

Albana Madhi

The Effects of Global Crisis on the poor Classes in Albania and politics of the Government in their Defense

Abstract

East European countries, including Albania aren't totally immune from the troubles of the international financial trade, although they will not have direct influence on their finances system. These effects of the global crises of the economy have begun feel even in Albania. The poor classes will be much more and faster effected from this crisis. This article will treat the effects of the crises into these classes, the risks that this crisis is for their finances. Important factor in this will be the decrease of the monetary incomes in the country, from the emigrant remittance and foreign investments will decrease and as a result they will influence in an decrease of the income for person in the country, that will have more influence in this level.

The intention of the article is to treat the polities that should be taken by the government to protect them. The government of these countries should be concentrated in the social protection of the poor classes and in the ways of the overcoming of the crises for them.

Keywords: *East European countries, Albania, crisis, poor classes, poverty.*

The Global Financial Crisis.

The global economy is being faced with the hardest financial crisis in the last 80 years. At first the crisis included a considerable part of the American financial system, mortgaging credits, while on the other hand it is gradually spread in the insurance banking system, funds and also in the stock-market. The increase of the global economy of BPSH (GDP) is seriously deferred. In this position are even the prices of real estate (of all kinds). Some sectors of industry have undergone into a big deprivation.

How did the crisis start?

At the beginning of the year 2008, the drop in prices related with the USA real estates and also the decrease of the population income, made it clear to the world that a considerable part of the persons who had taken credits for their houses, could not pay the monthly insurance. As a result, the banks were obliged to classify as bad credits assets consisting of milliard of dollars. The most part of the banks were faced with the deprivation and as a result were obliged to cut their labor force. Because of the fact that the banks had bought the credits of each-other, the American crisis was spread in many financial institutions all over the world. In order to cover the lost, the financial institutions were directed toward the markets in order to accumulate new capital. But for some banks, like Lehman Brothers, no buyers were found. The American government interfered by partly buying the companies that the others did not prefer to buy, while now, it tends to buy all the risked assets.

How much are the Dimensions of the Financial Crisis?

The basic financial instruments with the help of which the financial market in an uncontrolled way is increased have been the financial derivations. By exploiting these innovatory products the American Banks "repacked" the bad mortgage credits, which they have supplied them with creditor rating of the first class (so here we have to do with speculative rating) which they have sold them to European Investors. So the market of the financial derivatives is the main segment of blowing the global financial balloon. According to the BIS evaluation, the price of the valuable contracts

in the end of the year 2007, had reached the incredible figure of 600 trillion dollars that demonstrates 11 times more than the value of the world production. Ten years ago the value of this financial segment was “only” 75 trillion dollars. The financial derivation which is increased, known as CDS (Credit Default Swaps) which has enabled the insurance of products of the mortgage credits is increased in 55 trillion dollars, a sum that is more than the whole value of the American inhabitation fund.

Who Profited from this Crisis?

Those who are the main beginners of this crisis: many managers, bankers, banking and financial mediators who created different products in the known stock-markets with the promise of a non-real benefit for the financiers by securing for themselves the immediate benefit on the invested capital from the others.

The strong banks which with the passing of the years absorbed the profit on the realized investments for themselves and for the others.

The strong banks which, with an incredible speed, realized the purchase of the other competitive banks with a symbolic price in this way by strengthening their position in the banking market in order to be the first in the future after the crisis.

But Who were the Losers?

The loss was seen:

- Especially in the banks and different financiers in the search of a bigger profit.
- The different organizations of the pension funds. The loss was even observed in the citizen, millions of families lost their investments and their financial budget.
- So it is believed that these families will suffer from the great financial losing through the decrease of the purchasing power and the growth of the taxes which will be decided by the government.
- Thousands of employed persons lost in the economy. The consequences of this crisis have started to be felt, and the second sector after that of financial is the automotive one, where the most part of the automotive producers are looking for the help of their government and generally have interrupted the production.

- The input of the non- developed countries will be decreased by being supported by the quick decrease of the stock in the world market.
- The biggest loser of this crisis undoubtedly is the world capitalist system itself.

The global financial crisis that has spread around the world has caused a considerable slowdown in most developed countries and has already affected financial markets and growth prospects in developing countries. Many LICs have made great strides in strengthening their policy frameworks, reducing poverty, and reforming their financial systems. But many remain highly vulnerable to a deep global downturn that so closely follows the 2007/08 food and fuel price shocks. Financial market linkages are generally weak, but second-round effects of the economic slowdown on the financial system could be particularly severe. Without additional aid, the scope for countercyclical policies is limited for most LICs due to binding financing constraints and fragile debt positions. This could both deepen and prolong the crisis in LICs, and set back the fight against poverty (IMF, 2009).

The impact in the smaller and more vulnerable economies, especially in developing countries, which obviously had no role in the creation of the crisis, will be regardless of that much affected.

Albania influenced by the global crisis

The Global crisis has started to transmit the negative effects in the Albanian economy. The International Monetary Fund continues to decrease the predictions for the economy growth, by saying that the global economy in the year 2009 can be in the lowest levels in 60 years. This deterioration of the global economy will cause a bigger decrease of the economy growth of Albania. BERZH declares that, the economy growth in Albania is expected to reach the percentage of 6.1% in the year 2008, from 6% in the year 2007.

- The reduction of the incomes from the emigrants and the reduction of exports are some of the first effects that Albania is being faced with. The level of transports is considered to be negative. While the last year, in November, it was 15%. This is a phenomenon that was unseen before for the whole region.

- The devaluation of lek is obvious and the Albanians are facing the world crisis and somehow the imprudent politics of the Albanian government.
- Another fact that clearly identifies that the crisis is sat cross-legged are the emigrants remittances. The remittances during the third three-months period have an obvious drop by falling down with a figure of 28,2% compared with the same period of the last year. The National Bank of Albania in the same report published in December of the year 2008 clearly explained that the remittances had a drop of 13%, in this way by creating chaos in its data, because some hours before it had declared the figure of 23%.
- The gradual raise of prices especially related with the consumption items.
- The inflation raise and the gradual devaluation of lek in the foreign currency market.
- The incomes from the taxes and the customs houses have started to fall down.
- The drop in the process of taking the credits and the bank deposits in 34% from 50% in the year 2007.
- A drastic drop of the real-estate sales in the figure of 50%.

The Financial Crisis has caused even in Albania a drop in the purchasing power. This fact is confirmed by the drop of imports even though the customs houses declare their increase. In 2008 in our country has come a smaller quantity of import goods where the most part of them consists of grocery. Referring to the official figures of the customs houses, the quantity of duty-paid goods for 11 months in the year 2008 is lower than the quantity imported in the year 2005. *The impact of crisis in Albania*

1. The drop of incomes by emigrants
2. The drop of direct foreign investments
3. The raise of prices of grocery and non-grocery products
4. The drop of exchange course for the international currency.
5. The constriction of credits given by the bank
6. The deterioration of the commercial deficit
7. The impact on the houses market as a result of a change in the prices of imported materials.
8. The drop of the deposit interest rate in banks being dependent on the foreign currency course.

Global economic downturn affects Albania's economy

The global economy is in the midst of a deep downturn, affecting the real and financial sectors, that is taking its toll both in advanced and in emerging and developing countries. All major advanced economies are in recession, while activity in emerging and developing economies is slowing abruptly. LICs are exposed to the current global downturn more than in previous episodes, as they are more integrated than before with the world economy through trade, FDI, and remittances. The crisis significantly impacts these countries through reduced demand for their exports. Since many are commodity exporters, they will be hard hit by the sharp decline in demand for commodities and in their prices. Many LICs are also hit by lower remittances and foreign direct investment (FDI) while aid flows are under threat. Growth of remittances was flat in the second half of 2008, and is expected to be negative in 2009. A sharp slowdown in FDI is expected in about half of all LICs.

Experts project the global economic crisis will have a relatively moderate impact on Albania, since the country only partially integrated with world markets and still lacks a capital market. The absence of a stock exchange and prevalence of informal economic practices are expected to minimize damage to Albania's economy.

The Albanian economic activity during the year 2008 performed generally in line with the early-year projections in terms of economic growth and preservation of macroeconomic balances. However, the last quarter of the year saw the increasing impact of the global economy slowdown, principally on the performance of the Albanian balance of payments. The fall of foreign demand and increase in unemployment, in particular in the neighboring Euro area member countries prompted the decline of exports and workers' remittances, hence moderating the domestic demand for consumption. However, state budget revenue and expenditure met close to the projections and recorded a relative annual increase by 15 and 23 percent, respectively. The annual increase of consumer prices reduced to 2.2 percent in December. News over the international situation in the last quarter of 2008 enhanced the Albanian public sensitiveness to the safety of their savings; however, the banking sector - as expected - handled this situation very well being well-capitalized and liquid at end 2008.

Observers expect Albanian exports to Italy and Greece to decline. It is becoming increasingly hard to obtain credit, and foreign direct investors will also face difficulties. Public investments, mainly supported through

foreign debt, will rise in cost. Experts point out one of the principal consequences of the global crisis will be a decrease in emigrant remittances (which provide about 14% of GDP) from Albanians living mostly in Italy and Greece. There will be difficulties in guaranteeing economic growth in 2009. By considering these facts business in many sectors will have a hard time to increase investment and employment. However, Finance Minister F.Mima said the budget for next year insures the economy against such risks. The budget of 2009 has the highest level of contingent funds ever.

Impact on employment and poverty

The global slowdown in economic growth is expected to lead to significantly higher levels of unemployment. In major developed countries and export-oriented developing countries, unemployment is already on the rise as activities in finance, construction, automotive, manufacturing for export, tourism, services and real estate slow notably. The International Labor Organization (ILO) estimated that the number of unemployed could rise by 20 million, reaching 210 million women and men by the end of 2009. The ranks of the working poor living on less than one dollar a day could swell by 40 million, while those on less than two dollars a day could increase by over 100 million. Although comprehensive data are still not available, the following are some indications of the severity of the unemployment situation in many countries.

In January 2009, the ILO constructed and published three scenarios for how the crisis would impact global and regional unemployment in 2009: Scenario 1 was generated using the historical relationship between economic growth and unemployment at the country level between 1991 and 2008, together with the IMF GDP growth projections for 2009. Scenario 2 was generated on the basis of the relationship between economic growth and unemployment during the worst observed economic downturn in each country, by applying this relationship to the 2009 IMF GDP growth projections. Scenario 3 was generated by taking the worst observed year-on-year increase in each country's unemployment rate and assumes that this same increase would

happen simultaneously in all developed countries in 2009. Given the lagged impact of the crisis in developing economies, for these economies, half of the largest observed increase is assumed to occur in 2009. Based on these three scenarios, the ILO indicated in January that global unemployment could increase by between 18 million and 51 million people worldwide from

2007 to 2009, corresponding to a global unemployment rate of between 6.1 per cent and 7.1 per cent. On the basis of downward GDP revisions, the ILO released a revised range in March of between 24 million and 52 million, corresponding to a global unemployment rate of between 6.3 per cent and 7.1 per cent.

Return migration may increase unemployment and decrease the countries income. Poverty may increase with the slowdown in growth and falling commodity prices. Countries may need to expand social spending to address rising poverty levels.

The slowdown of economic growth always means a slowdown in new job openings. If output declines in capital-intensive industries (such as oil), the impact on employment would be limited, at least in the short run. However, in countries that export agricultural commodities, falling commodity prices would cut into rural employment and incomes, thereby increasing rural poverty. The urban poor, however, may benefit as food and energy prices decrease. Various estimates suggest that on average, when mean growth declines by 1 percentage point, the poverty head count increases by 2 percent.

The poverty level is expected to rise with the increase in the unemployment rate owing to the financial crisis. The poverty situation has already been made worse by the rising food and energy prices. When the price of food shot up by more than 50 per cent in the past year alone, an additional 100 million people may have been pushed into poverty and hunger. The World Bank's suggest that the surge in food prices in 2008 probably pushed between 130 million and 150 million people into poverty. The growth slowdown in the developing world as a whole will add another 60 million to the ranks of the poor. As poor families spend a greater share of their income on food, inflation is eating into the purchasing power of their meager consumption expenditure. The price of food commodities in international markets has declined, the food crisis still exists: domestic food prices have remained high, at least in the short term, making food out of the reach of poor families.

The Impact of Remittance on the Albanian Economy

Emigration has a primary impact on the Albanian economy as a result of emigrants' remittances. The remittances of Albanian immigrants continue to constitute a valuable economic aid not only for their families, but for the socio-economic stabilization of the country as a whole. Flows of

incomes by emigrants (remittances) is an important source of financial growth and economic development of the country, by securing on-going access to foreign currency in the Albania as well as by consolidating the basis for savings and investment. In an analysis of remittances flow, during the transition period, we see a considerable increase during the years. Their contribution of emigrant's remittances, for a period of 11 years is estimated about 15% of Gross Domestic Product. Also the contribution of these remittances in the trade balance, for a period of 11 years, is estimated to be around 58.8%. Estimates of the Bank of Albania show that in the year 1992 immigrant remittances amounted to 150 million US dollars, whereas in year 2002 remittances reached to 690 million Euros. During 2007, migrant remittances to their families estimated 951.7 million Euros, with a slight annual increase of 1.5 percent. Looking at these considerable amounts, the IMF Executive Board has legitimately asked the Albanian authorities for due attention to remittances.

Remittances represent the most direct and immediate benefit to emigrants families and to the economy. Remittance flows to developing countries are now estimated to be twice as much as the development aid these countries receive. In some countries like Albania, they noticeably exceed foreign direct investment. Therefore, governments nowadays are paying more and more attention in their development strategies to remittance flows as an important financial source to boost economic development, especially in depressed areas where economic conditions force people to migrate. A key input for these policies is the economic and the logistic framework behind migration and remittance.

Since the beginning of the transition, the volume of remittances to Albania has grown rapidly. Indeed, remittance flows are increasingly important relative to other foreign exchange-earning activities, representing around 14 percent of GDP, 70 percent of exports, and 33 percent of imports. Italy is the major migration destination country for Albanians.

Referring to the Bank of Albania Report for the year 2002, we see that remittance represent about 12.9 per cent of GDP, are almost twice as much as income from exports and about 4.5 times bigger than direct foreign investment. Remittances are greater than foreign aid granted to Albania each year.

On the other hand, emigrant's remittances help the country economy in financing the external deficit, raising the living standards in particular of benefiting families, and poverty reduction. Migrant

remittances also play an important role in the country's macroeconomic stability by financing imports, affecting the value of local currency and the rapid development of construction and service sectors.

Their importance can be measured also when compared with FDI. In 2007, the inflow of foreign direct investment in the Albanian economy reached 460 million Euro, while the value of remittances was 951.7 million Euro. The remittances have been also higher than exports that in 2007 reached 785 million Euros.

Year	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Remittances (mln EUR)	250	410	350	570	620	690	710	780	800	940	951.7	913.7

Inflow of Remittances in Albania (mln EUR)

Source Bank of Albania

Remittances from Albanian emigrants fell 13 percent in the first nine months of 2008 compared to 2007.

The last years these emigrants' flow incomes are not only considered as revenue for non productive purposes, meeting the basic needs related to actual improvement of living conditions, but were also sources of funding for productive purposes, in the form of short-and long-term investments, creating new jobs.

Government politics on social protection structure

The Albanian government is focused on the field of social protection on two terms. Related with the short-term period we do have the improvement of the system of the social protection and standards, by fighting the social expulsion and discrimination through:

- a) Decentralization and raise of responsibility of local units on the establishment and administration of social services.
- (b) Incorporation of civil society in offering services and support and adjustment of the social protection system with new social economic requirements.
- (c) The stimulation of the implementation of the labor legislation, regarding the safety and the integrated physical, mental and social protection of the

employees, through the improvement and harmonization of the Albanian legislation with that of the European Community.

During the long-term period the main focus of the Government is the co-ordination of the social protection system for the community employees and the adoption of the social security system with the new economic and social requirements.

Albania as a low income country in the recent years has developed a Social economic aid program that consists of a program of transfers in cash, in financially assisting families without income, or with non-sufficient income. The Albanian government has created an optimal legal environment, in order that municipalities and communes take more responsibilities in conditioning the distribution of economic aid with relevant labor and services in the community.

The economic assistance is a monthly salary for the families and is calculated on bases of the family members. The dynamic of reimbursement of the funds for the economic assistance and the number of the families benefiting from that is presented in the table below..

Funds, number of families and the average for each family

Year	2006	2007	2008	2009
Funds programmed, milliards lek	2.8	2.6	3.5	4.2
No. of families in NE (thousands)	112	110	93	85

The reduced number of the families in assistance is based on the Survey of Poverty LSMS.

The government should take measures on the social categories that need the adaptation of social protection structure that must be seen as a priority of government. These are the most effected group of people that need help, to survive the poverty risks due to economic crisis. The government must take the appropriate measures to:

- Adaptation of social security principles to the development level, socio-economic, cultural and other aspects of countries and communities
- Development of all aspects of social protection
- Protection of migrant workers operating in crisis areas

- Devise Strategies and Tools Against Social Exclusion and Poverty that provides services enabling community-based and other grass-roots solidarity groups to develop their own social protection systems;
- Prevention or reduction of crises

Conclusions

The Albanian economy cannot remain immune for long to the direct or indirect impact of the global economic crisis. The Bank of Albania public statements have constantly noted that the global crisis impact over the Albanian economy will largely depend on its intensity and duration. This explained by the slowing demand for exports, the remittances of immigrants, slowing investment and reduce the amount of credit. The persistence and deepening of the global economy crisis signal that the Albanian economy will go through a harder economic environment in 2009, which may call for the solution of many issues. The government considers to pursue a policy of fiscal tightening than the 2008-tës and sound macroeconomic policies.

The preservation of financial stability remains crucial for the long-term economic development and under constant consideration in the Bank of Albania decision-making process.

The government considers continued transition reforms a condition for achieving sustainable economic progress. However, in order to tackle directly the problems of poverty, the government's attention has to be focused on maintenance of macroeconomic stability, the implementation of adequate policies for distribution of incomes, promotion of economic growth and development of health sectors and infrastructure

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