have reacted in different ways and this paper aims at underlining some of the most important undertaken measures, as well as at assessing their potential effects. The paper consists of five parts. The introduction reviews global crisis phenomenon, emphasizing a great number of issues open to debate and dilemmas it has brought about, trying to discover answers to some of them within this paper. The second part has been devoted to the crisis cause influence and its development phases, not only in developed countries, but in Western Balkans countries as well. The third part analyses empiric data on indexes fluctuation at stock exchanges of developed and Western Balkans countries. Following the review of negative effects of the global crisis, the forth part deals with a short analysis of measures that governments of the respective Western Balkans countries have undertaken in fighting the crisis, so that we are able to sum up in the fifth part and try to draw the most important conclusions.

Key words: Global Crisis, Financial Markets, Financial Systems, Financial Crises, Stock Exchanges Indexes, Banks and Banking

1. Introduction – world crisis – open issues and dilemmas

The world economic crisis that has taken its full flow in the course of 2008/09, will definitely be remembered as one of the biggest in the recent history. Its occurrence, origin, development and

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consequences have opened a great number of issues, doubts and dilemmas. It has, almost without an exception, affected the most developed countries in the world, and left a lasting impression on less developed countries economies as well. Different ways of occurrences and causes of the crisis itself has stipulated different measures governments of certain countries have undertaken. World crisis related events have been a true challenge for economists, offering numerous opportunities for research and analysis. A great number of articles have already dealt with this topic, analysing various issues, such as: its evolution (*R. Barrell & P.E. Davis, 2008*), how financial crisis is related to political crisis (*R. Chang, 2007*) or systematic risk assessment in international financial system (*S.M Bartram & G.W. Brown, 2007*).

One of the basic questions to be asked in the beginning is – how comes something so big and devastating could happen under globalisation at the end of the first decade of the 21st century? This paper has no ambitions or pretensions to try to find a simple and single answer to this question troubling almost the whole world. Neither do we intend to examine wide aspects of influence of globalisation on different financial systems or analyse its benefits and shortcomings, but to reiterate once again that this global crisis is boundless (*F.S. Mishkin, 2007*). It does not hit only developed countries, but most countries of the modern world. We would, therefore, within this paper try to point at its negative effects on certain countries in South-Eastern Europe (SEE) region. We shall focus on five Western Balkans countries – Serbia, Croatia, Bosnia and Herzegovina, Former Yugoslav Republic of Macedonia (official name, hereinafter referred to as Macedonia) and Montenegro. Negative effects of global crisis have been monitored through changes in stocks prices at stock exchanges, i.e. fluctuation (fall) of stock exchange indexes to be more precise. Some of our findings undoubtedly prove this crisis has significantly more hit Western Balkans region than the most developed countries of the world if we consider this criterion only. Nonetheless, negative effects of the crisis in this region have not been this narrowly focused on only one segment of capital market. They are much wider and have manifested through loss of trust in already weak and underdeveloped financial system of countries in the region, withdrawal of capital and further on, insolvency of primarily financial institutions, as well as of all participants in economic ad social life. We are of the opinion that loss of trust is a rather sensitive issue that might cause problems even when the crisis has gone, and once conditions for return of the capital to the region have been created, contributing to the quicker revival and to overall economic growth.

One of possible dilemmas in the course of 2007, when the crisis was only to be indicated, referred to understating its true nature – whether this is another financial crisis or perhaps an economic one? In an attempt to find the answer to this question, one has to remember this crisis started as financial, through credit crunch and financial meltdown in the most developed financial markets, the USA and UK above all. As the time went by, infection, caused by poor structure of portfolio assets of many financial institutions and large-scale losses, have spread, making us witness world economic crisis not seen for almost 80 years now. It has significantly surpassed usual cyclic recession trends by its scale and seriousness of symptoms. This has led Paul Krugman, Winner of the Nobel Prize in Economics, conclude the return of Depression Economics has come, by saying the following, '*... it means that for the first time in two generations, failures on the demand side of the economy – insufficient private spending to make use of the available productive capacity – have become the cellar and present limitation on prosperity for a large part of the world'* (*P. Krugman, 2008, pp. 182*).

Some issues have quickly proved to be superfluous although they seemed to be topical at the beginning of the crisis. Having started as a financial one, the crisis has in no time contaminated real economic flows and influenced deceleration of economic activities of almost all countries in the world. We have faced another proof of globalisation. This virus like infection has, from the US market of sub-prime loans and mortgage markets, transferred to other financial service and other economic sectors. This was an unequivocal answer to one of open questions from the crisis beginning – whether this is a national crisis of certain developed countries or an international one.

Having in mind the fact that basic issues related disturbances in mortgage markets, many thought the crisis will be confined to the most developed countries in the world, since they had developed markets of mortgage backed securities (MBS), assets backed securities (ABS) or collateral debt obligation (CDO). It has, however, quickly proved such expectations are not realistic and that loses in one segment of financial system are rapidly transferred to other economic sectors, which is not only the case in developed countries. International crisis has thus become a global one.

Many institutions, even countries themselves, were surprised by size and scope of the crisis. Many people were shocked or simply taken aback when it occurred. Some books were soon published describing the state of consciousness: «*What Happened*?» (H. *Pym & N. Kochan, 2008*). We are of the opinion that «crisis causes blindness» is one of the main reasons. Namely, the crisis on mortgage markets segment 'lulled' many participants who did not have any activities related to this segment of financial markets. Prevailing pattern of thinking was - «This has to be someone else's worry». It has, nonetheless, became obvious that crisis causes orientation has to be refocused quickly towards envisaging consequences that were merciless, evident and painful. Portfolio values have dramatically decreased, assets quality melted down, investment structures collapsed like house of cards… One more pattern has soon proved to be true – closely related financial and real sector. The crisis brimmed from a financial into a real sector of economy, leading to recession in many parts of the world.

Devastating consequences of the crisis have resulted in a hasty involvement of countries in finding resolution to the issues and covering losses. Nationalisation of certain huge banks, as well as abandonment of the much praised deregulation concept took place even in the most developed countries. A dilemma was raised whether this was a breakdown of liberal capitalism, victory of state-run interventionism or something else. Moreover, global crisis has also revealed certain weaknesses in international economic relations. We may say that certain «economic nationalism» has grown stronger. There is not much room for solidarity under difficult conditions. Statements such as «British jobs for British workers», «they cannot expect the US tax payers help European economy» or «workers may be made redundant but not in our country...» could frequently be heard. Unique crisis requires unique solutions. And every country is more or less left to its own devices in this respect. What could then less developed countries, such as Western Balkans countries for example, possibly expected under such circumstances?

2. Development phases and causes of the crisis in developed and Western Balkans countries

This paper will not go into details of crisis anatomy analysis since this is simply not our objective. There are already certain papers dealing much more thoroughly with this issue, such as, for example, Ray Barrell and Phillip Davis (*R. Barrell & P.E. Davis, 2008*). Aiming at better understanding of the crisis influence on certain Western Balkans countries, we will, however, try to underscore certain phases that we believe can be identified as typical for the crisis so far, in 2007 and 2008 above all. We would like to note that even though they primarily refer to developed countries, we tried to draw a parallel with what happened in certain phases in the given Western Balkans countries. Generally speaking, we have identified the following three phases in development of the crisis:

- I phase – up to mid-2007 – with light turbulences at leading world stock exchanges and minor fall of stock exchange indexes. Certain solvency issues might be anticipated, related to only some financial instruments and institutions, leading to a slight increase in inter-bank interest rates. Reactions of central banks to such occurrences are mainly focused on increase of solvency. Problems French BNP Paribas Bank with its three investments funds or British Northern Rock Bank face are considered to be exclusively their problems, and not overall market related issues. Meanwhile, there is no indication of crisis in the Western Balkans countries. Stock prices go up, as well as stock exchange indexes, there are neither solvency issues nor any slightest hints pointing at the possible crisis. In the period from 1 Jan 2007 until 30 June 2007 stock exchanges indexes slightly went up in developed countries by

9,07% on average, while, in the same period, capital market of the Western Balkans countries rapidly grew, which brought about average index rise by almost incredible 70,90%!

- II phase – second half of 2007 – mid-2008 – in which disturbances in investment structure of many financial institutions have become more serious. Losses are evident and cannot be hidden any more. They are publicly announced for some of the biggest world financial institutions, such as Citigroup, Merrill Lynch, UBS or Credit Suisse. *Bear Stearns* Bank is taken over by *JP Morgan Chase Bank* with assistance of FED. Instability on the money market increases. All these negative events on developed countries markets brought about the fall of leading stock exchange indexes in the second half of 2007 (on average, -3,71%), which was significantly accelerated in the first half of 2008 (on average, -15,29%). Meanwhile, there are still no indications pointing at the crisis in the Western Balkans region until the end of 2007, although the value of regional stock exchange indexes fell by -11,58% on average, as a consequence of price momentum correction for the last year. Only in the first half of 2008 did the crisis started influencing financial markets in the region primarily due to withdrawal of foreign investors anticipating the crisis (e.g. portfolio investments in Serbia in the given period were around -100 million USD, and in Macedonia around -30 million USD), and stock exchange indexes thus significantly dropped by -35,54% on average.

- III phase – starts from the 3rd quarter of 2008 and is primarily related to the fiasco of the famous investment bank *Lehman Brothers*. Infection and contamination of assets of many financial institutions in the USA and UK is taking its tribute and increasingly spreads through the financial system. Central banks of different countries acted jointly, such as, for example, Federal Reserve, the Bank of England and the European Central Bank, which announced co-ordinated cuts in lending rates on 8 Oct. The merger between *Merrill Lynch* and *Bank of America* also took place in this period among all other things. The crisis was definitely internationalised by spreading into other countries in the world. It grew into a general economic crisis from a financial one by the end of that year. Many countries, as well as the world economy slowly enter recession. Many Western Balkans countries started feeling «on their own skin» negative influences coming form the global environment in this phase. By the end of this year, governments of certain countries started passing first programme measures, primarily focused on outstanding and growing distrust in domestic financial (banking) system and withdrawal of resources, which underlines additional problem – insolvency. Withdrawal of deposit and outflow of financial resources abroad took place in almost all respective countries, as well as striking issues related to establishment of balance in public finances.

Scope and scale of the crisis, as well as disturbances in the world market have indirectly hit all countries in the Western Balkans region. Their influence and appearance differed from country to country, which is logical having in mind differences in levels of overall economic and financial systems development. The first reactions to the crisis usually came down to – surprise. Many, not only financial experts, but officials in the region as well, were not only surprised by the crisis, but, what was even worse, completely unprepared for it. Hence, in certain countries in the period between October – December 2008, a significant withdrawal of deposit by residents took place (e.g. around 1 billion Euro citizens savings were assessed to be withdrawn in Serbia – according to the National Bank of Serbia Governor's statement, Mr Radovan Jelašić). The Government of the Republic of Serbia's reaction to such a panic situation was however late. Only on 22 Dec 2008 did it adopt Amendments to the Law on Deposit Insurance, raising a minimal amount for deposit insurance from 3,000 to 50,000 Euro. In addition to this, the Law on Temporary Exemption from Certain Type of Income Taxes entered the force on 30 Jan 2009. Aiming at stimulating saving, it abolished income tax on foreign exchange savings interest rate that was 20%.[5]. Other countries in the region faced the same problems such as significant withdrawal of capital, the third and the fourth part shall deal with.

[5] Law on Amendments and Changes to Deposit Insurance Law (2008), Ministry of Finances of the Republic of Serbia

Following the initial shock, the crisis was used by many in the region as an excellent excuse. Somehow, all of a sudden, as if overnight, it was to be ‘blamed for everything’. For everything incapable political leaders or their even less capable civil servants of small Western Balkans countries failed to do, there was an ideal excuse – the world financial crisis. Almost all countries started saying something like «*We would like to be able to do more, but it is crisis and there is no money, hence there is nothing else we can do ...*». Psychological factor turned out to be extremely strong and that the whole region is still facing insufficient level of trust in financial institutions and instruments. Ebbed resources from developed countries have influenced a sudden withdrawal from financial markets by local and regional players, which further deepened the crisis initially caused from outside. Since many markets in the region are narrow and shallow, without developed bond or derivatives markets, plus with a small number of participants, dominated by banks (almost all financial systems of the countries in question are bank-centric systems), we have gained additional ideal internal mechanism to reinforce outside influences of the crisis. Naturally, many governments were not able to realise their mistakes related to lack of efforts, before the crisis, to establish a solid financial system that would be a bit more resistant to external influences. Instead of this, crisis and issues quickly brimmed from financial into a real sector, which was also used as a justification by those who did not to take crisis seriously enough and were late to react by applying appropriate measures. To use medical terminology, certain «inflammation» took place, at which one was not able to differentiate causes from symptoms.

Someone may think that the fact that financial systems of the Western Balkans countries are less developed than in developed countries, seemed to be a ‘favourable’ circumstance for the region, i.e. it will be hit less by the crisis due to this very reason. This paper will show whether this fact was fortunate or not. However, underdevelopment of financial systems and completely different causes have indisputably caused the crisis with different flow and consequences in almost the whole region. It was thought by some people that since our financial systems are less developed – causes of the world crisis would not, generally speaking, have such a great influence on us. This is nothing but trust. But, again, only partly.

Before we see why is this so, let’s have a look at the most important caused of the crisis in the most developed countries.

Many experts believe that roots of the crisis are very deep and have been incorporated in the US financial system for years and years. There are authors and books calling the roll of the Chairman of the Federal Reserve for many years, famous and for a number of years much praised Mr Alan Greenspan, whose low interest rates policy in the period between 1987-2006 led to creation of potential instabilities that later on resulted in the credit crunch (*W. Fleckenstein, 2008*). In an attempt to underscore profound causes of the crisis on financial markets of the most developed countries, we shall try and systematise them in at least four groups, as follows:

I – Individual behaviour related gaps – dominated by greed as many times before in financial markets history development (*D. Eric, 2003*), particularly with respect to fluctuation of prices in real-estates and securities markets. For a number of years, appreciation of home prices was present of above 1 percentage over the rate of inflation, which approximately followed a growth in real income. However, in the period between 2000-2006, when inflation was at a relatively low level, average growth of major-market home prices was above 14% per year, which was far beyond real demographic and realistic basis (*C. Morris, 2008, pp. xviii*). There was obviously a reason for creation of a bubble on the real-estates market and price rise above their intrinsic value. On the other hand, low interest rates led to relatively «cheap» loans. The growing bull real-estates markets opened many opportunities for making speculative profits through buying and selling flats followed by taking new mortgage loans at the same time. A sub-prime market developed in the meantime, i.e. criteria for granting loans were reduced, which causes problems manifested when instability in the real-estates markets occurred. Many loan users gave up further repaying loans as soon as prices of real-estates fell below the mortgage values, and returned «keys» to their flats to financial institutions. All of a sudden, banks were covered up by a bunch of real-estates they objectively did not know what to do with since their value was going down and loans remained unrecoverable claims.

II – Financial institutions business transactions related gaps – in which domination of greed has once again proved to be dangerous. We witnesses again and again how sensitive and extremely important business ethics issue is in finances (*J. Boatright, 1999*). Many institutions, motivated by as high profits as possible, tried to grant as many loans as possible. When you have relatively low interest rates situation, then you are motivated to indebt yourself at a low rate and make profit by placing resources at a higher one. In addition to this, criteria are lost; rules related to a debtor's creditworthiness and risk level are disrespected, as well as many other forms of unethical behaviour. Activities on the so-called sub-prime market increase. Securitisation process development and occurrence of MBS, ABS, CDO, as well as recording of off-balance assets, created basis for easy and quick money through business transactions. Greed of certain executive directors, who were motivated by high bonuses, caused mistakes in structured products system "*valuation*". Having added up all, there were many gaps in management and business transactions of financial institutions that cost many of them either bankruptcy or huge losses.

III – Market related gaps – dominated by greed as well. Price rise on real-estates markets brought about price rise of structured products. More and more financial instruments occurred in the form of innovation. Many took financial engineering development process as a kind of financial alchemy.

IV – Regulatory bodies related gaps – it has proved, unfortunately too late, that many issues have not be regulated enough. Deregulation processes, so much praised in the '90s, 20th century, demonstrated a number of good, but also bad, almost catastrophic things. Time proved there were numerous omissions in control of work of the so-called "*originators*", their separation from investors, as well as in control of rating agencies activities, etc. Having in mind all the complexity of control and regulations issues, as well as a growing role states have undertaken in mitigation of the crisis consequences, it is still difficult to forecast more precisely further directions of regulatory reforms and changes.

Taking all four groups of reasons that led to financial crisis into consideration, we may underline in the very beginning that they cannot apply to any Western Balkans country in a form explained here. A number of arguments support this statement. Level of a financial system development is the first and, definitely the most important one, since in most countries in the region they have only started developing. There are however gaps in market development strategy, and even in its regulations. Namely, many countries (with an exception of Croatia, to a certain extent) almost do not have bond markets, which has proved to be a huge problem in case of a sudden fall of stock prices. In addition to this, almost all countries have rather poorly developed primary and completely undeveloped secondary mortgage markets. This is not a particularly negative fact, i.e. it could have been a positive one if it were not for the crisis large scope and scale. Further on, most stock exchanges function as stock markets, narrow and shallow, since the majority of quoted firms reached stock exchanges through privatisation processes and not initial public offering (IPO). This fact proved to be fatal, since any higher capital inflows lead to a sudden growth, and outflows to a fall of stock prices and creation of a serious instability, this paper will elaborate on in the forthcoming part. Finally, to make it even worse, none of the respective countries have underdeveloped derivatives market, which deprived investors of any chances for hedging and protection from the risk. Many investors therefore simply fled and withdrew from the region as the crisis grew stronger, since they had no alternative possibilities for investment or hedging.

A relatively low level of trust in financial and banking system should be added to all the abovementioned, as particularly important factors that contributed to the crisis reinforcement and its negative effects. Financial systems are mainly bank-centric since banks are the biggest players. Role of other participants is relatively small, as well as their power, making them very susceptible to external influences.

3. Comparative analysis of events on financial markets in developed and Western Balkans countries and other crisis consequences analysis

Four aforementioned groups of causes and phases in crisis development have been relevant for developed countries. However, it is questionable whether they can apply to the Western Balkans countries. The answer is at first glance undoubtedly negative. The first and second phase in crisis development mainly related to institutions and participants in developed markets, in the USA and UK above all. A much greater breakthrough of the crisis in continental Europe and hence in SEE and Western Balkans region took place in the second half of 2008, with the first tangible effects in October – November, i.e. in the third phase.

We have decided to analyse fluctuations of stock exchange indexes in order to be able to review development of the crisis as realistically as possible, as well as its influence on developed and Western Balkans countries. We shall focus on fluctuation of indexes in the period from 1 Jan 2007 until 15 Aug 2009, with 8 cross-sections on the following dates:

- I – 1 Jan 2007;
- II – 30 June 07;
- III – 1 Jan 08;
- IV – 30 June 08;
- V – 15 Sept 08;
- VI – 1 Jan 09;
- VII – 30 June 09 and
- VIII – 20 Sept 09.

We have divided respective indexes into three groups (Table 1), as follows:
I – Developed countries indexes, such as: the USA (S&P 500, DJIA, NASDAQ Composite), France (CAC 40), the UK (FTSE 100), Germany (DAX) and Japan (Nikkei 225).
II – Western Balkans countries indexes: Serbia (BELEX15), Croatia (CROBEX and CROBIS), BaH (SASX10 and BIRS), Montenegro (MOSTE) and Macedonia (MBI 10).
III – Indexes of certain neighbouring countries, EU members, we have used as a benchmark: Slovenia (SBI 20), Hungary (BUX and BUMIX), Romania (BET) and Bulgaria (SOFIX). We shall also analyse fluctuation of indexes MSCE EAFE for emerging markets.

Table 1. Fluctuation of stock exchange indexes for the period from 1 Jan 2007, until 20 Aug 2009

Country	Stock exchange	Index	1Jan 07	30Jun07	1Jan08	30Jun08	15Sep08	1Jan09	30Jun09	20Aug09
Developed countries			**I**	**II**	**III**	**IV**	**V**	**VI**	**VII**	**VIII**
USA	NYSE	S&P 500	1,418.30	1,503.35	1,468.36	1,280.00	1,192.70	903.25	919.32	1,007.37
USA	NYSE	DJIA	12,463.15	13,408.62	13,264.82	11,350.01	10,917.51	8,776.39	8,447.00	9,350.05
USA	NASDAQ	NASDAQ com.	2,415.29	2,603.23	2,652.28	2,292.98	2,179.91	1,577.03	1,835.04	1,989.22
United Kingdom	LSE	FTSE 100	6,220.80	6,607.90	6,456.90	5,625.90	5,204.20	4,434.20	4,249.20	4,756.60
Germany	Deutche Borse	DAX	6,596.92	8,007.32	8,067.32	6,418.32	6,064.16	4,810.20	4,808.64	5,311.06
France	Euronext	CAC 40	5,541.76	6,054.93	5,614.08	4,434.85	4,168.97	3,217.97	3,140.44	3,615.81
Japan	Tokio SE	NIKEI 225	17,225.83	18,138.36	15,307.78	13,481.38	11,609.72	8,859.56	9,958.44	10,383.41
Western Balkans										
Serbia	Belgrade SE	BELEX15	1,675.2	2,835.52	2,318.37	1,783.28	1,287.54	565.18	569.27	659.05
Croatia	Zagreb SE	CROBEX	3,209.48	4,835.28	5,239.03	3,587.59	3,255.45	1,722.25	1,896.36	1,897.22
Croatia	Zagreb SE	CROBIS	101.06	99.08	96.48	95.29	96.33	90.62	86.27	86.52
B&H	Sarajevo SE	SASX 10	2,855.59	4,366.67	3,685.15	2,286.87	1,722.71	1,233.65	1,040.45	963.29
B&H	Banja Luka SE	BIRS	2,884.61	3,675.08	2,564.33	1,767.84	1,468.49	1,027.94	995.51	1,003.51
Montenegro	Montenegrin SE	MOSTE	918.88	2,189.88	1,627.69	769.21	658.71	469.53	730.6	877.42
Macedonia	Skopje SE	MBI 10	3,702.54	6,917.51	7,740.79	4,885.99	4,749.43	2,096.16	2,532.43	2,530.84
Neighbouring countries										
Slovenia	Ljubljana SE	SBI 20	6,382.92	10,561.34	11,369.58	7,877.87	6,553.07	3,695.72	4,263.54	4,180.41
Hungary	Budapest SE	BUX	24,844.32	28,929.73	26,235.63	20,387.52	19,223.14	12,241.69	15,320.14	18,213.59
Hungary	Budapest SE	BUMIX	2,532.81	3,246.53	3,243.75	2,316.48	2,098.01	1,452.65	1,717.40	1,827.21
Bulgaria	Sofia SE	SOFIX	N/A	N/A	N/A	N/A	931.02	358.66	356.73	436.84
Romania	Bucharest SE	BET	8,050.18	9,665.61	9,825.38	6,502.65	4,823.21	2,901.10	3,434.43	4,043.22
MSCI Emerging markets		**EEM**	**36.75**	**42.37**	**49.01**	**44.25**	**32.93**	**24.77**	**32.23**	**35.77**

We shall go on analysing index values changes for the following time intervals: I – 1 Jan 07 – 20 Aug 09; II – 1 Aug 08 – 20 Aug 09; and 15 Sept 08 – 20 Aug 09, as presented in the Table 2.

Table 2. Changes in fluctuation of stock exchange indexes (in %)

Country	Stock Exchange	Index	1 Jan 07 20 Aug 09	1 Jan 08 20 Aug 09	15 Sept 2008 20 Aug 2009
Developed countries		**Average***	**-27.01**	**-30.60**	**-11.93**
USA	NYSE	S&P 500	-28.97	-31.39	-15.54
USA	NYSE	DJIA	-24.98	-29.51	-14.36
USA	NASDAQ	NASDAQ com.	-17.64	-25.00	-8.75
United Kingdom	LSE	FTSE 100	-23.54	-26.33	-8.60
Germany	Deutche Borse	DAX	-19.49	-34.17	-12.42
France	Euronext	CAC 40	-34.75	-35.59	-13.27
Japan	Tokio SE	NIKEI 225	-39.72	-32.17	-10.56
Western Balkans		**Average****	**-44.86**	**-63.91**	**-29.97**
Serbia	Belgrade SE	BELEX15	-60.66	-71.57	-48.81
Croatia	Zagreb SE	CROBEX	-40.89	-63.79	-41.72
Croatia	Zagreb SE	CROBIS	-14.39	-10.32	-10.18
B&H	Sarajevo SE	SASX 10	-66.27	-73.86	-44.08
B&H	Banja Luka SE	BIRS	-65.21	-60.87	-31.66
Montenegro	Montenegro SE	MOSTE	-4.51	-46.09	33.20
Macedonia	Skopje SE	MBI 10	-31.65	-67.31	-46.71
Neighbouring countries		**Average**	**-34.71**	**-49.08**	**-24.72**
Slovenia	Ljubljana SE	SBI 20	-34.51	-63.23	-36.21
Hungary	Budapest SE	BUX	-26.69	-30.58	-5.25
Hungary	Budapest SE	BUMIX	-27.86	-43.67	-12.91
Bulgaria	Sofia SE	SOFIX	N/A	N/A	-53.08
Romania	Bucharest SE	BET	-49.77	-58.85	-16.17
MSCI Emerging markets		**EEM**	**-2.67**	**-27.01**	**8.62**

*Arithmetic average
** Zagreb SE CROBIS bonds index has not been included in this cross- section

It is clearly possible to notice, on the basis of comparative analysis of fluctuation of stock exchange indexes in developed and Western Balkans countries markets, that the fall is more underlines at fragile stock exchanges of the Western Balkans for all three analysed periods. Even in the course of the first analysed period, comprising enormously high price growth of shares in Western Balkans stock exchanges, indexes average values has significantly dropped (-44,86%) in comparison with average of developed (-27%) and neighbouring countries (-34,71%), which proves that all positive development effects from 2006 and 2007 have fully been annulled in the course of crisis. In the second analysed period, when the effects of approaching have started having a progressive influence on stock exchange son the global level, indexes at Western Balkans countries stock exchanges have sunk even deeper than in developed countries.

Average fall of regional indexes was 63.91%, what is more than double in comparison with developed countries (-30.6%), while in Serbia and Federation of Bosnia and Herzegovina that fall exceeded 70%. Situation is not much better in neighbouring countries where average fall was around 50% which indicates that their capital markets are not adequately developed in spite of the fact that they are the members of the European Union.

The last period that was analyzed refers to the events that followed *Lehman Brothers* bankruptcy on 15 Sep, 2008, when the crisis began to reach its peak, which lasted till 20 Aug, 2009. According to Table

1 during the summer 2009 world stock exchanges slightly recovered which resulted in noticeable rise of the leading indexes. Also, stock exchanges in the neighboring countries started to recover if compared with June 30, 2009. However, indexes of the Western Balkans countries (except for Serbia and Montenegro) have stagnated during the summer, so the gap between the average index fall in the developed countries which was -11.93% in the analyzed period was even deeper in comparison with the Balkans countries where the average fall was -30%. This proves that the peak of the crisis destroyed capital market of the Western Balkans countries which was already seriously shaken, and that its recovery is yet to come.

Particularly interesting is the fact that not only stock indexes fell but in Croatia securities stock exchange index of CROBIS fell by 10% in the period 1 Jan – 20 Aug, 2008.

One of the key factors of such a drastic fall of the stock indexes in the Western Balkans countries was withdrawal of the foreign investors from the capital market, which considerably reduced portfolio and foreign direct investments. In 2008 in Croatia, portfolio investments were reduced by 554.9 mil Euro, in Serbia by 134 mil USD while in Macedonia that reduction was by 72.48 mil USD[1]. Foreign direct investments follow almost similar pattern. According to the data provided by the National Bank of Serbia, from the beginning of 2009 to the end of July, Serbia received 894 mil Euro from the foreign direct investments, while in the annual analysis for 2007 and 2008 they were 1.8 bill Euro.[2] Foreign direct investments in Croatia in the first quarter of this year were 399 mil Euro, which in comparison with the same period last year is by 42% less.[3] In Montenegro foreign direct investments in 2007 amounted to one billion Euro, and in 2008 they fell to 832 mil Euro. In the first quarter of this year they amounted only 67.5 mil Euro.[4]

To perceive the results of the crisis is one of the most sensitive issues of the world crisis analysis. Roughly, all results could be divided into direct and indirect ones. Direct results can be analysed on two levels. The first level refers to the losses connected with real losses which some financial institutions suffered having invested in either basic financial instruments or derivatives on the most developed markets which collapsed. Yet there are no precise estimations not even for the most developed countries. Estimations constantly change, unfortunately to the worse, so that the amount bigger than 5 bill Euro has been mentioned lately. For the Western Balkans countries such kind of loss can hardly be big, since a small number of participants from the region have invested in the developed markets.

The second group of the direct effects of the crisis is connected with losses that financial institutions suffered due to the fall in financial instruments prices (mainly stocks) on regional markets of the Western Balkans countries. If we saw that the average fall was more than 60% it can be predicted how much 'big players' lost on stock exchanges in the region. Of course, these losses can neither be generalised, nor precisely identified, but evidently they exist.

Indirect losses entail opportunity costs, as well as hardly measurable consequences of non-liquidity and loss of trust. In our opinion, one of the biggest problems refers to the loss of already fragile trust. We have pointed out that only in Serbia, at the end of 2008, more than 1 bill Euro was withdrawn in the form of deposits. As the vice-governor of the Central Bank of Bosnia and Herzegovina stated, banks in Bosnia and Herzegovina in one week in October 2008 suffered withdrawal of deposits in the amount of 400 mill Euro, and in 2009 drastic fall in capital inflow can be expected. According to the bulletin of the Central Bank of Montenegro, total deposits by the end of March 2009 amounted to 1.76 bill Euro, while total loans amounted to 2.86 bill Euro, which gives difference of 920 mill Euro in

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[1] Data source: Balance of payment, national banks
[2] Data source: Balance of payment, National Bank of Serbia
[3] Data source: Balance of payment, National Bank of Croatia
[4] Data source: Business operations of the Montenegrin economy under the conditions of the world economic crises (2009), Montenegrin Chamber of Commerce, downloaded from *http://www.pkcg.org*

favour of the credit gearing of the citizens end economy. Total deposits fell from August last year when they amounted 2.346 bill Euro, by 585 mill. Deposits from citizens amount to 780 mill Euro and they have been decreasing since August last year when they amounted 1.123 bill Euro. The ratio between loans and deposits, as stated in the most recent bulletin by the Central Bank of Montenegro, got worse and in March this year it was 1.52, while a year ago it was 1.15.[5]

Also, as the result of the fall in demand and increase of illiquidity at the beginning of the year in Serbia, 56 158 business entities were blocked (out of 320 000), with the remark that two thirds of them do not fulfill their obligations for more than a year.

The worst possible scenario is if the whole region becomes ’a black hole’ for investments. The facts about great falls on stock exchanges may be a bad news, but the central issue for the region is whether there would be a fall if there were no crisis. Even though there are huge differences among the countries in the region, there are many similarities as well as the need for joint action. Namely, spreading negative image about the region can harm everyone. It would not be good once when the crisis is over. So, all countries in the region are responsible to point out a series of factors which make the whole region attractive. These are numerous possibilities for investing, relatively developed infrastructure, low labour costs, favourable opportunities for extra profit, etc.

4. Short review of the measures undertaken to resist negative effects of the world economic crisis in the Western Balkans countries

In the next few paragraphs we would try to give a brief of the most important measures taken over by the Western Balkans countries in order to ease off negative effects of the global economic crisis. Sometimes we would try to give comments and review efficiency of these measures. Especially we would like to emphasise that in some cases we were not able to do that because time was too short to estimate results of the measures.

Serbia

In November 2008 Government of the Republic of Serbia adopted a set of measures directed towards banks and financial system. The aim was to stabilise first of all banking system and prevent an increasing withdrawal of deposits, especially in foreign currency, which was a great problem. Concrete measures entailed:

- State guarantees for insuring deposits on savings – the limit was lifted up from 3000 to 50000 Euro. This measure proved effective, since it eased off panic among savings account owners and they stopped withdrawing deposits.
- Tax on capital gain was abolished – in order to prevent decrease of stock prices at the Belgrade Stock Exchange. The measure turned out to be problematic, since there was no profit (due to decreasing – *bear* market).
- Tax of 0.3% on the negotiation of absolute rights in trading stocks – which is not a measure in fighting against global crisis, but simply a correction of a deviation in financial operations in Serbia which originates from the 1990s.
- Since one of the biggest problems Serbian economy started to encounter was illiquidity, several measures were taken to solve that problem, such as: extension of the deadline for repayment of loans taken before, easier borrowing abroad through abolishment of mandatory reserves on new borrowing, measures directed towards prevention of negative exchange rate differences, etc. These measures were of a short-term character, since illiquidity crisis became deeper and deeper. For Serbia it was one of the biggest problems and the most negative effect of the global economic crisis.

[5] Data source: Balance of payment, Central Bank of Montenegro

Another group of measures that the Government took over was directed towards the real sector in order to prevent increase of unemployment and decrease of economic activity. Within this set of measures the following should be pointed out:

- Measures of the state savings, which represent recommendations by the International Monetary Fund which entail – reduction of salaries in public companies, agencies and state administration – which was done at the beginning of the year 2009.
- Restrictions in terms of employment in state administration, downsizing through lay-offs and rationalisation – which was done more declaratively. However, Serbian government was not strong enough to fight that ballast, which may have had very serious social and political consequences.
- Favourable loans – for liquidity, investments, financing of operating capital, for development, etc. The problem was in very limited real sources.
- Provision regulating conditions for subsidizing interest rates for loans intended for perseverance of liquidity and financing of operating capital in 2009.
- Provision regulating conditions for the use of co-financed loans for investments with a guarantee by the Guarantee fund in 2009
- Provision regulating conditions and criteria for subsidizing interest rates for consumer's loans for the supply of certain commodity goods in 2009 – under favourable conditions, so as to prevent decrease in demand and further strengthening of crisis in real sector.
- Measures intended to increasing employment – favourable tax facilities for all employees who employ people who have not worked before.

Croatia

Croatia is one of the countries in the Western Balkans region which has a comparatively highest indebtedness. Their gross external debt amounted to 39.8 bill Euro by the end of April 2009, while a year ago it was 35 bill Euro.[6] Croatia was more exposed to the negative effects of the world economic crisis. Apart from high repayment rates, Croatia faced a couple of other serious problems such as: economic activities slowed down, increase of unemployment (for the first time since 2000), high and permanent deficit of the current account of the balance of payments, limited availability and high costs of capital and objective dangers and fears from worsening the borrowing rating of the country.

The government of the Republic of Croatia has tried several times to ease off some of the negative effects stated above. On this occasion, we particularly point out the package of 10 anti-recession measures which were adopted in February 2009, which entail the following[7]:

- Additional strengthening of macro-economic stability – budget re-balancing,
- Exemption of all obligations except for taxes, wherever possible,
- Strengthening liquidity of the public companies, thus strengthening the whole sector of economy as a support to the sector of small and medium-sized enterprises (SMEs),
- Harmonisation of state policies of support with systems of support in the European Union,
- Strengthening support to insuring exports,
- Measures towards strengthening of tourist trade, as a very important branch of economy which is expected to bring high foreign currency inflow – action plan, improved promotion and a set of other measures. In spite of all that, the tourist season did not meet expectations in Croatia. There was 3-6% decrease in comparison with the previous year.
- Encouraging direct investments, and investments in new technologies,
- Support to real-estate market,
- Strengthening import control,
- Support to socially vulnerable categories in keeping adequate living standard.

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[6] Data source: Balance of payment, National Bank of Croatia

[7] Package of ten antirecession measures (2009), Government of the Republic of Croatia

In estimation of the measures mentioned above, it can be said that they represent activities directed towards the real and financial sector simultaneously. Though observed in a short time, these measures proved to have had versatile impact.

Montenegro

After getting independence in 2006, Montenegro experienced a very dynamic growth which manifested through high real growth rates of GDP by 10.7% in 2007 and 8.1% in 2008. Although smallest by its size and population, Montenegro was not exempt from the negative effects of the global economic crisis. In 2009 it is estimated that the real fall of GDP would be between 2.5 and 3%. Measures taken by the Montenegrin government could be roughly divided into two groups, as follows:
I – Measures intended to preserve trust in banking system and support to banks, including:

- Insuring deposits on citizens' savings
- Support to banking sector – short-term borrowings and guarantees on international market
- Banks were allowed to spend 20% of the mandatory reserves on buying state bills.

II – Measures intended to prevent unemployment, fall of economic activities and recession, which include the following:

- Lower tax on salaries from 15% to 12%
- Encouraging investments in infrastructure, but at the same time reduction of current, unproductive budget spending
- Abolition of various fees on oil prices, abolition of fee for building site
- Support to small and medium-sized enterprises for the project 'Business for You', subsidizing 10% of the electricity cost for economy
- Tax exemption in case of restructuring.

One should be very careful in estimation of the measures, since many measures were oriented towards consequences and not real causes of the crisis. Market structure of Montenegrin economy is such that there is a very narrow scope of domestic production, especially the one which is export orientated. Montenegro uses Euro as the national currency (and it is not in Euro zone) which considerably narrows possibilities for manoeuvre in macro-economic policy. Introduction of Euro only partially stabilised macro ambience, but inflation in 2007 and 2008 was much higher than in Euro zone – 7.7% and 6.9%. Thus, measures did not affect internal causes of instability, and small economies, as Montenegrin economy is, are exposed to negative external influences.

Bosnia and Herzegovina

Bosnia and Herzegovina encountered economic problems even before the outbreak of the crisis. Particularly prominent is the high rate of unemployment, unfavourable structure of imports and exports, relatively low living standard, etc. Besides, there were certain open issues between the two entities – Federation and the Republic of Srpska. The outbreak of the crisis only worsened already difficult situation, first of all in terms of illiquidity growth and the number of the companies that are blocked. According to certain data in Bosnia and Herzegovina in 2008 almost 36000 companies were blocked.[8] Measures taken by some entities were different. Federal government took the following measures:

I – Fiscal measures – directed towards reducing budget deficit:

- Control of salaries and fees to officials and executives in government administration, organisations and agencies,
- Reduction of salaries to those employed in executive government bodies at all levels in order to save money in the budget,

[8] Measures for easing off consequences of the global economic crisis (2009), Government of the Federation of Bosnia and Herzegovina

- Reduction of all budget costs,
- Control of illegal employment and fight against 'grey economy' – which should bring about increase in budget revenues,
- After remedying of budget deficit – launching investments in infrastructural facilities.

II – Measures in the sector of economy and citizens – whose aim is to boost production and exports as well as increase liquidity of the economic sector and buying power of the citizens.

Some of the concrete measures were as follows:

- Subsidizing interest rates on loans for perseverance of liquidity and operating capital financing
- Subsidizing interest rates (50%) for consumer loans and leasing intended for buying domestic goods.
- Freezing certain obligations which economy should pay to the state.
- Directing a part of finances given by the IMF for development of agriculture, carrying out programmes of employment for those who participated in the war, increase of capital assets of Razvojna banka (Developing bank).

Another entity in Bosnia and Herzegovina – Republic of Srpska had a slightly different view of the crisis if compared with other countries in the region. In some materials the following statements can be found:' Regardless of the fact that in the last quarter of the year 2008, the influence of the world economic crisis did not have any impact on the economy of the Republic of Srpska, the fact is that the world economic situation does not recognize boundaries and its effects would come into force...»[9] It is very strange that the crisis affected the whole region in the last quarter of 2008 and was desperately seeking solutions while another entity concluded that crisis 'has not affected their economy yet.'

But, similarly as in the Federation, a certain package of measures was adopted which had several directions:[10]

I – Measures in the domain of state administration, directed first of all towards stabilisation of the budget and balancing of the decreasing revenues and increasing expenditures.

II – Measures in economy – directed towards finding solution for a painful issue of illiquidity, development, additional employment, increase of exports, etc. Many concrete measures, which are not analysed in this paper because of the scope of it, have not much in common with the global crisis, but current economic structure and numerous anomalies in economic development.

III – Measures in financial sector – are divided into three segments:

1) Capital market (improvement of corporate governance, systemic support to public issuing of stocks, development of debt instruments, increase in rating of the Republic of Srpska at relevant international institutions, education of the young and adoption of legal framework for the introduction of capitalised pension funds. Objectively speaking, these measures are more elements of the strategy for development of the capital market than measures to resist global crisis.
2) Banking – intensifying activities on strengthening bank capacities for all kinds of risk management, launching initiative for rescheduling of the loans granted to economy and citizens.
3) Pension funds – continuation of the reform of pension system and active work of Pension reserve fund.

According to all stated above there is a list of a huge number of operating measures, among which we would like to point out the following:

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[9] Measures for easing off negative effects of the world economic crisis (2009), Government of the Republic of Srpska

[10] Measures for easing off negative effects of the world economic crisis (2009), Government of the Republic of Srpska

- Starting up public works and infrastructural projects, so as to increase scope of domestic demand and increase of employment as well as total economic growth. In 2009 these means amounted to 667.3 mill KM and come from the following sources:
  - Means from the economic and social component of the Developing programme of the Republic of Srpska - 213 mill. KM
  - Budget of the Republic of Srpska 52.5 mill KM
  - Foreign loans – 291.5 mill. KM and
  - Other sources – 110.3 mill KM
- Provision of financial resources for the intervention measures for launching domestic production, exports and substitution of imports.
- Strengthening commodity reserves, food supply, as well as a set of measures which are more like a list of wishes and political promises given to voters, rather than serious measures that should ease off effects of the crisis.

Macedonia

Macedonia possesses a relatively simple financial system in which banks play the major role. According to official data[11] during 2008 only 2.8% of the total liabilities are based on borrowings from foreign banks. As the major source of Macedonian banking system has been in the form of domestic savings in the form of deposits by the economy and household, the crisis slightly affected it. More severe negative effects struck Macedonian Stock Exchange (MSE) where stock prices fell by 73.3% from 1 Jan, 2008 to 1 Jan, 2009, thus bringing Macedonia into a position to beat the records in the region.

In the real sector, after real growth of GDP by 5% in 2008, it is predicted that it would fall by approximately 2% in 2009. Macedonian Government adopted a set of 10 measures as follows: [12]

- Writing off the outstanding current liabilities for health insurance
- Writing off all accumulated interest payables of the liabilities for social care insurance benefits if the company pays the principal debt
- Writing off all accumulated interest payables of the unpaid tax liabilities if the company pays the principal debt (VAT, Income tax, Property tax, PIT)
- Opportunity for the company to postpone payment of the main taxes if the company secures the debt with a bank guarantee of 100% or offers mortgage worth 250% of the main liability. Exemption of income tax payment if the total annual profit is retained within the companies (if no dividends are paid)
- Reduction of the customs taxes
- Lower personal income taxation rates for the individual farmers
- Postponing of the payment operations law for a period of one year, for the companies which have blocked accounts
- Transformation of the tax receivables of the government into permanent share in some companies where the government is already the major shareholder/owner
- Reduction of all the Governmental spending.

In estimation of these measures we have to be reserved. Some of them, as in some other countries, represent an attempt to solve some accumulate problems from the past, while others represent measures to prevent recession. Time has proved that these measures have not solved one of the major problems Macedonian economy faced with – huge illiquidity. Thus, on April 21, 2009 the Government adopted a new set of measures which entailed 70 measures divided into 3 groups:

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[11] Global financial crises impact on Macedonian economy (2009), Center for Economic Analyses - CEA, downloadd from www.cea.org.mk

[12] Global financial crises impact on Macedonian economy (2009), Center for Economic Analyses - CEA, downloadd from www.cea.org.mk

I – Budget rebalancing for 2009 with a review of macroeconomic projections – where the budget got reduced by 9% with the aim to stay within a planned framework of deficit and perseverance of the national currency stability – denar.

II – Measures to credit support to economy – for which a credit line from the European Investment Bank has been introduced in the amount of 100 mill Euro plus about 50 mill provided by commercial banks. In this group there are programmes for co-financing of loans for operating capital, programmes for subsidizing interest rates for loans from commercial banks and programmes for guarantees. The aim of these measures was to give financial support to Macedonian companies, especially SMEs.

III – Other measures of support to companies – which did not entail loans, that is financing. In this group there are 54 measures which should facilitate business regulations, reduction of customs tax and make the overall ambience more suitable for investing, growth and development.

Being introduced short time ago, it is very difficult to give precise estimation of the effects of these measures. What is evident from Table 1 is a solid growth of MSE index from 2,096.16 in January 1, 2008 to 2,530.84 on August 20, 2009.

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The ebb in financial resources from the developed countries affected almost all countries of the Western Balkans region. Majority of these countries is still on the way of the process of transition, and is about to finish building up strong economic and financial system. Domestic savings are often not enough for carrying out ambitions investment programmes and projects. Thus, the whole region depends on the inflow of foreign finances. As that inflow was not satisfactory, the majority of the countries encountered the problem of liquidity. The liquidity crisis caused problems in payments, low economic activity and it was difficult to keep the balance of the public finances.

All countries reacted with hesitation and such reaction dealt with consequences and not real causes of the crisis. Open issue remains – whether each country was able to analyse causes of the crises or accepted crises for granted.

5. Conclusion

In this paper we have tried to show how global economic crisis 2008-2009 affected not only developed countries, but countries in the Western Balkans region. Measured by the fall in the stock exchange index, such decrease was much bigger if compared with the developed countries. As the crisis opened many issues in the developed countries such as whether it is a breakdown of liberal capitalism or the victory of state interventionism – so the region faced with its challenges which were often connected with certain problems in economic development and finding ways to fasten up growth after the crisis.

Global economic crisis pointed out effects of globalisation once again. It turned out that the world is interconnected and interlaced. The crisis affects all, maybe not equally, but with consequences for sure. The crisis showed certain gaps in international economic relations presented in the form of the so called ’economic nationalism’. What else should we say for the statements such as ’British jobs for British workers’ or ’would not American tax payers recover European economy’... Fortunately, such kind of nationalism did not spread in the Western Balkans region, what is very good, having in mind destructive effects of some other kinds of nationalism during the 1990s. Instead, awareness have been raised on the need for joint action so as to prevent the region to become a ’black hole’ in the eyes of the investors.

Our analysis pointed out the importance of proper understanding of the causes of the crisis. The causes in the most developed countries are not identical in comparison with the Western Balkans countries.

Here we can raise the following question – If there was no ’credit crunch’ would there be a crisis in the region? Most probably yes, because the wave of bubbles and surpluses in financial resources brought about creation of local bubbles. Having this in mind, it is probably that some prices should have been corrected and reduced. The scope of a disaster that the global economic crisis caused on one hand, and the underdevelopment of financial systems, first of all market and instruments of the countries in the region, affected the region much more than the developed countries themselves where the crisis began. Different causes required different measures and mechanisms of reaction. As crisis grew bigger in the real sector, so the measures became harmonised among different countries in the region. However, when one looks into the individual measures of the five analysed countries, the following directions can be traced:

1) Stabilisation of public finances, that is budget
2) Support to banks and financial institutions
3) Support to economy and citizens.

What all these measures have in common is the reaction against consequences not the cause of the crisis. Due to the scope of this paper, we were not able to give more comprehensive analysis of each measure. Also, in estimation of their efficiency we did not have time horizon long enough. However, it was possible to notice that many measures have not much in common with the global economic crisis. Many of them are the result of the previous economic problems, inadequate economic policy or simply the existing economic structure and numerous anomalies in the field of economy. Thus, global economic crisis in some countries could be a good opportunity to solve certain problems which they suffer from for a long.

It is evident that there is no uniform economy in the region. However, at the same time, there are many similar characteristics. We should not search for differences, because they can be easily identified. In the whole region there are many attractive factors such as: possibility of growth, developmental projects, infrastructural works, relatively developed investment infrastructure, relatively cheap labour, etc.

Each crisis, as well as the global one, brings about a lot of dangers which each country has already faced with. However, at the same time it brings about certain opportunities. The approach we recommend is to analyse crisis in a proactive way, through chances to correct irrational and illogical deeds (especially in public spending), make improvements and create healthy basis for the real growth when the overall economic climate changes.

The region has to be observed as one whole. Problems, missed activities, scandals in one country do not have negative effects that struck that particular country but have much broader implications. Joint problems require joint action. And the main aim of all countries in the region should be to make the region attractive and secure for investments. By the way, the principle of ’domestic market’ should not be ignored, where local markets represent natural field for many domestic small and medium enterprises (SMEs) to collect domestic capital through public issuing of stocks to ensure business expansion. Thus, huge fall in stock exchange indexes as a consequence of the fall in share prices must worry everyone in the region. It requires joint efforts and cooperation in finding solutions for open issues and problems. In the field of financial markets it is very important to provide exchange of data, publishing financial reports of the companies, transparency, respect of principles and standards of corporate governance, etc. The last, but not the least, the issue of education at all levels is very important, as a precondition for proactive approach in problem solving and responding to challenges brought about by the global economic crisis.

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