THE ECONOMIC ENVIRONMENT IN ALBANIA, BULGARIA, MACEDONIA FYR AND GREECE: A CROSS-COUNTRY STUDY[1]

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Introduction

The improving economic environment in the Balkan countries, which have been living through a period of a transition to a market type economy, can so far be described as sluggish and quite painful. The reforms carried out met with great difficulties and the policies for reform often went only halfway. Building up their market-oriented institutions was also delayed, which enabled various political and economic groups to openly defend (or not) their own interests, primarily at the expense of the national ones. So, unregulated economic interests have hindered the progress of economic reforms.

Economic history (including recent developments) has clearly revealed that there are no reasonable alternatives to the market type of relationships. Establishing them in the Balkan countries, however, has been hesitant and followed a meandering route. Much too often, implementing a given reform did not seem to be the natural result of necessity, an irreversible option for the country, but rather as if it were imposed or required by some external factors.

The countries examined in this study represent a central area of the Balkans. After two decades of membership in the ??, Greece is no doubt the political and economic leader, claiming to exercise a leading role in the Balkans – in the mid-term at least. The other countries are aspiring to join the EC and striving hard to establish more contacts, as intensive as possible, with the EC countries. Obviously, the most direct way is through more active economic relations with the closest (geographically) EC member-country – Greece.

Scale Characteristics

The intensity of economic ties between the individual countries depends most of all on their economic capacities. Various indicators are used to describe the economic power of a country. A frequently used indicator is the number of the population. Economic comparisons also include GDP indicators, both for the countries as a whole and per capita. Active foreign trade relationships too may imply the capacity of the economy to generate impulses with an impact on economic progress in the neighbouring countries.

Individual indicators describe the economic power of a country one-sidedly. The ideal case would involve constructing an indicator that would stand for the individual ones by summing them up and thus giving a complex and overall idea of economic power.

The individual countries' quota in the IMF represents one such specific complex indicator of their economic power. It is worked out by taking into account the size of the GDP of the country, its foreign trade, international currency reserves and the degree of variation over the years[2].

[1] This research was undertaken with support from the European Union's Phare ACE Program.

[2] *"A member's quota is broadly determined by its economic position relative to other members. A variety of economic factors are considered in determining quotas; these include members' GDP, current account transactions, and official reserves. When a country joins the IMF, it is assigned an initial quota in the same*

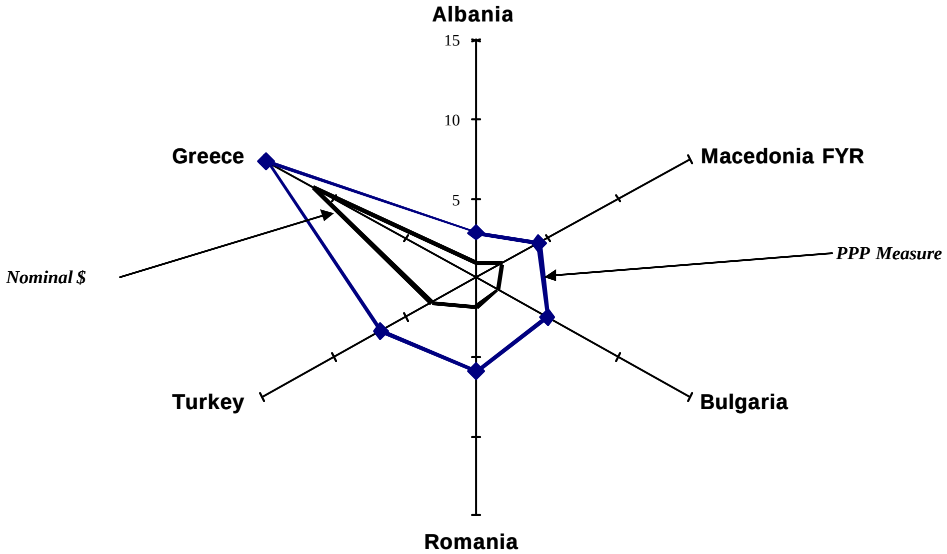
Figure 1 shows th? Balkan countries' quotas at the beginning of the twenty-first century. Contrary to expectations maybe, Romania enjoys the highest quota, which implies its greater economic weight in the region in the long-term. In terms of the population, Turkey dominates all the remaining countries, but it cedes in terms of economic indicators and foreign trade impact on them. Turkey is also the most distant country from the EC, both geographically and in economic and continental homogeneity.

The comparison of these countries becomes different if their GDP p.c. in nominal terms and PPP measures are examined (Figure 2). Then Greece looms large with its 6-10 times larger GDP p.c. in nominal terms and 3-5 times higher GDP p.c. in PPP-measure (1998). Catching up with this indicator for the other countries will obviously be a long process.

Figure 1. Quota in the IMF (m SDR)

Sources: IFS, IMF

Figure 2. GDP p.c. in Balkan Countries, 1998 (thousands of $)



Sources: IFS, IMF; Statistical Yearbook, Republic of Bulgaria, 1999. NSI, 533-534 pp.

range as the quotas of existing members considered by the IMF to be broadly comparable in economic size and characteristics." (IMF Internet Site www.imf.org);

What is striking is the unproportionately great distance between the relative deviation in both measures of GDP p.c. by countries[3]. While in Greece the PPP-measure is 28% higher than its nominal estimate, for the other countries of the region this deviation (ERDI) is within 2.2 (Turkey) to 3.3 (Bulgaria) times! A similar deviation is indirectly encouraging local exporters and creates favourable prerequisites for attracting tourists, but at the same is a form of unsanctioned leakage of national product. It is an indication too that the countries of this region have got room for real appreciation of the local currencies, the more so because a devalued currency will allow for more bigger producers and exporters, which in the majority go to foreign owners and investors with a real tendency for repatriating profit. The appreciation of local currency may be achieved under a relatively steady exchange rate and higher domestic inflation rates, i.e. inflation in the region's countries (without Greece) in the near future will be higher than in the developed market economies.

The significant deviation in the GDP p.c. estimates is a reflection of the relatively advantageous economic conditions as a whole provided to local exporters and foreign investors. The low nominal pay of local labour provides for a low relative share of labour expenses in the structure of production costs. The low nominal costs of stay and living expenses of foreign representatives in the Balkan countries in transition represent another additional advantage. This accounts for the relatively high demand for jobs, including those done by foreigners, in foreign organisations operating in these countries, as far as these provide them with very good opportunities for real personal savings. Of course, the respective risk bonus, which is still quite high for the transition countries of the region has no doubt to be taken into account as well.

Maintaining unduly high values of ERDI (high divergence between PPP and nominal measure of the GDP p.c.) tends to lead to other unfavourable consequences in the long run. Foreign companies and organisations in the host countrties may be able to afford giving high nominal pay according to local standards for jobs that do not require a lot of qualifications. This enables them to attract the local skilled and well-qualified staff for jobs that demand relatively low level of skills. Thus a process of a kind of "freezing" the local highly-qualified labour (consisting primarily of able young people) is started. The latter would defend the interests of their employers in their own countries whereas the jobs in the local public institutions are taken by local people too but of lower qualifications and potential. This results in a double negative effect – the cream of the local inteligentsia defends with its skills the interests of foreign companies in their own country, whereas the defense of local interests is left to people who have not managed to get a job with a foreign company.

All in all there is a substantial deviation in the size of GDP p.c. between Greece and the other countries of the region, but overcoming it is far from a mathematical task only[4]. The countries trying to catch up avail themselves of the advantage of the so called free rider, i.e they enjoy the privilege of directly implementing the know-how, both in production and management without having to pay the full costs of its creation and the hazards of its initial implementation. Scientific and technical breakthroughs in production and management are exogenous, assuming a broad information access. Developed market economies provide funding for scientific achievements and applications on a large scale but only a small part of them reach the stage of production. The transition economies pay for only what has proved viable in a real production setting. That is why the process of catching up assumes a non-linear form whose future development is predetermined by the extent and speed of implementing structural reforms on the one hand, and building up modern polictical, social and economic institutions on the other hand.

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[3] The relative deviation between PPP and the nominal measure of the GDP p.c. is called Exchange Rate Deviation Index (ERDI) in specialist literature. (P.Havlik**,** 1996, 39 p.);

[4] Recently analysts of the economies in transition have shown a growing interest in *the "convergence arithmetics"* (See M.Knell**,** 1996, 6 p.). They generally considered the time needed for economic convergence between the West and the East to be within 50-100 years. Such arithmetics is unacceptable. The GDP of Greece in 1980 for instance was USD 40.1 billion and in 1999 – USD 125.1 billion., i.e. there has been a growth in GDP in nominal USD terms of 211.6%. At the same time, growth in GDP in constant prices was 40.3%, i.e. more than 5 times lower (calculations used IFSY 2000 data, 498-503 pp.);

Financial Stability Assessment

All countries of the region which have gone (and are still going) through the stress of the transition from a centrally planned socialist economy to a democratic market economy suffered from financial instability, especially over the first 5-7 years after the 80s. Later on developments got steadier and more normal (Table 1).

Table 1. Consumer Price Index (CPI) in Balkan Countries

(%, period average)

	1993	1994	1995	1996	1997	1998	1999	2000
Albania	85.0	22.6	7.8	12.7	32.1	20.9	0.4	-0.2
Bulgaria	72.9	96.2	62.1	123.1	1061.2	18.8	2.6	10.4
Macedonia FYR	338.7	127.5	15.7	2.3	2.6	-0.1	-0.7	6.1
Romania	256.1	136.7	32.3	38.8	154.8	59.1	45.8	45.7
Turkey	66.1	106.3	93.7	82.3	85.7	84.6	64.9	54.9
CEE	79.9	45.6	24.7	23.3	41.8	17.1	10.9	12.8
Greece	14.5	11.2	11.2	7.3	6.8	5.1	2.8	3.1

Source: World Economic Outlook, IMF, May 2001

Over the last three years of the twentieth century, Bulgaria, Macedonia FYR and Albania have managed to get inflation under control. CPI remained at an annual average of 10% or even less, which may be described as a considerable achievement. Inflation rates are comparable to and even lower than the average figure for CEE. It is not economically justifiable to expect or ask these countries to maintain a one-digit inflation rate in the near future, comparable to those in the ??, especially Greece.

The two big Balkan countries - Roumania and Turkey - however, told a different story. Turkey has chronically, and for a long time, maintained high inflation rates and its economy is almost unique in its way of combining high inflation rates and positive economic growth rates. Romania does not intend to give in to ucontrollable, high inflation figures, the more so because it hopes to join the ?? in the near future. Despite that, it failed to suppress domestic price increases in the 90s, due to both the sluggish pace and lack of consistency in carrying out structural reforms and its domestic political controversies.

A prerequisite for the expected steadier price level in the transition economies of the region at relatively higher inflation rate levels compared to those of the EC member states, and especially to Greece, is the present big gap in the general price levels among these countries, on the one hand, and the EC, on the other hand. The price level in Albania, Bulgaria and Romania in 1998 accounted for about 28% of the average price level in the EC, in Macedonia FYR – by some ten percentage points higher, whereas in Greece it was about 80%[5]. The nominal price level in the less developed economies has always been lower than in the more developed ones. Such a dramatic difference cannot be maintained, however, given that the less developed countries tend to gravitate towards an economic union with the more developed ones. Moreover, a similar union is practically impossible under these circumstances. The objective development of integration processes implies price convergence although at a slower pace, while taking into account the convergence of what is economically possible and realistic.

Domestic price development is naturally linked to exchange rate developments. The data in Table 2 and Table 3 show the change in the exchange rates of the countries in question to the USD and DEM. All three countries (Albania, Macedonia FYR and Bulgaria) achieved a steadier exchange rate over the

[5] The data in this part were taken from international comparisons, made under the supervision of Eurostat and OECD and published in the Statistical Yearbook of Republic of Bulgaria (1999, 535 p.);

last four years of the twentieth century which was more clearly noticeable with respect to the DEM (EUR) than to the USD. This process reflected these countries' striving to join the EC countries.

Table 2. Exchange Rates for Balkan Countries' Currencies

(National currency/USD, Period average)

	1994	1995	1996	1997	1998	1999	2000
Albania	95.0	93.0	105.0	149.0	151.0	138.0	144.0
Bulgaria	0.1	0.1	0.2	1.7	1.8	1.8	2.1
Macedonia FYR	43.3	37.9	40.0	50.0	54.5	56.9	65.9
Romania	1655.0	2033.0	3084.0	7168.0	8876.0	15333.0	21709.0
Turkey	29.6	45.8	81.4	151.9	260.7	418.8	625.2
Greece	243.0	232.0	241.0	273.0	296.0	306.0	365.0

Source: International Financial Statistics, IMF, March 2001

Table 3. Exchange Rates for Balkan Countries' Currencies

(National currency/DEM, Period average)

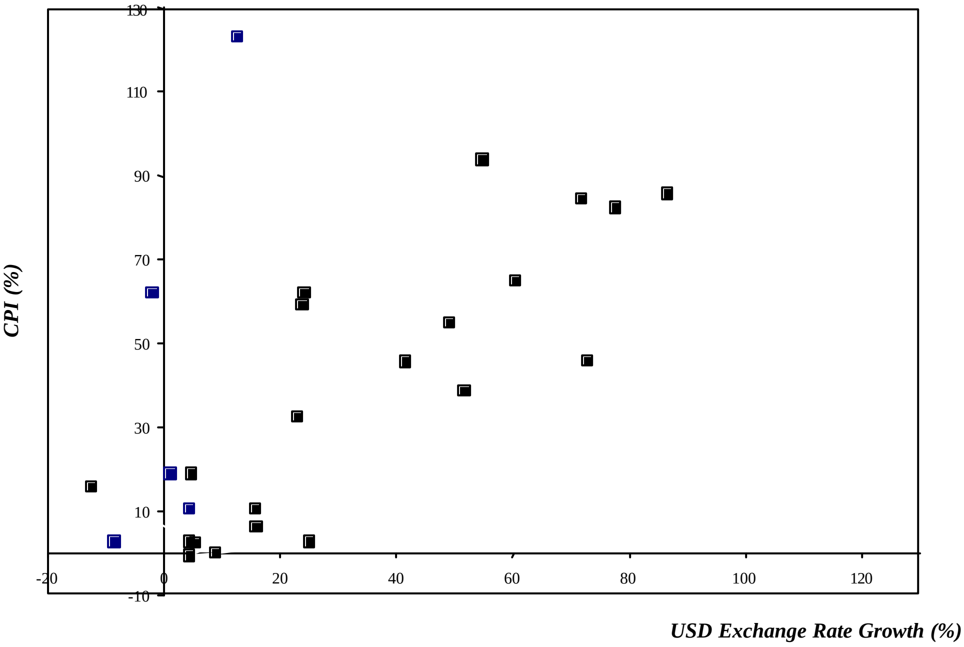
	1994	*1995*	*1996*	*1997*	1998	*1999*	*2000*
Albania	58	65	69	86	86	75	68
Bulgaria			0.1	1.0	1.0	1.0	1.0
Macedonia FYR	27	26	27	29	31	31	31
Romania	1020	1419	2050	4133	5044	8352	10226
Turkey	18	32	54	88	148	228	295
Greece	149	162	160	157	168	167	172

Source: International Financial Statistics, IMF, March 2001

Inflation figures in all countries of the region (without Greece) directly correlated with the dynamics of the exchange rate. A cross-section data on Figure 3 outlines the rectilinear positive correlation between exchange rates and inflation figures. Notwithstanding their conventional representation, the data in Figure 3 illustrates the possible way towards price stability – through establishing steady exchange rates. This approach to stabilising inflationary processes has been adopted by the three countries in question (Albania, Macedonia FYR and Bulgaria) and their macroeconomic management has declared a readiness to continue abiding by it in the future too.

Choosing the foreign exchange regime has been a key element in the stabilisation programmes of almost all East European countries, as far as the major macroeconomic indicators prove very sensitive to exchange rate fluctuations (Brada J., Kutan A., 1999, 19 p.). The three countries of this region have resorted to different approaches for stabilising their foreign exchange rates. Bulgaria has adopted the most radical approach by introducing the currency board arangement in mid-1997, initially pegging its own currency to the DEM, and then to the EUR. Bulgaria had the unhappy experience of maintaining an unsuitable exchange rate (it suffered from hyperinflation in 1997). The currency board, introduced later, acted like a straight-jacket for both politicians and reckless bankers and has brought inflation down to a single-digit level. Macedonia FYR used a softer approach, although their national denar was practically pegged to the DEM (EUR). Local exports have no doubt benefitted from a moderate devaluation of the denar against the USD. Albania continued to maintain an independently floating exchange regime and still managed to keep the exchange rate and inflation figures within an acceptable range. Romania maintained an independently floating exchange regime too, but it failed to curb inflation by means of its macroeconomic policy tools. The case of Turkey has been an example of inconsistent structural reforms, especially in the light of economic and financial crises on the threshold of the twenty-first century.

Figure 3. USD Exchange Rate and CPI in ALB, MAC, BUL, RUM and TUR (on average annual basis, 1995-2000)



The steady exchange rate and inflation figures maintained by the three countries over the last four years have created good prerequisites for accelerating investment.[6] The continued period of stabilisation is linked to positive expectations for sustainability in the future. Investors may well be planning their activities, and can assess and take risks in a stable economic environment.

The data in Table 4 confirmed the hypothesis for a dependence between price stability and economic growth in these countries. Albania, Macedonia FYR and Bulgaria (as well as Greece) enjoyed steady and positive economic growth rates over the last three years of the twentieth century, unlike Roumania and Turkey. This dependence has not been so direct and simplified, but still stabilisation is conducive to the creation of a real environment and conditions for economic growth, which would not take long to manifest themselves.

Table 4. GDP Growth in Balkan Countries

(%)

	1993	1994	1995	1996	1997	1998	1999	2000
Albania	9.6	9.4	8.9	9.1	-7.0	8.0	7.3	7.8
Bulgaria	-1.5	1.7	2.8	-10.2	-7.0	3.5	2.4	5.8
Macedonia FYR	-7.5	-1.8	-1.1	1.2	1.4	2.9	2.7	6.0
Romania	1.5	3.9	7.1	3.9	-6.1	-5.4	-3.2	2.0
Turkey	7.7	-4.7	8.1	6.9	7.5	3.1	-4.7	7.2
CEE	0.3	3.5	5.5	4.0	2.5	2.1	1.8	3.8
Greece	-1.6	2.0	2.1	2.4	3.5	3.1	3.4	4.0

Source: World Economic Outlook, IMF, May 2001

[6] "*Stability is not everything, but without stability everything is nothing*" (K.Schiller, West Germany's Finance Minister, 1966-72; "*Transition*", vol. 5, N 4, April 1994, 4 p.);

IMF Activities in the Region

The countries in this area have maintained intensive contacts with the IMF (Table 5). Bulgaria has been the most active country in this respect, ranking first among the Central and Eastern European countries in terms of credits received from the IMF per capita. Bulgaria unilaterally imposed a freeze on its foreign debt servicing in the spring of 1990, which led to its isolation from the international financial markets at the time when it needed financial aid most. Under the circumstances, IMF resources became almost the only source of fresh finance to back its transformation into a market economy.

Table 5. Relations with the IMF

	Bulgaria			Romania			Albania			Macedonia FYR		
	Purchases	Repurchases	Total Fund Credit & Loans Outstdg.	Purchases	Repurchases	Total Fund Credit & Loans Outstdg.	Purchases	Repurchases	Total Fund Credit & Loans Outstdg.	Purchases	Repurchases	Total Fund Credit & Loans Outstdg.
1991	289.2		289.2	565.8		565.8						
1992	200.3	60.6	428.9	338.5	153.4	750.9	9.7		9.7			
1993	31.0		459.9			750.9	11.9		21.6	5.0	2.2	2.8
1994	232.5	48.0	644.4	245.1	89.6	906.4	15.5		37.1	12.4	1.2	14.0
1995		162.3	482.1	37.7	245.8	698.3	7.1	0.8	43.4	24.8	0.7	38.1
1996	80.0	154.9	407.2		245.4	453.0		5.7	37.7	9.9	0.6	47.4
1997	355.2	64.4	698.0	120.6	98.4	475.2	8.8	5.8	40.7	18.2	0.3	65.3
1998	228.9	134.7	792.2		92.3	382.8	5.9	0.9	45.7	9.1	1.7	72.7
1999	209.2	90.7	910.7	53.0	102.0	333.8	15.5	2.5	58.7	13.8	12.4	74.1
2000	209.2	105.3	1014.6	86.8	72.9	347.7			58.7	1.1	14.7	60.5

Source: IMF

By the end of 2000, Bulgaria successfully fulfilled its three-year EFF agreement with the IMF, which was supposed to expire on 24 September, 2001. Albania has managed too to fulfill its three-year PRGF agreement with the IMF, scheduled to expire on 12 May, 2005. In Macedonia FYR the IMF is currently carrying out an active programme. Progress in discussions on a three-year programme, supported by a mix of funding from the PRGF and the IMF General Resources Account, will require the authorities' strong commitment to structural reforms – particularly to enterprise privatisation. As far as IMF involvement goes, and it has almost always been positively viewed by investors, the countries' cooperation with the IMF has been a sign of a brighter outlook.

Cooperation with the IMF has no doubt had a positive impact on stabilising a country's economy, notwithstanding that this cooperation was quite often subject to domestic criticism. A detailed analysis of the ten-year long relationships of Bulgaria with the IMF revealed specific aspects which are typical of the relationships of the other countries of the area with the IMF too. (Minassian G., 1999, 26-27 pp.)

From the point of view of positive impact:

- Over the 90s, countries availed themselves almost continuously of IMF financial support, granted at the best lending terms (in terms of price of the credit) on a global scale.

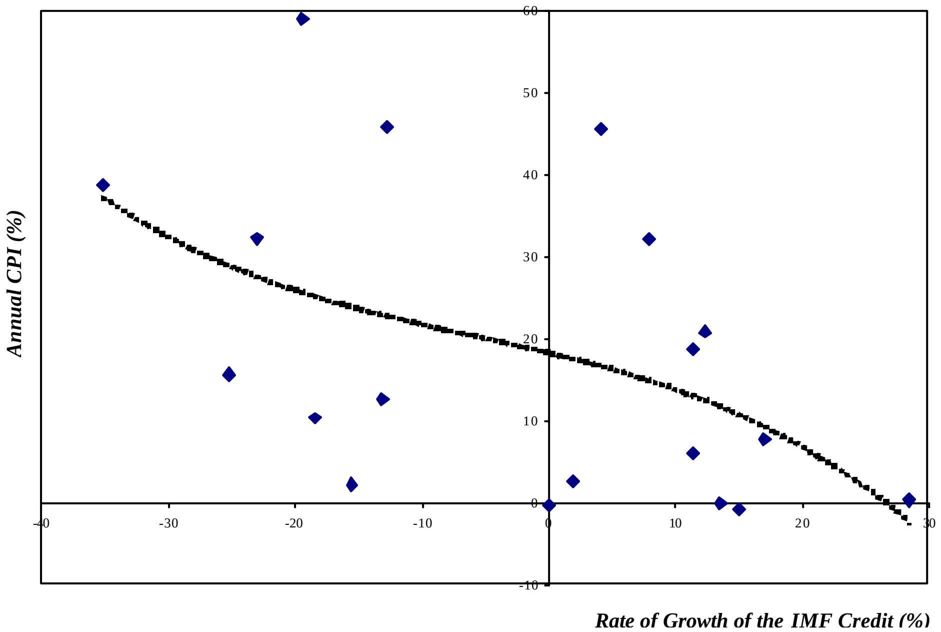
- Relationships with the IMF have correlated positively with the size of external financing of the BOP. Statistics have shown that IMF agreements positively encouraged relationships with foreign institutional and private investors and increased their confidence in the economic reforms carried out in the country.

- There is statistical evidence that the IMF-supported programmes have had a positive impact on stabilisation and the economic growth rates. In this sense these relations have been promoting economic prosperity.

The empirical dependence between the financial support of the IMF (in terms of growth in the total fund credits and loans outstanding), and mid-term inflation on the other hand, is depicted in Figure 4 Information was based on the cross-section data for 1995-2000 for the countries mentioned[7]. There is a clearly outlined negative correlation with a pronounced assymetry – decline in IMF aid used to cause a quicker deterioration of the environment (in terms of higher inflation rates), rather than vice versa.

The national managerial elite has resorted to IMF requirements as an external imperative for carrying through some unpopular but badly needed economic and political policy measures. The IMF, in this way, at first (willingly) acted as a kind of lightning–conductor of the negative emotions inside the country, and then enabled the national macroeconomic management to build on their own popularity and finally on their effective management in terms of a market economy too[8].

Figure 4. IMF Credit and Inflation in ALB, BUL, MAC and ROM (Cross-section data, 1995-2000)



Dealing with IMF representatives has no doubt been of great benefit to the local economists and politicians in terms of increasing the competence, and refining the judgement and skills of the local management structures.

Last but not least, the access to the very rich information sources of IMF and the great variety of research projects has raised the level of economic awareness and substantially contributed to the improved quality of research work in the country.

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[7] Some extreme cases were crossed out, such as the case of Bulgaria in 1977, when average annual inflation rates exceeded 1000 %;

[8] "*The government probably knows what has to be done, but rather than take responsibility, finds it convenient to blame the IMF when it has to act*" (St. Fisher, 1998, 4 p.). "*Weak governments like to be able to reduce the domestic pressure applied by interest groups and political parties by pointing to the need to respond to an alternative pressure coming from outside*" (H. Games, 1998, 45 p.);

The possible criticisms to the IMF behavior and strategy in Bulgaria could be:

- Doubts about the strengths of the methodological tools for forecasting economic development, used by the IMF. The data available has suggested some possible incompatibility of forecasted macroeconomic indicators, which in turn might mislead macroeconomic management;

- Unclear and non-economic criteria used in the IMF's practical applications. Such ambiguity and lack of transparency are likely to cause caution and suspicion;
- Inflexibility shown in the search for solutions within a given economic thinking. Unsatisfactory outcomes should be a good reason for rethinking even some of the initial prerequisites. Besides, the IMF is not to be held responsible for unfavourable outcomes[9];

- Inconsistency in asking for some concrete managerial policy measures. This is bound to raise doubts about the approach the IMF policy recommendations were based on. Due to weaknesses in working out the policy prescriptions, the national macroeconomic management is likely to take them lightly or be neglectful of fulfilling them.

- The IMF have not tried hard enough to attract and involve representatives of the various political forces and non-government organisations in working out the policies recommended. As a result, the macroeconomic measures taken remained controversial and did not enjoy the necessary broad support[10].

- The detailed description of government policies does not promote creativity in macroeconomic management. This might be the reason for the relative state of vacuum of economic management ideas that the government found itself in during the periods of IMF withdrawal.

The experience of the 90s has shown that, irrespective of the ups and downs in the relationship of the Balkan countries with the IMF, the latter's presence in and commitment to the social and economic situation there have had an overall positive impact on building up the conditions and prerequisites for sustainable development. The IMF's presence in this respect has been a good background and acted as the basis, implying the availability of acceptable conditions for greater economic expansion. It created and maintained the feeling of certainty in carrying out the reforms as a condition for the development of the economy and for generating positive expectations.

Institutional Quality: The Level of Corruption

Macroeconomic policy, known as the "*Washington Consensus*", assumed that steady economic progress in the emerging market economies could quickly and easily be achieved by means of liberalising trade, fast privatisation and macroeconomic stabilisation. This model has not proved very successful in the East European countries. The lack of harmony was due to the delayed building up of market institutions, which hindered the all-round establishment of the market way of thinking[11]. The

[9] This has particularity been noticed by other analysts too. D.Kapur (1999, 37 p.) noted that the IMF "*takes over more and more of a country's decision-making process, without any commensurate increase in accountability*";
[10] It is naive to think that in the Bulgarian conditions of the early 90s a consensus on economic policy would have been possible, but a greater public support might have been made possible. It is sad, however, to find out that the Bulgarians were the greatest pessimists of almost all Eastern Europeans with respect to their country's future economic prosperity (J. Kornai, 1998, 146 p.);
[11] According to J. Stiglitz, economist-in-chief of the World Bank, the prerequisistes mentioned determined the road to the end and not the end of the road.. "*The East Asian crises brought home the point that institutions also play a big role in development*" (Gopinath D., 1999, 66 p.). See too Economic Survey of Europe, UN/ECE, No. 2, 1999, 4 pp.;

lack of the financial and institutional infrastructure required shifted results away from expectations and distorted the nature of economic interactions.

Creating efficiently functioning market institutions is an imperative prerequisite for social and economic progress of long-term consequences. According to D.North, institutions play a much more fundamental role in society than is generally considered. "*They are the underlying determinant of the long-run performance of economies*" (1990, 107 p.).

D.North defined institutions as constraints created by people and imposed on their political, economic and social behaviour. "*They include habits and customs as well as formal constraints such as laws*" (Pressman St., 1999, 175 p.). Efficiently performing and stable institutions create the necessary and indispensable environment which will enable business to expand and let market interactions improve.

The quality of institutions is a category which directly correlates with the possibilities of the economy to generate economic growth. A specialist opinion can be quoted for saying that the quantitative expression of the extent of the contribution of research and development as an element of the production function is connected with the quality and performance of institutions.(J. Aaron, 2000, 102 p.). All else being equal, research and development and organisational factors in the countries have a different impact on the overall factor productivity, and this relationship is materialised by the institutional environment. Even net quantitative (extensive) growth in direct production factors such as labour and capital is less efficient when institutions do not provide for the favourable and stimulating environment required for their combined action. In other words, the presumption for increasing and even constant returns to scale of production cannot be automatic provided the institutions perform poorly.

The quality of the institutions is related to the quality of the official statistical data provided by the country. Poor macroeconomic management tends not to pay enough attention to providing information to the public, and therefore information institutions do not develop well and fast enough. On the other hand, a good information environment and social and economic statistics of good quality contribute to the right assessment of the situation and risk-taking in order to make the right investment decisions[12]. The system of social and economic statistical information is an element of the environment which makes economic expansion possible[13].

A sound and reliable institutional environment induces and maintains the main component of constructive microeconomic behaviour – the trust of economic agents and the public in government policy. The trust in the major government and financial structures is the foundation of the state system, discipline and, finally, of long-term social and economic prosperity. Conversely, the lack of trust may have devastating consequences.

The principles were formulated by the English economist J. Williamson (chief economist in the World Bank for South Asia) in 1989. The "*Washington Consensus*" was used to denote ten reforms which the transition and the developing countries had to follow (Aziz J. & R. Wescott, 1997, 5 p.): trade liberalisation, fiscal discipline, efficient priorities for social expenditure, tax reform, financial liberalisation, privatisation, deregulation, guaranteed ownership rights, domestic investment provision, maintainance of competitive exchange rate regime to support exports. The ten prescriptions were not formulated very precisely. J.Williamson himself later admitted that "*many people see it as an extreme form of market fundamentalism*" ("*Institutional Investor*", September 1999, 66 pp.);

[12] In 1998 the Technical Assistance to the Statistics team of the World Bank Development Economics Data Group conducted a survey to assess the quality of statistics in a number of transition countries. The findings suggested that Bulgaria had a satisfactory level of the quality of statistics (comparable with the transition countries in Central Europe), with Macedonia FYR well below the satisfactory level (comparable with Russia) and Albania was given one of the lowest estimates. There was a strong correlation between average data quality and GDP p.c. (in USD) in the countries in transition ("*Transition*", vol. 10, N 4, August 1999, 22-23 pp.);

[13] The negative statement has more impact and is more precise: the poor local system of social and economic information hinders economic expansion.

Institutions are poor and inefficient when there are no rules and regulations available, or if those already in place allow for their inefficient functioning, or else – useful and appropriate rules are not being followed.

The creation of long-lasting working institutions is in reverse correlation with the material and power interests of the managerial elite. The vague institutional environment enables a tacit and secret redistribution of material resources without the corresponding social sanctions. On the other hand, the achievements of stabilisation could not last if the required institutional foundation were missing to affirm them.

It would not be an exaggeration to state that a great part of failed macroeconomic management decisions were due to the missing efficient institutional solutions. The permanent scandals arising in connection with the participation of the governing elite in various forms of redistribution of national wealth had proved how strong the material interests were and revealed the ensuing restraint from radical institutional settlement of these problems.

The secret and closed procedures taking place in various spheres of public and economic life are proof of the negative outcomes of maintaining a poor institutional foundation. Privatising state-owned enterprises attracts the interests of a considerable number of economic groupings with clear-cut lobbies in the highest circles of power. Clear and transparent rules and codes of conduct of the authorities will restrict and eliminate opportunities for unregulated favours and make up a part of institutional building. The hidden (and not only) resistance of the people and circles involved and enjoying access to redistribution blocks any modern institutional settlement to the problem. As a result, old and inefficient economic structures are being maintained and new ones created too, which finally amounts to hampering economic growth.

A telling example of such a stop to economic activities is widespread crime. No investor will be ready to put money into an environment where rackets are highly possible without any efficient official sanctions. Milder forms of economic crime are connected with the evasion of economic restrictions such as customs duties, taxes, VAT etc. by means of bribing the respective officials. Eventually this creates a greenhouse environment for specific economic agents and comes to unfair competition with the ordinary producer falling out of favour. The spiral starts rolling and this finally acts as a barrier to economic activities. The solution again is purely institutional, but it is not in place.

The inefficiently functioning legal system also has to do with economic activities. It creates uncertainty and unpredictability of developments at microeconomic level as far as unsanctioned crime cripples the prospects for economic enterprise. Part of social energy is spent on making up for the poor performance of legal institutions and the consequences include not least inhibiting the public mind. Problems become clear, consequences are felt, but the strength of personal and group power and material interest prevails over the possibilities for creating positive economic prospects. A number of amendments to the laws in force are made without, however, affecting and removing the clauses critical for the poor legal performance.

The pressure of international financial institutions (IMF), as well as of the respective EC authorities for progressive institutional moves, must therefore be viewed positively. Unfortunately, this pressure looks to mean above all that society has not become mature enough to take charge of its own problems. Thus, the engine of the positive movement (as far as it is available) has been external pressure rather than a real and clear awareness of its necessity.

Table 7 represents an attempt at assessing in parallel the specific economic environment in the four Balkan countries. What immediately jumps at you is the over-large number of licences and registration regimes required in the three countries in transition – Bulgaria, Macedonia FYR and Albania. The trend towards reducing these restrictions is quite noticeable in Bulgaria, which had gone through an economic collapse in the mid 90s. Introducing the currency board has obviously contributed to strengthening the discipline of politicians and various economic players. In addition, the open and insistent strive towards integration into the European economic and political structures has subordinated the pace of economic reform to the European requirements. This has definitely had a very beneficial impact on the overall economic climate in the country.

Choosing the right foreign exchange regime is also of crucial importance for stabilisation. Over the last three/four years, the three countries (Albania, Bulgaria and Macedonia FYR), each in its own way, have succeeded in putting inflationary developments in their countries under control. The steady exchange rate has definitely created the prerequisites for planning some long-term investment. Bulgaria has had the unhappy experience of maintaining an unsuitable exchange rate (it suffered from hyperinflation in 1997). The currency board, introduced later, acted like a straight-jacket for both politicians and reckless bankers and has brought inflation down to a single-digit level. Albania goes on sticking to an independently floating exchange regime and it is still managing to keep the foreign exchange and inflation rates within a reasonable range. In Macedonia FYR, the denar has moderately depreciated to the USD, which has undoubtedly favoured local exports.

The domestic foreign exchange and capital markets in the Balkan countries in transition have continued to exist and function at a primitive level. External interest remained highly restricted as well as the participation of domestic companies, which was very symbolic. They could both be attributed to the delayed establishment of efficiently performing market institutions, too. The lack of one compulsory element of any market economy – the capital market – can be said to have so far undermined the functioning of market forces as a whole to a great extent.

The conflicts in Yugoslavia can certainly be held responsible for their negative impact on the development of institutions and market relationships in the three countries (Bulgaria, Albania and Macedonia FYR). The country risk has significantly risen, domestic efforts at carrying out reforms had to take into consideration processes taking place in the region. The movement of goods and people was restricted and this has brought about the unleashing of criminal activities.

The existing abundence of restrictive, licensing and registration regimes has made it possible for bureaucracy and corruption to flourish. Table 6 shows the development of the Transparency International Corruption Perception Index. The *Rang coef.* denotes the coefficient:

$$\textit{Rang coef.} = (1\text{-}R/N)*100\%,$$

where R is the country's rank in the list for the respective year, while N= the number of countries studied in the sample. The *Rang coef.* can give an idea of the relative ranking of the countries – those with values close to 100% denote the absence of corruption or a lower level of it and vice versa.

All countries of the Balkan region suffer from corruption by tradition. Even Greece, after its two decades of EC membership, although it is logical for it to be in a relatively better situation than the other Balkan countries, has not managed to leave the middle of the table. Bulgaria, of the other countries shown in Table 6, has made some progress, both in absolute and relative terms, although it still remains in the second half of the ranking by CPI. Corruption in Macedonia FYR in 1999 compares to that in Bulgaria, whereas the situation in Albania is much worse and in Romania and Turkey it is unstable.

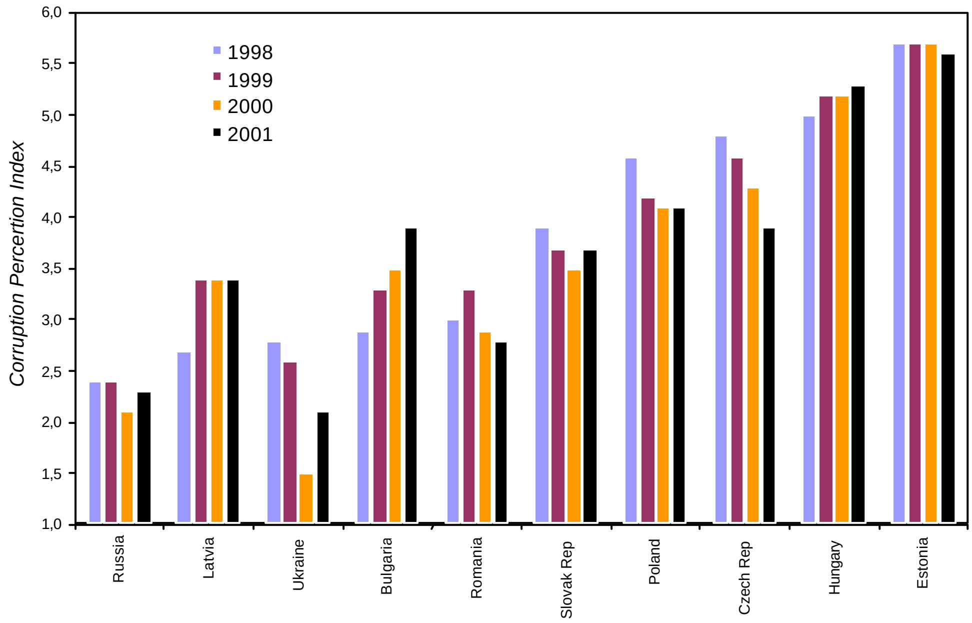
To enable a comparison, Figure 5 shows the change in CPI for the Central and Eastern European countries. Estonia and the countries of the Vishegrad group of four are way ahead in this ranking. This fact is quite revealing for the long way that the transition countries of the Balkan region have still to go towards establishing long lasting and steady market institutiuons.

Table 6. Transparency International Corruption Perception Index

	1998	1999	2000	2001
Greece	4.9	4.9	4.9	4.2
Rang coef. (%)	(57.6)	(62.9)	(61.2)	(53.8)
Albania		2.3		
Rang coef. (%)		(13.4)		
Bulgaria	2.9	3.3	3.5	3.9
Rang coef. (%)	(22.4)	(35.1)	(42.2)	(48.4)
Macedonia FYR		3.3		
Rang coef. (%)		(35.1)		
Romania	3,0	3,3	2,9	2.8
Rang coef. (%)	(28.2)	(35.1)	(25.6)	(24.2)
Turkey	3,4	3,6	3,8	3,6
Rang coef. (%)	(36.5)	(45.5)	(44.4)	(38.5)

Source: Internet, www.transparency.de/documents/cpi/index.html

Figure 5. Transparency International Corruption Perception Index



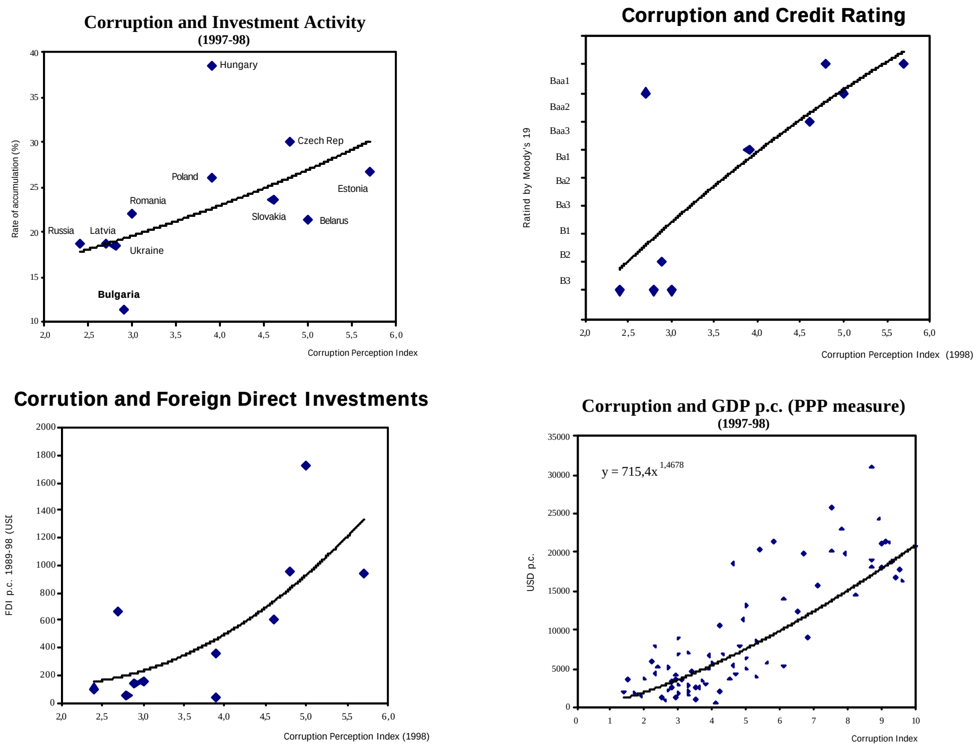
The issue of measuring the corruption index exceeds the purely amateur interest in exotic measurements. Corruption and crime are factors, and a consequence, arising from the poor performance of institutions.

Comparing the Central and Eastern European countries, undergoing a similar change in their economic environment, has helped reveal a dependence worthy of note (Figure 6). There is a strong dependence between the level of investment activities (measured in terms of gross capital formation in GDP) and the corruption level. This is more so about the Balkan countries surveyed – in view of their exceptionally low rate of gross fixed capital formation.

The rate of corruption has proved to exercise a negative influence, both on the country's credit rating and the volume of direct foreign investment. The credit rating of the region is still far below the one on this scale considered to be good enough to recommend investing in this country.

The data, illustrated by Figure 6 show that each unit of improved corruption index correlates to a 3.3 percentage points higher rate of gross capital formation. Corruption tends to suppress growth in GDP per capita[14].

Figure 6



If a country enjoys a low international confidence and a low level of lack of corruption, it is impossible for it to improve its standing in the international financial circles. It is also unrealistic for this country to expect an improvement in its key macroeconomic indicators to a level acceptable on a world scale, provided it keeps at the same time unacceptably high levels of corruption. Corruption proves to be a kind of "chain" hindering progress, so any further economic advance implies the successful solution to this problem.

The comparison of the economic environment in the individual countries should outline the engines of economic progress, taking into consideration the opportunities and possibilities for bilateral cooperation, including: a key factor is the industrial complementarity among the countries; the European perspective provides important additional stimuli and restrictions. The informed creation of positive expectations, which is a by-product of well-built and efficiently functioning market mechanisms, and the transparency of macroeconomic decision-making will certainly contribute to establishing and further promoting cross-border confidence and cooperation.

Good institutional organisation is a must for the constructive economic environment. Poor institutional quality maintains high transaction costs which distort market signals and redirect economic activities in the wrong way. An indicator of the quality of the institutions is the predominance of small-scale capital whose task is to accumulate profit in the short-term, while definitely avoiding any long-term commitment. Poor institutional quality undermines entrepreneurial efforts (as seen by Shumpeter) too, and economic progress is impossible without them.

Specialised research states that economic progress in emerging countries cannot only be achieved by means of individual macroeconomic decisions concerning certain aspects of economic life

[14] This is the conclusion drawn by the empirical study of P. Mauro (1996, 11 p.);

(liberalisation, privatisation etc.), but also, and especially, through combining and complementing macroeconomic policies (Aziz J. & R.Wescott, 1997). Both stabilisation and some other separate macroeconomic achievements cannot, by themselves, provide for stable and sustainable macroeconomic success. Building modern market institutions is probably the link between macroeconomic policies, which will lay the steady and long-term foundation of economic and social progress.

Historical experience has shown that, unfortunately, the process of institutional building takes much more single-minded efforts, political will and time than other obligatory elements of the transition to market economy. That is why perhaps, at this stage, the Balkan countries need consistent, effective, timely and well-balanced external assistance and aid.

Other Comparative Indicators

Table 7 makes an attempt at tracing in parallel the special features of economic development, determined by legal regulations concerning business relationships in the four countries of this survey. Greece is used much more as a benchmark in its capacity as an EC member, the EC towards which the other countries are more or less trying to gravitate.

Of the four countries, only Albania has not adopted Article VIII of IMF's Articles of Agreement, i.e.Albania has not liberalised the current account of the BOP. Crossborder currency flows for current needs are not subject to any restrictions in the remaining countries.

There are no restrictions on the import of capital in the above mentioned countries either. The capital and financial account of BOP was fully liberalised in Greece and Bulgaria. Bulgaria introduced the Foreign Currency Law in early 2000, which completely liberalised its capital and financial account[15]. In compliance with this law, all major foreign exchange deals should be registered by the Bulgarian National Bank (BNB) for statistical purposes only. However, the BNB avails itself of its registration right to exercise indirect control on transborder capital flows, as far as there may be a potential need for the Agency in charge of fighting money laundering to identify the source of the capital declared. No restrictions are envisaged by this law on transborder movement of legal capital.

The extent of capital and financial account liberalisation correlates with the requirements for foreign exchange earnings repatriation too. The strictest requirements in this respect are in Albania, they're softer in Macedonia FYR, whereas in Bulgaria and Greece there are none.

Almost all types of export duties have been removed in the countries of the survey. There is a different story concerning import duties and taxes. Greece represents the extreme case of fully liberalised import (duty free). The other countries maintain a differentiated structure of duties with a trend towards reducing the average custom duties rate. Here Bulgaria leads, and by the beginning of the twenty-first century the latter was reduced to below 10%. Albania and Macedonia FYR go on keeping relatively high custom rates.

[15] Liberalising the capital and financial account of BOP in emerging countries is not unanimously supported by scientists. As a rule it is recommended to carefully track transborder movement of capital and objectively evaluate the possible and probable positive and negative effects. A certain sequence in liberalisation is recommended too: "*liberalise longer-term flows before short-term, and direct investments before portfolio capital flows*", because capital account liberalisation is not an "*all or nothing*" affair (R. Johnston, 1998, 21 p.).

Table 7. Albania, Bulgaria, Greece and FYROM: Comparative positions as of beginning of 2000

	Albania	Bulgaria	Greece	Macedonia FYR
Exchange regime	Independently floating. In special cases and with prior approval from the Bank of Albania, foreign exchange may serve as a means of payment.	Currency Board vis-à-vis DEM (EUR from 01.01.1999). Bulgarian National Bank is required to sell and purchase on demand and without restriction currencies of the former EMU member countries on the basis of spot exchange rates (1.95583 BGN/EUR) that may not differ from the official exchange rate by more than 0.5%.	Pegged exchange rate within horizontal bands. The exchange rate for the drachma is determined in the domestic and foreign interbank markets, as well as in daily fixing sessions in which the Bank of Greece and authorised commercial banks participate. Greece is member of the ERM of the EMS, and was admitted to the ERM II on 01/01/99.	Conventional pegged arrangement vis-à-vis DEM (EUR) The exchange market operates at two levels: wholesale (enterprises, commercial banks, and the National Bank of the Republic of Macedonia - NBRM) and retail (households). The NBRM participates in the wholesale market to maintain the value of the denar against the DEM at a level that would meet balance of payments objectives. Buying and selling rates for transactions between authorised banks and enterprises have to be reported to the NBRM, which calculates an average daily rate. Based on this rate and cross rates on the international market, the NBRM publishes rates for 22 currencies. The NBRM deals at the published midpoint rates plus or minus a margin of 0.3%.
Exchange Rate structure	Unitary	Unitary	Unitary	Unitary
Exchange tax	No	No	No	No
Forward exchange market	No	No	The BOG provides credit institutions forward foreign exchange transactions in the form of currency swaps	Forward foreign exchange contracts for trade transactions are permitted. The NBRM may conclude forward foreign exchange contracts
Prescription of currency requirements	Payment for all merchandise trade is made in convertible currencies. All transactions under bilateral payment agreements were suspended in 1992, and the settlement of clearing accounts is pending the outcome of negotiations.	Balances remain on clearing accounts maintained under former bilateral arrangements. These arrangements are now inoperative and the only transactions that take place on clearing accounts are those that are intended to settle the balances. Valuation and settlement of the balances take place in convertible currencies.	Settlements with all countries may be made in any convertible foreign currency or through nonresident deposit accounts in drachmas.	No
Resident Accounts	Foreign exchange accounts permitted to held domestically. Residents - natural or juridical persons – may open and maintain foreign currency denominated accounts with banks and financial institutions abroad only with the prior approval of the BOA, which may control and monitor transactions effecting such accounts.	Residents may maintain foreign currency accounts domestically. The crediting and debiting of foreign currency accounts are not subject to any regulations. Transfers abroad may be made only by commercial banks after declaring the reason for the transfer or, in the case of amounts exceeding 20,000 BGN, after documenting the reason for the transfer. Opening accounts with foreign banks abroad is not banned, but all transfers to these accounts are subject to regulation. Prior permission from the BNB and MOF is required.	Foreign exchange accounts permitted to held domestically or abroad.	Foreign exchange deposits held domestically after 26.04.91 are freely disposable, i.e. they can be withdrawn in foreign currency or converted into denars. Enterprises with foreign operations may hold foreign accounts abroad, but approval is required.

	Albania	Bulgaria	Greece	Macedonia FYR
Administration of control	The BOA is vested with the powers to administer exchange controls. The BOA is the only authority that has the right to (1) license, authorise, regulate, supervise, and revoke the licenses of foreign exchange market operations, as well as second tier banks; (2) define the limits of their activities; and (3) regulate and supervise foreign exchange operations and international payments in order to prevent any participant from dominating the market and undermining the value of the lek through speculation. There is a reporting requirement on banks and exchange dealers for transactions above $15,000 or its equivalent at the exchange rate prevailing on the date the transaction is effected.	Foreign exchange control is exercised by the MOF, the BNB, the customs administration, and the postal authorities.	There are no exchange controls. Resident credit institutions are authorised to carry out all the necessary formalities for the settlement of all transactions with nonresidents and are obliged to provide the BOG with all the information necessary for compiling the balance of payments. Until 05.08.99 natural and juridical persons were required to inform the BOG, for statistical purposes, of transactions with nonresidents of sums greater that EUR 2,000 if a domestic banking institutions was not involved.	The parliament has the authority to legislate laws governing foreign exchange and trade transactions. Certain changes in the trade regime may be made through government regulations. The NBRM is authorised to control foreign exchange operations of banks and other financial institutions. The MOF is authorised to control foreign exchange and trade operations and the credit relations of enterprises abroad, as well as other forms of business activities abroad, encompassing all enterprises that operate internationally. Certain foreign exchange control activities have been delegated to the participants in the foreign exchange market and the customs office. The Ministry of Foreign Relations administers the Commercial Companies Act.
Non-resident Accounts	Foreign exchange accounts, domestic currency accounts and blocked accounts permitted.	Foreign exchange accounts and domestic currency accounts permitted. Blocked accounts are not permitted.	Foreign exchange accounts and domestic currency accounts permitted. Blocked accounts are not permitted.	Foreign exchange accounts and domestic currency accounts permitted. Blocked accounts are not permitted.
Controls on exports of domestic currency	Natural and juridical persons are allowed to take out up to lek 100,000 a person in banknotes and coins. The BOA may authorise larger amounts.	Residents and nonresidents may export domestic or foreign currencies without declaration if the amount is below BGN 5,000. Exports of BGN 5001 to 20,000 must be declared. Nonresidents must also declare the origin of the funds. In the case of exports exceeding BGN 20,000, residents must obtain a permit from BNB, while nonresidents may export the currency after declaration, provided they previously declared it to customs.	Residents and nonresidents leaving Greece should declare amounts of banknotes and personal cheques in domestic and/or foreign currency exceeding the equivalent of EUR 2,000. For amounts up to the equivalent of EUR 10,000 they must provide in the declaration the purpose of the export of banknotes and additionally: (1) if they are residents of Greece, their fiscal number; (2) if they are residents of other EU member countries, the number of their identification and/or passport number; and (3) if they are residents of other non-EU member countries, their passport number. If the amount exceeds the equivalent of EUR 10,000, residents must also provide a copy of their tax certificate.	A maximum of Mden 5,000 in denomination of 100-, 50-, 20, and 10-denar banknotes may be exported
Controls on exports of foreign currency	Foreign natural persons may take abroad in cash or traveller's cheques foreign exchange into an amount equal to the amount declared when entering the country. Albanian natural or juridical persons are not allowed to export amounts larger than $ 10,000 or its equivalent. This limit was increased to $ 25,000 on May 27, 1999.			Up to DEM 1,000 for private domestic travellers, and for business travelers up to the amount stated on the bank order form. Nonresidents may export foreign currency up to the amount declared upon arrival in the country
Controls on imports of domestic currency	Natural or juridical persons are allowed to import up to lek 100,000 in domestic banknotes and coins. The BOA may authorise larger amounts.	Resident and nonresident natural persons may import unlimited amounts of domestic and foreign currency. Amounts exceeding BGN 5,000 must be declared to customs.	Residents and nonresidents entering Greece should declare the imported banknotes and personal cheques in domestic and/or foreign currency if the total amount exceeds the equivalent of EUR 10,000.	The same limits apply as for exports
Controls on imports of foreign currency	Natural or juridical persons are allowed to import foreign currency and traveller's cheques up to $ 10,000 or its equivalent in any other currency			Foreign travelers must declare foreign currency over DEM 300
Export taxes	No	On 01/01/98 the export tax on cereals was abolished while certain export taxes were amended; taxes were reduced on average by 40%. Until 01/10/98 export taxes were levied on certain types of timber, raw hides, certain livestock, wool, sunflower oil, grain, and waste and scrap of ferrous and nonferrous metals. On 01/10/98 export taxes on sunflower oil, sunflower seeds, and processed wood details were abolished. Effective 01/01/99, the export tax on livestock, scrap, copper products, wool, grain and raw hides was eliminated. Effective 01/01/00, the export tax on unprocessed lumber and profiled lumber was eliminated.	No	A 0.1% fee is levied for export promotion by the Ministry of Trade.

	Albania	Bulgaria	Greece	Macedonia FYR
Proceeds from exports and/or invisible transactions: Repatriation requirements	All private and public companies or individuals operating in the export sector are required to repatriate their foreign exchange receipts. There is a repatriation requirement for the proceeds from invisile transactions and current transfers as well.	Yes. Proceeds do not have to be surrendered. They may be retained in foreign currencies or sold in the interbank exchange market. There is a repatriation requirement for the proceeds from invisible transactions and current transfers as well.	No	All export proceeds from transactions that are not based on commodity credits have to be transferred by the exporters into the country within 90 days from the day the exportation was made. Exporters must inform their bank about the origin of their proceeds and how to dispose of them within four business days of transferring the proceeds into the country. Within 90 days of the transfer, exporters may retain the foreign exchange and use it for payments abroad or sell them on the foreign exchange market. After this period, selling the foreign exchange on the market is obligatory. Proceeds from invisibles are subject to the same regulations as those applicable to merchandise exports.
Import taxes and/or tariffs	Since January 1, 1999, excise taxes on domestic and imported goods are unified and the tariff on diesel was increased to 20% from 10% to provide temporary protection to the local petroleum industry while undergoing restructuring. There are 4 tariff rates, which are applied to the c.i.f. values: zero, 5%, 10%, 20%. Effective January 1, 2000, the maximum tariff rate was reduced to 18% from 20%.	Import tariffs range from zero to 74% and are calculated on a transaction-value basis in foreign currency and converted to leva. The maximum rate on import tariffs for nonagricultural goods is 30%, and for agricultural goods it is 74%. Certain products are allowed temporarily to be imported without customs duties within specified quantities (active substances for the production of insecticides, fungicides, and herbicides, some agricultural machinery and their spare parts, flour, live breeding animals, etc.). Other products are allowed temporarily to be imported without customs duties (equipment, spare parts, information technology products, and chemicals for control of the environment and emissions control; special installations for recovery of poisoned lands; substances, materials, and equipment for replacement of ozone-destruction technologies; equipment, machines, and spare parts used in mines and geological research activities; installations, equipment, and spare parts for production of energy from nontraditional alternative sources; medical equipment for human and veterinary medicine; etc.). The import surcharge of 4% was reduced to 2% on 01/07/98 and eliminated on 01/01/99. The arithmetic mean tariff for all products was reduced to 16.2% from 17.9%. On 01.01.2000 this mean tariff was further reduced to 13.8% and certain temporary import tariff quotas were abolished.	No.	Custom duties on most items range up to 35%; rates on raw materials range from zero to 8%; machinery and equipment from 5% to 20%; consumer goods from 15% to 35%; and agricultural goods from 20% to 60%. The number of bands was reduced to 16 and the average rate to about 15%. There is also a 1% documentation fee.
Export licenses	Until September 1999, there were export bans on raw hides and skins; metal scraps; copper and articles thereof; works of art, arms and ammunitions, as well as parts and accessories thereof; and explosives and pyrotechnic products. Effective September 1999, the export ban on raw skins and hides and on scrap metals was removed.	Special licenses are required for the settlement of outstanding balances of multilateral clearing arrangements. Export licenses are required for export of military hardware and related technologies, endangered flora and fauna, wild plants and animals, livestock, radio-active materials, crafts and antiques, seeds, untreated wood, jewelry and rare and precious metals. Licenses are normally granted within 2 working days. In April, 1999, the exports to the FR of Yugoslavia of oil products and some chemical goods (with dangerous substances) were banned for health and ecological reasons.	No	Generally exports are liberal. However, in some exceptional cases the export of certain goods requires a license from the appropriate authorities.

	Albania	Bulgaria	Greece	Macedonia FYR
Import licenses	The import of the following are prohibited: (1) dangerous waste, such as toxic corrosives, residual waste from explosives and radioactive materials; (2) military poisons, chemical weapons and other strong poisons; (3) narcotic and psychotropic substances and (4) animal products from infected countries. Positive list – yes. On January 1, 1999, automatic licensing restrictions were introduced on fuel products to support the implementation of domestic technical standards.	Effective 01.01.99, the registration regime was abolished for tobacco products, livestock and meat, dairy products and certain grains and sugar. A registration regime was introduced for natural gas and scrap. Effective 01.01.00 the registration regime applies to goods previously under nonautomatic licensing, such as narcotics, arms, nuclear weapons, etc. Licenses are required for imports of military hardware and related technologies, natural gas, endangered flora and fauna, radioactive and nuclear materials, pharmaceuticals, herbicides, pesticides, unbottled alcohol, jewelry, rare and precious metals, asbestos, asbestos products, narcotic and psychotropic products, gambling machines, etc.	Import licenses are required for some specific products from certain low-cost countries under EU surveillance. Special regulations govern imports of certain items such as medicines, narcotics, and motion picture films.	Imports of certain goods, such as weapons and medicines, are subject to licensing requirements for security or public health reasons.
Controls on inward direct investment	No	No	Investment in border regions by non-EU residents require approval for reasons of national security. There are also restrictions on the acquisition of mining rights and participation in new or existing enterprises if these are engaged in radio and television broadcasting or maritime and air transport	Nonresidents are allowed to invest in existing firms, establish their own firms, or establish joint ventures except in a few sectors (arm production). Imports of raw materials, spare parts, and equipment not produced domestically by joint-venture firms are exempt from customs duties if the foreign share in the investment is at least 20%. All foreign investment registered with the Ministry of Foreign Affairs is protected from nationalisation.
Controls on outward direct investment	Subject to the prior approval of the BOA	No. Registration from BNB is required.	No	Approval from and registration with the Ministry of Trade.
Controls on credit operations	Local commercial banks may not, without the prior approval of the BOA, extend commercial and financial credit to nonresidents, except to banks and other financial institutions. Guarantees, sureties and financial backup facilities are required.	Financial credits by residents to nonresidents and to residents from nonresidents are subject to prior registration with the BNB. Guarantees, sureties and financial backup facilities are subject to prior registration with the BNB.	No	Short-term commercial banks' commercial credit lines with a maturity exceeding 90 days should be registered. Commercial credits by residents to nonresidents for the export of goods and services exceeding 90 days should be registered. Commercial credits to residents from nonresidents for the import of goods for consumption are not permitted; others exceeding 180 days should be registered. Financial credits by residents to nonresidents are permitted only if export of goods and services is promoted. Private financial credits to residents from nonresidents are permitted only for export-oriented projects. Only commercial banks may effect guarantees, sureties and financial backup facilities to nonresidents, which should be registered with the NBRM.
Controls on liquidation of direct investment	No	No	No	No
Controls on real estate transactions	Purchases abroad by residents are subject to the prior approval of the BOA. The control of purchases locally by nonresidents relates only to the purchase of land.	Purchases locally by nonresidents are subject to prior permission of the MOF. Nonresidents may not purchase or own land. If they inherit land, they must dispose of it within a three-yea period.	No	There are controls of all kinds on these transactions.

	Albania	Bulgaria	Greece	Macedonia FYR
Documentation require-ments for release of foreign exchange for imports	For imports equal to or larger that $5,000 or its equivalent (increased to $10,000 on 27.05.99) the following documents must be submitted: (1) an application for carrying out the transaction as well as a declaration specifying in detail the nature of the transaction; (2) a contract and an invoice (or a pro forma invoice) issued by the natural or juridical person supplying the goods; (3) a declaration issued by the natural or juridical person wishing to carry out the transaction with the bank that the underlying document has not been used to support previous transactions.	No	No	A contract, invoice or customs declaration should be submitted to the commercial bank effecting the payment. Generally, payments for imports are permitted after the importation of goods. Only imports of equipment and spare parts, some essential consumer goods, goods financed by foreign loans, and raw materials may be paid in advance.
Maximum Personal Income Tax	30%	40% (38% in 2001)	45%	35%
VAT	20%	20%	18%	19%
Taxes on Corporate Income	30%	20% (15%)	40% (35%)	15%
Credit ratings Moody’s	-	M2	A2	-

Source: Annual Report on Exchange Arrangements and Exchange Restrictions 1999, 2000, IMF

All the three transition countries are striving to create favourable conditions for foreign investment and investment expansion. Generally the idea of attractiveness is connected with the size of capital income. That is why tax rates are periodically reviewed and revised in a downward direction, and this is too substantial, especially during election times.

All the countries are applying relatively high VAT (18-19-20%), as far as VAT is the basis of tax revenues. There is a trend for its reduction, but not in the short run. Substantial differences in corporate tax have been outlined. Greece maintains a relatively high corporate tax (40%), which is in compliance with the EC and the normal functioning of public and state activities. The other countries are competing somewhat in the reduction of their corporate tax with a view to creating an attractive background for investments expansion. The same applies to income tax for individuals. In Macedonia FYR, for example, the 2001 modifications to the Personal and Income Tax Law stipulated a reduction in the tax rates from 23%, 27% and 35% down to two rates of 15% and 18% (Bulletin, 2001, 12 p.). The theoretical foundations of such an approach are looked for in supply-side economics, often without paying sufficient attention to the special circumstances in which the countries live.

Actually, what determines investment activities in the Balkans at the end of the twentieth and in the early twenty-first century is certainty and predictability of social and political processes rather than return on investments[16]. As a matter of fact, compensations given in the form of too low taxation could be damaging rather than beneficial. A telling example is the credit rating (Moody's) of the countries of this region – Greece's rating is A2, Bulgaria has B2. Albania and Macedonia FYR are not officially counted yet[17]. Moreover, Bulgaria has had a relatively unfavourable rating of B2 for years, and the prospects for improvement are still uncertain. When macroeconomic management is unable to provide for a sustainable social and political environment, it resorts to increasing return as an "easy and impressive" solution to the problem of attracting investment and as a kind of compensation. Reducing income tax for people leads to greater stratification of society and raises social tension rather than bringing about economic upsurge[18]. Experience has shown that this is not the best way for solving national problems because investors keep cautious aid reserved and the country suffers from poor financing of key social and public functions.

Conclusion

In drawing the conclusions, the following important stipulation must be made: The analysis of the conditions for business and economic development of the countries of the region was based on data until 2000. Since spring 2001, the Balkans have witnessed a new development in the territory of former Yugoslavia which might bring about (not necessarily) a substantial restructuring of interests and influences and break the logical development of social and economic processes[19].

The possible spillover effects, through various channels, should not be underestimated. From the European and global point of view, the region is assessed as a whole and developments in any of its parts cannot be isolated. Both positive and negative developments in each of these countries inevitably tend to spread to, and exercise an influence over, neighbouring countries, although to varying degrees of power. Armed and ethnic conflicts contract the market, reduce consumer demand and disrupt

[16] Surveys revealed that the major obstacles to investors have been "*corruption, shadow economy, bureaucracy, the primitive market infrastructure*" (A. Bitzenis, 2001);
[17] The 2000 Romania's credit rating is B3, Turkey's – ?1;
[18] G. Petrakos (2001) drew attention to the fact that the conditions in the transition countries have enabled the formation of new groupings whose role "*in the distribution of income and opportunity – which distribution, within the logic of the former system, lacks any moral basis – provides as an additional factor that further intensifies social conflicts*". Overdoing the reduction in taxation could further intensify social differentiation, with all the ensuing negative consequences.
[19] According to N.Gruevski – the finance minister of Macedonia FYR, "*the current crises is likely to shave a few percentage points off our GDP growth target (6%)*" (Bulletin, 2001, 26 p.);

commercial contacts. The closer to the potential conflict and the smaller the economies, the more affected they are[20].

The "*Memorandum of Understanding on Liberalisation and Facilitation of Trade*" signed by the Governments of Albania, Bosnia-Herzegovina, Bulgaria, Croatia, Romania, Macedonia FYR and Yugoslavia on 27 June, 2001 within the Stability Pact, came to confirm the increasing interdependence of the countries of the region. The memorandum is meant to envisage the creation of a network of bilateral free trade agreements by the end of 2002, thereby allowing for at least 90% of goods to be exchanged free of tariffs. The agreement also includes a standstill and possible reduction of non-tariff barriers[21].

The final conclusions of this article should be taken as assessments of the formation and logical projection of the economic environment in the countries of the survey all being equal, i.e. provided that the situation at the end of the century is maintained, there are no extraordinary centres of ethnic tension and military confrontation. Real developments may be compared with the expectations at the end of the twentieth century with a view to estimating the losses and gains from unpredicted new developments of the social and ethnic problems in the region.

In economic theory, "*what type of economic environment is conductive to growth and innovation is highly controversial*" (M. Knell, 1996, 12 p.). Finally, however, economic growth is the objective of the transition countries and especially of the Balkan transition countries.The present research allowed us to make into a system some of the special characteristics of these countries which were representative of their economic environment:

- the countries of the region have been enjoying financial stability over the last three/four years, which is a prerequisite for sustainable development in the near future;
- economic activities have witnessed a noticeable upsurge in the business cycle – the countries are bottoming out;
- there has been a lag in terms of building up the modern political and economic institutions, which makes the performance of government administration less transperant and predictable;
- the countries of the survey are trying hard to create a favourable environment for investors, above all by alleviating the taxation burden as much as possible. The uncertainties in the situation in the region, however, have been holding back investment expansion;
- the IMF activities in the region could be assessed as positive. The bad news however, is that the macroeconomic elite in the countries is getting used to being supervised, which would be difficult to abandon afterwards.

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[20] The main argument of J.Buchanan (1994, 24-25 pp.): "*The individual's choice to work more generates external benefits to others; the individual's choice to work less generates harms to others*" may well be generalised for the regional bilateral relationships;

[21] This process is fully in line with WTO standards and recognises the relevant obligations of signatory countries vis-?-vis the EU. Moldova has expressed a strong interest in joining this process and has signed a special statement of intent.

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