Part III

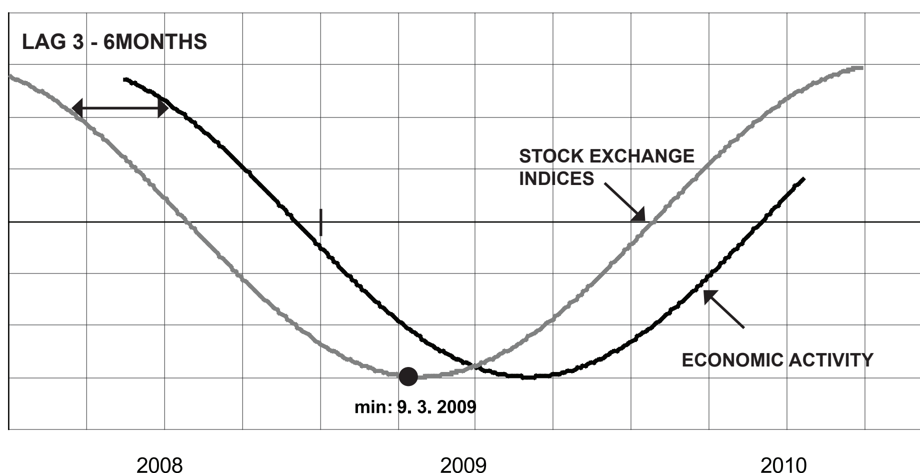
THE GLOBAL CRISIS, MONTENEGRO AND THE WESTERN BALKANS

The economic recession did not skip Montenegro and the Western Balkans; both were impacted by the global economic crisis derived from the financial crisis, which grew out of the mortgage crisis in the United States. For the population, the companies and the states in the region in general, it is important to be as prepared for it as possible and to undertake all adequate measures to deal with it. In that endeavor, a gradualist approach must be the guiding principle, as well as the search for a "sui generis" solution, whenever possible. These are the characteristics that will encourage this region to speed up its development and reduce the delays on its road to the EU, which remains the ultimate goal.

Some disappointing developments again came from numerous countries that were often cited as examples to follow. Ireland is saving banks through a "de facto" nationalization and has a negative growth rate, Iceland proclaimed bankruptcy, Luxembourg (together with Belgium and the Netherlands) saves failed banks, and the three Baltic countries are in a deep recession and great financial difficulties. The neo-liberal approach to business proved to be a fatal cause of the crisis. For that reason, one should not adopt it under any circumstances, but rather choose a path that is more resistant to crisis.

1. THE VULNERABILITY OF MONTENEGRO AND THE WESTERN BALKANS TO THE CRISIS

In mid-2009, the crisis expanded to the real sector, demonstrated by a reduction in economic activities and international trade and an increase in unemployment. But, in the stock exchanges and in the financial sector, as of the second quarter of 2009, there are some positive signs of the end of the downward trend, although the problem of the repayment of the second-grade mortgage loans in the USA, the primary cause of the crisis, has not been fully resolved yet. Stock exchange indices in the world reached their lowest level on March 9, 2009, and then grew continuously in the next two months, by about 30%, while in May they slowed down slightly again. The upcoming months will show whether the cyclical floor in the financial sector had been reached in March 2009, and which will be followed by a recovery. If that is the case, according to the most optimistic scenario, real sector activity could follow the stock exchange trends, with a delay of approximately six months, so that in the real sector the global floor would be hit in autumn 2009, and the following revival would lead to positive growth rates in the spring of 2010.



Slika e: Correlation between Cyclical Movements of Stock Indices and Economic Activity

WHY SHOULD THE REGION FEEL LESS THE CRISIS?

The depth of the crisis in the region depends on external influences and internal factors.

a) External influences

According to them, the region should suffer the crisis relatively less than other regions of developing countries or Europe as a whole, because of the following:

- The energy shortage will be less felt because of the big drop in oil prices (from 147 to less than 40 USD, although it has already rebounded to close to 70 USD per barrel).[39]
- The reduction in the prices of food, which is also an important export product of this region, slowed down after the summer of 2008.
- The countries of this region are open to foreign countries below average, which is shown by a lower openness coefficient (the ratio of exports and imports to GDP), which is just 70% on average, and in the case of services only 24%, which is below the average for all the small countries.[40]
- To a significant extent, the countries of this region are still in the process of catching up, due to their lagging behind in development and transition, caused by the military activities after the disintegration of the former Yugoslavia, which means that they have a great internal potential for economic growth – because of unsatisfied demand, as well as their unused existing capacities.
- In the crisis years, in some of the countries of this region (Montenegro, Croatia), the tourism sector might have two types of effect: as a limiting factor, because of the fact that the luxury service sector has an income elasticity above 1, while income is falling in crisis times, or as an incentive, because in tourism services one transfers to less

[39] In 2005, the countries of the region imported between 29% (Serbia) and 57% (Croatia, Albania) of all energy consumed, according to the author of »The Balkan Conflict and its Solutions, Manet, Faculty of Law, Ljubljana, 2007, pg. 308

[40] Ibid, pg. 203

luxurious destinations during a crisis, meaning traveling within Europe, instead of journeys by rich Europeans to the other side of the world, to the most expensive locations.

- A less developed sector of financial services also means a smaller reduction in financial activities and much less of a burden of toxic financial instruments and derivatives in the region.

The economies of the Western Balkans were late in entering the crisis, and could also be late in getting out of it. This would mean, according to the optimistic scenario, the lowest point being hit only in 2010, and the recovery in 2011. Firstly, because of the underdeveloped financial structure they were only hit by the second and third waves of the global crisis, the halt in foreign financing and a reduction in exports due to reduced activity in the importing partner countries. Secondly, due to delays in revival, there will be delays in reopening the financial inflows and in the recovery of foreign direct investment and portfolio investment inflows (in all countries of this region the credit ratings have deteriorated), a slower adjustments of exports and a slower recovery of remmitances from citizens working abroad who lost their jobs during the crisis.

To what extent a specific country, financial institution, company or an individual will feel the crisis, will depend on their vulnerability to it. Those more vulnerable are the entities with a greater level of indebtedness, lower liquidity reserves and a reduced inflow of income, or even, no income inflow at all during the crisis. This vulnerability assessment enables an analysis of the situation through empirical data, which is still mostly available only for 2008, when the crisis was just coming close to the region.

AN ASSESSMENT OF THE SITUATION AND THE VULNERABILITY OF THE STATES OF THIS REGION TO THE CRISIS

COUNTRIES

According to the data in Table 6, the countries of the Western Balkan region had different levels of indebtedness. The share of foreign and total debt was the highest by far in Croatia, while in other countries it is at a bearable level. The total debt of all the other countries remains below 60% (although there is no data on external borrowing for Kosovo), and the level of public debt should be controlled in accordance with the Maastricht criteria.

Table 6: Countries, 2008.

	MON	ALB	B&H	CRO	MAC	SERB	KOS	SLO
GDP million €	3339	16500	12833	47370	6507	33861	3804	37403
Debt total in % BDP	37%	60,4%	50,7%	185,8%	28%	23,1%	...	49,8%n
-External debt % BDP	20%	9%	24%	138%	17%	13,8%	...	26.2%
-Domestic debt % BDP	17%	51,4%	34,0%	47,8%	11%	9,3%	55,9%	23,6%
Forex,million $ 07 08	665 336	2162 1615	5151 3219	10852 9121	2243 1501	17490 8160	… 1111	1076 602
Export goods/ GDP	15,9%	6.6%	26,7%	20,2%	41,3%	32,4%	33,9%	60,0%
FDI stock 2007 -inflow in 2008	2478 567	2264 …	5990 …	44630 2930	3084 422	13205 2123	1150 357	10,350 300
Current Acc. million €	-976	-2458	-1879	-4454	-851	(12301)	-773	-1600
Balance of trade, million €	-1441	-2362	-4819	-	-1737	-15876	-1372	-2400
Budget/GDP 08 -change, 08/07.	2,7% -3,1	-5,2% -1,1	-0,8% -1,7	-2,3% 0	-1.5% -0,8	-2,2% -0,2	-0,1% -0,8	-0,9 -1,2
Inflation, %	6,9	2,2	3,8	2,9	4,1	8,6	0,5	3,7
GDP growth, %	8,1	6,8	5,5	2,4	5,0	5,4	5,4	3,8
Financial 08 Risk 09	B3 B2+	B3 B3-	B3 B3-	A2 A2	B1 B1+	B2 B2+	-	…
-Long term 08 Risk 09	B3 B1	B3 B3	B3 B2	A2 A2	B1 B1	B3 B1	-	…
S&P, 09	BB+n	-	B+	BBBn	-	BB-n	B+	A+
Moody's, 09	Baa1n	B1	B2	Baa3	-	-	-	AA
FITCH, 09	-	-	-	BBB+	BBB-	BB-	-	…
Export loans	6	6	7	5	5	7	-	…
Stand-by with IMF, crisis	No	yes	800	no	no	3000	member 5/2009	-
Index of economic freedom, 122	94.	62.	-	116.	78.	109.	-	68.

Legend: … = no data available, - = phenomenon does not exist
Sources: IMF, World Bank, WIIW, Eurostat, EIPF, CB Montenegro state statistical offices, central banks data sources

The foreign currency reserves in late 2008 in all these countries were a minimum of 10% of GDP, and in relative terms they were the highest in Macedonia and Kosovo. A relatively low export openness should indicate that there is a lower level of sensitivity to the reduced level of activities in the developed parts of Europe. But, the earlier high levels of foreign direct investments will be significantly lower, at least for a while, together with the projected reduction in the balance of payments deficit, which was covered by the proceeds from FDI. While it is not possible to project the level of FDI for 2009, an increase in the balance of payments deficit (a relative one, as a share of GDP), is expected only in Kosovo, and to a lesser extent in Macedonia, while Montenegro is set to significantly reduce its record-high level of deficit.

How will the countries of this region financially cope with the crisis period when they were highly dependant on external inflows of money in the past, either capital investments or loans, and some of them, such as Bosnia and Herzegovina and Kosovo also dependent on a high level of foreign financial aid? They need the money to cover a budgetary deficit that primarily originated from reduced revenues, due to reduced activity and secondly, due to increased expenditures of a social nature and expenditures for the strengthening of domestic demand, as a support to economic activity. First of all, Croatia and Montenegro have great hopes vested in the hard currency inflow based on the summer tourist season, others not so much. Secondly, the EU has expressed its readiness to support South East Europe with approximately EUR 25 billion, but this money has not been approved yet, not to mention being distributed. Thirdly, local financial institutions in the region are trying to obtain additional loans abroad, through their attempts to sell obligations or through direct borrowing from banks, both private and international. For example, in the case of Montenegro, these were Deutsche Bank, the EIB, and the EBRD. The low credit ratings (with the exception of Croatia, no other country in the region has an investment grade BBB that enables long-term investment borrowing) have been reduced further in recent months in all countries in the region (and in the world in general), and thus represent an additional limitation in their activities in the global financial markets. Finally, as a last resort, there is the possibility to ask for

the IMF assistance, but it is not popular among the governments, for several reasons: it shows the financial weakness of the country and puts it under the pressure of the IMF conditionality (as the creditor of last resort). This stiff conditionality still exists, although the G20 Summit demanded their reduction. Namely, this conditionality directly affects the social stability of a country, thus raising the issue of social tensions. In mid-2009, in the region of the Western Balkans, Serbia and Bosnia and Herzegovina have already concluded their arrangements with the IMF, Albania is concluding its previous arrangement, Kosovo has only joined the IMF recently and is starting to cooperate with it, while the governments of Montenegro, Macedonia and Croatia have so far resisted the possibility of concluding a new arrangement with the IMF.

In the first half of 2008, the countries of this region continued to rapidly increase their economic activities, (Montenegro was the fastest, and Croatia the slowest), although not autonomously, but with the help of significant external borrowing. With the exception of Albania, their budgetary deficits were below 3% of GDP (Montenegro even had a surplus), and a small increase in the deficit as compared to 2007 shows that the fiscal incentives in these countries were not significant. For that reason, this deficit, as a fiscal stimulus for the relatively closed countries for trade, would increase in 2009 and 2010, naturally, if the way to finance it is found.

The low ranking based on the economic freedom index, according to the Heritage Foundation, (no country in this region belongs to the upper half of the 122 countries analyzed, and Albania occupies the highest position), actually shows that none of these countries were fully captured by liberalism. Thus, they are less sensitive to the external influences of the global crisis than they could be.

In 2009, it is only Kosovo that expects a significant increase in GDP, which is an expression of its great desire to make up for the earlier long delays in improving its level of development, as well as its relatively lack of openness and its current financial underdevelopment.

THE MONETARY SECTOR – CENTRAL BANKS

The Central Banks represent pillars of stability in Montenegro and the other countries in the Western Balkans. They have reached a high level of political independence. They are often the only ones maintaining a high quality statistical database, and without involving themselves too much in politics they engage in solving current economic problems, which is usually not given to the governments. In all the countries of the region, the central banks are the institutions that enjoy the highest credibility among the citizens.

Regarding exchange rate policy, Montenegro and Kosovo have unilaterally introduced the euro as their currency, Bosnia and Herzegovina introduced a Currency Board, Croatia practically tied its foreign exchange rate to the euro, and the remaining three countries have also orchestrated changes in the exchange rates of their local currencies tied to changes in the value of the euro. To various degrees, these countries have given up the independent policy of freely made changes in the foreign exchange rate, in order to eliminate the possibility of domestic pressures to increase the amount of money in circulation, and thus, the pressure of inflation. In this way they have contributed significantly to clam down inflation which had been the greatest economic problem of the past. The instrument that remains available to Montenegro and Kosovo is the rate of obligatory reserves, while others control the increase in the amount of money available. In 2008, the money increase was negative in Montenegro (only in deposits, because it is not possible to measure the amount of cash / euros in circulation), and the highest increase was noted in Bosnia and Herzegovina.

Table 7: Monetary sector, 2008.

AGREGATE	MON	ALB	B&H	CRO	MAC	SERB	KOS		SLO
Central banks									
- reserve ratio, %	19 2	…	14	14,9	10	…	…		…
- discount rate	No	5,75	No	9,0	6,5	17,8	No		No
- M1 growth %	-22,3	…	21,5	8,2	13,4	-3,1	…		-4,0
- M2 growth %	-14,3	…	21,6	…	0,4	1,3	…		+5,2

Legend: … = no data

Sources: IMF, World Bank, WIIW, Eurostat, EIPF, Central Bank of Montenegro, state statistical offices, central bank statistics by countries

EXAMPLE: ACTIVITY OF THE CENTRAL BANK OF MONTENEGRO

In the process of gaining its independence, Montenegro first unilaterally introduced the German Mark as the official currency in 2000, and with changes in the EMU in 2002, it switched to the euro. In 2001, the Central Bank of Montenegro was established as an independent institution with all the duties related to monetary policy management (with only limited instruments, because of the euro) and supervision over the banking sector consisting of 11 banks, mostly foreign owned. Thereafter, the rate of inflation soon disappeared as an economic problem. However, the financial stability of the state in general requires unified control of the other financial sectors as well, including the insurance sector and the capital market institutions. So far, this supervision has not been unified, although a Committee for financial stability was established in 2008.

After the proclamation of independence in 2006, Montenegro enjoyed three years of rapid GDP growth of over 9% on average. However, this was achieved through a high balance of payments deficit of over 25% of GDP per year, which was covered by the net inflow of foreign direct investments and portfolio investments. This external imbalance was matched by internal balance at the same time: the budget was in surplus until the crisis, sometimes at the expense of adequate social support to the poor, all in

the way of the neo-liberal approach. Thus, both national and foreign debt remained relatively low, which has created room for fiscal incentives in the crisis period, if foreign sources of funds can be attracted. With the arrival of the crisis, budgetary inflows have been reduced, due to reductions in economic activity and imports. Thus, the temporary solution was to re-incorporate state obligations into the sources of mandatory bank reserves. By purchasing state securities, the banks cover their mandatory reserves, and at the same time opt for risk-free investments. At the same time they help financing budget.

The global crisis hit Montenegro with some delay, and only in the second wave (through a reduction in external sources of finance and a reduction in exports), because the exposure to toxic derivatives, and shares of the bankrupt large investments banks did not exist. The success of the summer tourism season in 2009 will give the answer whether or not Montenegro can go through the crisis without external financial support from the IMF that the government is refusing for now.

Due to the lack of unified supervision over the financial sector, the neo-liberal wave of over expanding the economy and balloon blowing passed through Montenegro. At one point, in mid-2008, the market capitalization in the stock exchange exceeded 250% of GDP, which was hard to reach even for the economically and financially developed economies. The prices of land and apartments sky-rocketed. The banks largely complemented their local deposit potential by borrowing abroad, that is, through credit lines from their parent companies abroad. Thus in March 2009, the amount of bank loans was 50% higher than the level of bank deposits. This credit expansion would have been even greater if there had not been measures by the Central Bank of Montenegro to prevent it; those measures were adopted in November 2007. But, despite the unlimited guarantees of the state for bank deposits, announced in November 2008, deposits started temporarily flowing out of the banks, which undermined their liquidity.

At the end of the first quarter of 2009, there are some signs of stabilization in the financial situation in banks: the outflow of deposits has stopped,

the increase in borrowing has slowed down, and the banks have again improved their liquidity and solvency coefficients. The credit crunch in the real sector of the economy is still in place, despite all the measures of the Central Bank in 2009, to adjust the policy of obligatory reserves and increase the credit potential of the banks. As the foreign owners of the local banks did not withdraw their loans from their affiliates in Montenegro, with some exceptions, the liquidity of banks in Montenegro has improved. A general lack of trust in performance of enterprise sector is an obvious reason for the reduced bank credit support to the economy in mid-2009. It might be that any increase in trust by banks will require additional state guarantees for the bank loans approved to companies (thus, credit risk should be, at least partially, removed), which is a measure that has already been used extensively in the developed economies, such as Germany. Certainly, any increase in the level of deposits into banks should allow for an increase in loan approval activities.

Despite the internal efforts of the Government and the Central Bank, and a successful tourism season, Montenegro will probably have to utilize external sources of finance, especially if the inflow of foreign direct investments and portfolio investments fall significantly. The possibilities include foreign private sources, international institutions, and an agreement with the IMF, which would strengthen the banking system, and the financial system in Montenegro in general.

FINANCIAL SECTOR

After the beginnings of crisis with mortgage loans, the financial sector, primarily its banking arm, is the main culprit for the global crisis. For that reason, its characteristics are important for the transfer of this crisis into the region of the Western Balkans.

According to the data in Table 8, in late 2006, the banking sector of the region was still quite underdeveloped. The relationship between bank assets and GDP was only close to 50% in most countries, some 94% in Bosnia and Herzegovina, but as high as 121% already in Croatia. In the

past two years, there has been a boom in the banking sector, based on external borrowing, and not on the domestic base of deposits. In that sense, the banks actually became investment banks, with all the weaknesses of investment banking, vividly displayed globally in the times of the global crisis. Still, bank vulnerability due to "excessive borrowing", when it comes to the repayment of annuities and matured loans, varies from one country to the other. According to the coefficient total loans/deposits, Montenegro banking has the highest level of exposure to external financing, followed by Serbia and Bosnia and Herzegovina, while Kosovo is the least exposed and the amount of loans is increasing there at a normal rate even in 2009.[41]

[41] Bank borrowings abroad and the external debt of the country is not one and the same thing, as shown by the example of Croatia.

Table 8: The Financial Sector, 2008.

AGREGATE	MON	ALB	B&H	CRO	MAC	SERB	KOS	SLO
BANKS								
Assets/GDP, %,06	55	54	94	121	…	51	47	117
-Loans – all	2769	…	7439	33676	2810	12926	1183	26881
- enterprises	1630	…	3846	12849	1670	8016	902	19438
- households	1032	134L	3423	16757	1134	4316	281	7443
-Deposits- all	1959	…	6142	33834	2858	10019	1444	16972
- enterprises	591	…	2143	6745	1010	3698	491	3735
- households	837	…	2663	18569	1760	5152	842	13237
Loans/deposits, all	1,41	…	1,21	1,00	0,98	1,29	0,82	1,58
Loans/deposits,enterp.	2,76	…	1,79	1,90	1,65	2,17	1,84	5,20
Loans/deposits, house	1,23	…	1,28	0,90	0,64	0,84	0,33	0,56
-Interest rate, active	9,4	…	9,0	…	9,8 7	18,1	13,5	7,0
passive	4,2	…	…	…	6,5 3	7,3	4,4	3,7
Interest rate margin	5,2	…	…	…	3,3 4	10,8	9,1	3,3
Capital/Assets 08	8,0	…	13,0	12,6	15,3	20,8	16,5	8,4
07	9,0	…	14,3	13,5	15,5	23,0	18,0	8,5
Capital/Loans 08	10,6	…	21,1	20,0	28,3	43,7	…	15,3
07	10,7	…	20,6	20,3	26,4	40,8	…	…
Reserves/Deposits 08	11,1	.	26,0	11,0	11,4	18,6	15	5,9
Reserves/Assets 08	6,6	.	14,9	7,3	7,1	8,6	12	2,0
INSURANCE								
Premium, million €,08	…	…	…	1318	…	…	56,4	2019
07	51,0	…	205,6	1234	99,5	565,1	50,8	1894
Premium Life 08	…	…		347			0	643
07	5,9	…	27,9	337	2,8	62,3	0	609
Premium Nonlife 08		…	…	972	…	…	56,4	1376
07	45,1	…	177,8	897	96,7	502,8	50,8	1285
Claims Nonlife 08	…	…	…	533	…	…	17,6	1027
07	…	…	80,2	478	44,8	210,6	12,8	862
Claims Life 08	…	…	Both	93	…	…	0	183
07	…	…		57	2,2	12,5	0	166
Claim/Premium, all 08	…	…	…	0,47	…	…	0,31	0,60
07	…	…	0,39	0,43	0,47	0,39	0,25	0,54
STOCK EXCHANGES								
- Index 08/07	-71	.	-67	-67	-73	-76	.	-68
-market capit./GDP08	1,45	.	0,37	0,61	0,51	0,65		0,46
-market capit. 08/07%	-50	.	-50	-55	-60	-45		-42

Legend: … = no data, - = phenomenon nonexistent
Sources: IMF, World Bank, WIIW, Eurostat, EIPF, CB Montenegro, state statistical offices, central banks by countries, Insurance associations (Filip Šramel)

As in all the countries of this region the banking sector is mostly owned by foreign banks, the behavior of the parent banks abroad is of key importance for the liquidity and solvency of the banks. The first fear that the foreign banks will withdraw their money in order to solve the issue of their own liquidity, seems to have been unfounded and now there are even some attempts to sign a Memoranda between the state and the foreign banks to obtain guarantees that foreign banks will not withdraw their funds from the banks in the region in their ownership.[42]

The calculated coefficients loans/deposits for the corporate and retail sector individually show, however, the level of indebtedness of those two sectors, which makes them exposed in crisis times to the pressures of reduced income and liquidity. According to the data in Table 8, the corporate sector in all countries in the region has a high level of net borrowing from banks, especially in Montenegro and Serbia, while the lowest level of borrowing is in the corporate sector in Macedonia. As opposed to that, in late 2008, the population was still a net creditor to the banks and the economy in all countries except for B&H and Montenegro, where the population will, as a result, have to face the problem of repaying bank loans more, especially if their current level of income is reduced, because of the crisis.

The interest margin of the banks in the region is still relatively high, which creates the basis for profitable undertakings. It indicates higher risk and lower market competition as compared to the situation in more developed countries. The lowest interest margin, according to the available data, exists in Macedonia and probably in Croatia. The weakest average solvency coefficient was recorded in late 2008 in the Montenegrin banking sector, while in other countries it is well above 8%, which is the minimum requirement according to the Basel standard I.[43] The ratio between the level of obligatory reserves and deposits in the banking sector varies from 11% (Croatia) to 26% (B&H). In late 2008, all the countries of the region increased several times

[42] Foreign banks, prior to signing an agreement, require the signing of a stand-by arrangement by the country with the IMF, which also includes a Letter of Intent. In it the state promises sound economic policy, through which the risk of placing money in that country is reduced for foreign banks.

[43] Please note that the calculation took into consideration total assets and not risk adjusted assets.

the upper limit of state guarantees (collateral) for bank deposits, except for Montenegro. It introduced an unlimited state guarantee, which still did not fully prevent a temporary net outflow of deposits.

Complete basic data for the insurance sector of the region only exists for 2007, and is only available for some countries for 2008. According to them, the claim/premium coefficients in all countries are very low, below 50%, which is good for the sector. But, there is a question of how much the insurance companies have lost by investing their funds in the capital market, and there is still no data available regarding that issue. Great losses in the capital market could even endanger their liquidity and solvency, if their technical reserves are insufficient.

The Stock Exchanges in the region experienced an above-average drop in 2008, according to world indicators. The stock exchange indices reduced by a minimum of two thirds in the period from late 2007 to the end of 2008, almost uniformly in all countries of the region. Market capitalization reduced by 50% on average, somewhat more in the case of the Macedonian stock exchange, and somewhat less in the case of Belgrade. Thus, the stock exchange balloon significantly deflated. Precisely, in late 2008, market capitalization did not exceed two thirds of GDP, except in Montenegro, where it was still at the very high level of 145% of GDP, showing that there the stock exchange balloon still exists. Losses in stock exchanges in the region were large, yet they did not affect the majority of the local population, but a small number of the local rich, and some foreign "stock exchange players", willing to take the risk.

THE REAL SECTOR OF ECONOMY

After the surplus in August 2008, economic activity showed a downward trend in the world and in the region, as well. Just like in other parts of the world, it is characterized by reduced industrial production, foreign trade, an increase in unemployment, and a rapid stabilization of prices. Some large companies that were barely coping in the period of good opportunities, have been exposed through the crisis and are probably doomed to full

scale restructuring or bankruptcy. In such a situation, it is important to see to what extent the economic sector is capable of shifting the assets and human resources, freed from bankruptcy and redundancies, to some other, new activity. One of the answers is the assessment of readiness for business made by the World Bank ("Doing Business", 2009), according to which all the countries in the region are adaptable to a level that is below average in the group of 182 countries analyzed (Table 9). A greater level of adaptability means easier coping with the crisis period. The highest ranking among countries in the region, according to the World Bank, is given to Macedonia. Most of the other countries are somewhere close to the world average in this respect, and the only ones that are clearly lagging behind are Croatia, and even more so, Bosnia and Herzegovina. Table 9 clearly shows where the weaknesses are in the institutional structure when it comes to the establishment of new businesses in the individual countries in the region: in some of them it is the length and number of procedures that is the problem, in others it is the cost of opening up and the minimum capital requirements for new businesses.

Table 9: The Real Sector of the Economy, 2008.

AGREGATE	MON	ALB	B&H	CRO	MAC	SERB	KOS	SLO
Doing business, rang 09	90.	86.	119.	106.	71.	94.	-	54.
- Procedure (number)	15	6	12	8	7	11	-	5
- Time (days)	21	8	60	40	9	23	-	19
- Costs (% of income)	4,4	25,8	30,8	11,5	3,8	7,6	-	0,1
- Min. capital (% income)	0,0	32,3	36,3	16,6	0,0	6,9	-	46,8
Transition degree, EBRD	25,5	28,5	26	32	29	26,5	-	31,5
Competitiveness of tourism	59.	92.	…	34.	…	78.	-	36.

Legend: … = no data, - = phenomenon does not exist
Sources: IMF, World Bank, WIIW, Eurostat, EIPF, CBMontenegro, state statistical offices, central banks by countries

At the same time, the unfinished process of transition into a market economy in the countries of this region demonstrates that there is an increase in adaptability difficulties in a crisis situation. Of all the countries in the region, the highest level of transition has been reached by Croatia, and the lowest, according to an EBRD assessment, by Montenegro, Bosnia and Herzegovina and Serbia (there is no data for Kosovo). In all of that, the relatively low ratings when it comes to the competitiveness of the tourism sector, shows the extent to which the countries of the region can count on tourism proceeds as a solution in their financial consolidation. The fight for tourists in the world markets this year will be enormous, because expenditures on a vacation as a luxury service, in times of reduced income, experience an above-average reduction. The highest rating for the competitiveness of the tourism sector is given to Croatia, although it is only in 34th place, followed by Montenegro in position 59, while Serbia, and even more so, Albania are far behind.

THE POPULATION AND THE SOCIAL SITUATION

It has already been determined that in late 2008 the population of the countries in this region, on average, was not overly indebted to banks (yet). It is only in Bosnia and Herzegovina and Montenegro that the level of retail loans is approximately one quarter higher than retail deposits in banks. The second part of the question is how difficult it will be for the population to cope with the reduced living standards that result from the crisis, whether they are in debt or not. The population in countries with a higher GDP per capita, or similarly, with higher net wages, will have an easier time in coping with a reduced income than the population in the countries with lower income, for which this fall will mean going below the poverty line. This is not only a problem for an individual, as such a development can grow into social tensions on a large scale, especially if the share of the poor and unemployed in the country is high.

Table 10: Population and Social Situation, 2008.

AGREGATE	MON	ALB	B&H	CRO	MAC	SERB	KOS	SLO
Population, thousands	624	3170	3767	4432	2048	7950	2162	2053
GDP, million €	3339	16500	12833	47370	6507	33861	3804	37403
BDP per capita, €	5350	5230	3407	10688	3177	4260	1759	18464
Wages (net, €)	443	...	408	752	283	436	210	939
GINI coefficient	30,0	31,1	26,2	29,0	39,0	30,0	-	28,4
Rich/Poor, 10%	…	7,7	5,5	7,2	12,3	…	-	5,9
% in poverty	7,0	12,4	19,5	11,0	21,7	6,5	37,0	12,9
Unemployment rate %	14,7	12,5	29,0	13,9	34,5	18,8	40,0	6,7

Legend: … = no data, - = phenomenon does not exist
Sources: IMF, World Bank, WIIW, Eurostat, EIPF, CBMontenegro, state statistical offices, central banks by countries

According to Table 10, Croatia is surely far ahead in terms of the average standard, while Kosovo is lagging behind the average. The whole region, however, still remains among the poorest in Europe, and is only ahead of some countries on the territory of the former Soviet Union.[44] According to the GINI coefficient, the highest income-based inequality, which creates a greater possibility for social tensions, exists in Macedonia (39%). It is still low on average (the coefficient is approximately 30), in the other countries, the lowest being in Bosnia and Herzegovina. Similar conclusions are derived from the ratio of the income of 10% of the richest to the 10% of the poorest people in the country or the percentage of the people living in poverty (measured by a relative indicator of deviation from the average income in the country, and not an absolute indicator of income below a fixed daily income). In a similar way, a greater social exposure of a country is shown by the unemployment rate which is unsustainable in the long run for Kosovo, Macedonia and Bosnia and

[44] A more detailed analysis of the position of this region in Europe and the world, where the region is still above average, is given in the book »The Balkan Conflict and Its Solutions«, MANET, Faculty of Law in Ljubljana, November 2007, Introduction, Chapters 7, 9 and 11.

Herzegovina. In the other countries in the region it is still high, but bearable, at a level of approximately 15%, at least that is what the official data says.

CONCLUSION

In late 2008, the situation in the region was not good, and in the first half of 2009, for which there is still not enough data, the situation got worse. The whole countries and their banks are excessively indebted and will suffer the burden of repayment. The real sector is not sufficiently adaptable to easily accommodate the newly available assets and people from companies that failed due to the crisis. Many people are close to poverty, including unemployment, which creates the possibilities for social tensions to occur. Even if the external impact of the crisis in the region is not as strong as in some developed countries, the region itself, its internal weaknesses of both an objective and subjective nature, increase the burden of the crisis that they will have to bear.

THE EXTERNAL AND INTERNAL CAUSES OF THE CRISIS IN THE WESTERN BALKANS

Negative effects have come and will continue to come from the outside world, and they will be complemented by domestic negative factors.

EXTERNAL NEGATIVE EFFECTS

Interest rates of the commercial banks in the world increased (in spite of a final reduction in the interest rates of FED, BoJ, BoE and ECB; until the restoration of confidence and the recovery of credit market returns) due to increased risk and the lack of available liquidity. This will be transferred to interest rates in the countries in region, to the lending rates for loans and most likely to deposit rates for deposits in banks. Higher interest rates will additionally reduce lending activity, which will further reduce final domestic demand and thus economic growth.[45] However, the key problem

[45] The inflation effect of increasing interest rates as the price of financing at the entrepreneurial level is often forgotten, while an increase in salaries and the price of the labor factor is emphasized as the source of inflation.

is not the price but the availability of external financial funds for the economies of the region in general.

The decline in export was due to the recession in the developed countries, to which exports of the region are directed. The decline in global oil prices and raw materials reduced external inflation pressures despite the opposite effect of strengthening the US dollar in relation to the euro.[46] It resulted in a decline in the interest rates of central banks, which was aimed at the promotion of real sector activity through a more expansive monetary policy. There is an issue of whether and how much such interest rate stimulation will have an effect on the general decrease in the interest rates of banks and then on the increase in liquidity in the system due to the presence of the liquidity trap. The stability of the sources of liquidity of the central banks will be needed to regain the confidence of the credit markets.

Large foreign banks, the owners of branches in the countries of the region, could contribute, in favorable global economic conditions, to an increase in competition and to the creation of more favorable conditions for the granting of loans on the local financial markets by using relatively cheap sources obtained from the parent banks. Moreover, the domestic banks could join them with accelerated indebtedness in the world for financing corporate loans. Banking loans have grown faster than domestic deposits for a while.[47] With respect to the extended lending and liquidity breakdown, foreign banks finding themselves in difficulties[48], always want first to

[46] Lowering the oil prices from $ 147 to below $ 40 per barrel for a short time can be a sign that the price in the summer of 2008 was too high due to a bottleneck, high capacity utilization, or the cause of its increase were the activities of (financial) speculators on the oil markets. The record profits of oil companies were a sign of a successful policy in deteriorating circumstances for them, but at the same time the sign of the unacceptable policy of earning excessive margins by the oil companies. The strengthening of the US dollar in relation to the euro was "counter-factual" since the American economy is in the same situation as the European economy and sinking into recession. It might rely on hope that the American economy, which is more pragmatic, will come out of crisis earlier since it has more available instruments, which it uses in a more pragmatic manner. The reason for a temporarily stronger dollar at the end of 2008 might also be in demand for dollars due to the liquidity request, caused by the sale of American bonds.

[47] In American banking, the loans to deposits ratio is 0.96, and in European banking it is 1.2, which leads to the conclusion that the less exposed American banking will recover from the crisis faster than European banking.

[48] Practically all foreign banks that are present in the region as owners received capital increase from their governments.

resolve their own problems at home. Therefore, there is always a chance that they could withdraw[49] the money that was placed in the form of loans to the branches.

A local deposit base, as the source for the credit potential of banks, is more stable in that respect, since it can be shaken up only by a run on the banks. The introduced government guarantees and/or an increase in the guarantee with respect to the deposit scheme for the deposits of private individuals are an efficient psychological tool, which prevents runs on the banks. The above-described adverse development of the situation is known from the financial crisis that stared in Latin America in the late 80s of the last century. Since it largely involved banks from Western Europe, the financial crisis was transferred from the parent banks to their branches in Eastern Europe.

The danger of withdrawing liquidity from the banks in the region is twofold: through the withdrawal of deposits by the depositors and through the suspension of the refinancing of loans by foreign banks to branches in the region, when the liquidity of the foreign banks as creditors is "threatened". Banks-subsidiaries and branches of the foreign banks are particularly important since they are closely connected with their foreign head offices. During good times, they obtain funds from their parent banks at more favorable interest rates than the market ones, but during a crisis, they are more vulnerable if the liquidity is taken out faster, that is, transferred back to the parent banks.

THE WIIW CALL TO SUPPORT THE WESTERN BALKANS COUNTRIES

The leadership of the influential international institute WIIW from Vienna suggested the EU institutions in March 2009 to financially support the Western Balkan countries in the current crisis. Based on their findings, there is a danger that the assistance of the developed Europe will be absent in resolving the crisis in these countries, since the priorities of the developed

[49] The Croatian president Mesić says, that the foring banks are withdrawing Croatian deposits and suspending granting loans to Croatians thereby creating liquidity problems in Croatia. Generally, one can always learn from negative experiences, which is valid for all countries in the region if they sell all banking and the majority of the real sector to foreigners.

western countries, particularly EU will have changed. They will primarily try to resolve their own problems in the crisis. It would be particularly harmful if the banks of western countries withdrew their money that they offered through their subsidiaries in the Western Balkan region. This invitation to support the Western Balkans is not the only one; The Economist also wrote in its May 2009 issue about similar assistance. It is symptomatic that the institution from Austria was among the first to call for help, when it is known that Austrian banks (partially Italian as well) are the most exposed in the Western Balkans and Eastern Europe to the tune of approximately euros 200 billion. Therefore, the assistance to the economies of the Western Balkans (and Eastern Europe), all non EU members, is particularly important for Austria, representing a guarantee that the regional companies will be able to do their business well and service their debts to Austrian banks. Thus financial assistance to the Western Balkans also means indirect assistance to the Austrian banking industry and its economy as a whole. It has been decided that the total assistance from the EU for all non-EU member states from Eastern and south Europe would amount to approximately euros 50 billion.

ADDITIONAL UNFAVORABLE LOCAL FACTORS

The Real estate bubble was also inflated in the countries of the region. It is particularly evident in the real estate sector in coastal areas and/or in the capital cities where prices rocketed. This bubble will disappear eventually; the question is will it happen by prices suddenly collapsing or gradually reducing. It will have additional recession effects on the local economy. The financial sector has already been affected concerning liquidity; a fall in real estate prices with reduced demand will additionally affect the financial sector and the real economy as well.

A similar situation played out with the stock exchange bubble. It has largely dissolved but with further depressive effects for the real and financial sectors of the economies in the region.

THE CONSEQUENCES OF THE CRISIS

CONSEQUENCES FOR THE FINANCIAL SECTOR

Since the banks in the region reduced interest rates too much during the liberalization of a capital balance, private individuals directed their savings from banks to the capital market more than it was necessary. Therefore, the strongest and most reliable resources of bank deposits decreased. It resulted in the larger foreign indebtedness of the banks, and they simultaneously helped initiate stock exchange euphoria through the expansion of loans granted to private individuals and companies. This is coming back to haunt them now. They have found themselves in the same situation as investment banks that do not have any deposits as their own sources of funding at all. In doing so, banks became "investment banks". The real strategy of the banks would be to stop the lending expansion at the level of actual deposit base and increasing it by higher deposit rates.

This also represents a path for the future. Depositors are already returning to banks and they will remain cautious since the activities on the stock exchanges have made them wiser and some of them were burned. The banks will have to offer more competitive deposit interest rates to depositors and also reduce lending rates to attract borrowers. The banks must operate, if they want to earn money, and deposits and lending activity are still the basis for the survival of commercial universal banking.

The banks should not use funds acquired from the state or the central bank as a means of support to finance speculation or to take over other banks. The use of loans granted to them by the government must be therefore controlled. The loans should be granted to banks in installments, and they should meet the conditions of the previous installment to get the new one. For example they must grant 75% of the obtained funds from the state as loans to companies, and with competitive interest rate.

III 1

CONSEQUENCES FOR THE REAL SECTOR

The recession in the USA real sector began in fall 2007, and slowly spread throughout the world. This was formally statistically determined when economic activity in the USA declined for two consecutive quarters. Therefore, the EU, the USA and the OECD are formally in recession. The financial crisis deepened further the real sector recession, since normative regulation, the supervision of the financial market and the behavior of the players in the market is pro-cyclical. The amplitudes of the cycle are therefore increasing.

The signs of the recession were evident through the halving of the main stock exchange indices in 2008, the lay offs of financiers in the first place, and then workers in the real sector, the decline in confidence of consumers and the weakening of the business expectations of manufactures, the fall in retail sales, particularly cars, and reduced housing construction. Some signs of recovery have appeared since March 2009, but it is not still clear whether they are permanent or merely temporary "green shocks".

Simultaneously, inflation is calming down since final demand is dropping, and as a result raw material prices and transport prices were declining (the Baltic index). The decline in activities in the car industry is transferred to other industries of the economy, which retroactively impacts the services and financial sectors. This vicious circle of deterioration will have to be cut at some point, although with difficulty. The experiences of the financial crisis that occurred in the late 80s of the last century show that it takes a year to recover in the financial markets, two for the real sector, and almost four years for the real estate sector.

Although the financial crisis in the form of a recession appeared in Europe after its appearance in the USA, such time lags are constantly reducing due to the greater and closer integration of all markets. Any global contamination becomes geographically faster and more widespread into all sectors. The Western Balkan region was behind other in recognizing the recession, although the signs are getting stronger: announced or actual lay offs, a

decrease in export orders, a fall in stock exchange indices, and consumer buys, which have already decreased. The credit crunch also deepens the trends of recession in the region.

THE OWNERSHIP OF COMPANIES AND FINANCIAL UNITS DURING THE CRISIS

The issue of ownership of the companies in the real and financial sectors again becomes very relevant in the world and in the region during the financial crisis and the recession it caused. With a view of saving themselves from disaster, the developed western countries have nationalized major banks and some other financial institutions. The same is also happening in some other industries of the real sector, for example, in the car industry. Even the ideological nucleus of liberal capitalism, the London newspaper The Economist, asks in the light of the financial crisis, if it was reasonable to sell to foreigners all the financial institutions in the countries in transition. The same discussions were held in the American Congress on whether the administration, through its interventions, directed the country towards socialism. The Parisian Le Monde Diplomatique and noted philosophers at a round table of the German first TV channel of the TV station ARD asked the same question.

TYPES OF OWNERSHIP AND GROUPS OF OWNERS

The owners of the business units can be natural or legal persons, private individuals or governments (the public sector), local or foreign entities. The organizational forms of ownership may be individual owner, partnerships (secret or public), family companies or joint stock companies.[50]

One of the main goals of liberal capitalism for the last 40 years has been the privatization of all spheres of human activities, the removal of the public sector and state ownership not only from the economy but also from other social activities. In the conditions of non-regulated competition and free entrepreneurship people should work, with a desire to make their own profits as their primary motive, and then to create the highest well-being

[50] For more details, see Bajt,A., Štiblar, F., Ekonomija, GV Založba, Ljubljana, 2004

possible for the rest of society. This is the teaching of the "invisible hand" of the creator of economics, Adam Smith, whose idea was taken over by neoliberals. But they forgot his requirements for the morality of economic activity, thus disregarded something that would be called today the social responsibility of a company.[51]

The process of privatization in the developed capitalist countries of the West in the last few decades reached a historical peak. Everything that became privately owned – the economy, the social sector, culture, sport and education –should work towards the principle of making profit. Simultaneously, companies from the developed countries became the owners of companies in developing countries, particularly in the countries in transition. Some people in the region supported a saying "Since you are not able to do good business, it is best to leave companies and banks to us, foreigners". The level of confidence they had in the skills and knowledge of domestic managers was unjustifiably low. However, all these domestic managers did not divert their companies in a "wrong direction" (with some exceptions), and the same cannot be said for all those glorified foreign managers.

The financial crisis and the recession it caused have shown that strategic consideration is needed on many economic issues regarding the economic system and the conducting of economic policy. The definition of the relationship between private and public ownership is among them.

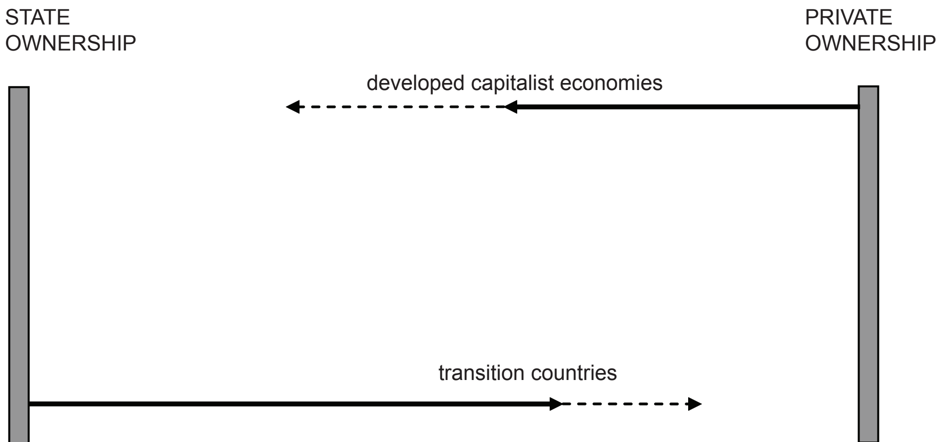
[51] Surely, the managers who invented financial instruments that served for making profit did not consider it, and the risks arising from such instruments were transferred to other players on the financial market.

WHILE THE ENTIRE DEVELOPED WORLD NATIONALIZES, THE TRANSITION COUNTRIES OF THE REGION WOULD STILL PRIVATIZE

Privatization, liberalization and recognition of the need for competition in developed Europe and in the world are not "in" any more, since they have greatly contributed to the current financial crisis. Therefore, the leading economic superpowers attempt to mitigate their consequences. Even Brussels has temporarily "frozen" provisions of the Stability Pact on budget deficit and anti-monopolistic provisions since it is necessary to help resolve the financial crisis; the same applies to the implementation of state capital (which increases budget deficit) and takeovers (which increases market concentration).

Developed countries have been doing quite the opposite in recent months. But, international institutions can not now request from the countries in the region that they proceed with the introduction of the processes privatization. However, the policy makers are late again in the region. Now, it is a time for strengthening the state and the concentration of the market, not the opposite. One may fail to keep pace with developed capitalist countries by being late: they will nationalize and introduce protectionism while the countries of the region will continue with privatization and liberalization.

Therefore it is irrational to privatize companies in public ownership at a time of financial crisis and of bear trends on the falling stock exchange indices. Due to the low demand on the stock exchange and loan restrictions and the liquidity crisis, the prices obtained from privatization will be (too) low and simultaneously there is a question of a broader strategic level to which companies in public ownership should be privatized at all. If the state and its funds privatize their ownership shares in companies only because of their own insolvency it is better for everyone to settle the insolvency problem by taking loans guaranteed by the state, or by direct fiscal assistance from the budget.



Picture k: Opposite processes of ownership transformation.

"DE-TYCOONIZATION" IN CURRENT CONDITIONS?

In supporting management ownership of Slovenian business organizations a few years ago I clearly opted for a 10 to 15% share of ownership for in-house groups of managers as it is known in the developed world. The personal accumulated savings of managers should be the basis for achieving this, and not bank loans. The purpose of such ownership is to encourage managers in ownership teams to make good and responsible decisions in favor of the company and the creation of the positive environment in which they work. At the same time they should diminish basic conflict of management and decision-making between the principal (owner) and the agent (manager). However a majority or even 100% ownership achieved through a MBO ("management buy-out"), which was to a large extent financed by banks[52] creates loads of problems. In the first place, though legal, it is not legitimate, that means, debatable as is evident by the great public opposition to it.

In fact, many companies devoted all their energy to activities on the capital market instead of carrying out the basic activities for which they were established and for which they possess "know-how". They were adversely

[52] In mid-90s, as a chief economist in bank NLB, I was opposed to giving bank loans for MBO. The practice ceased after initial attempts due to public opposition, but it has come back with full intensity in Slovenia in recent years.

affected by a stock exchange fall since they were inexperienced and naïve. It is a matter of the shares of their own organizations as well as of the shares of other organizations with which they speculate. The prices of shares of their organizations which they (as "futures") used as collateral for loans have dropped so the banks then require from them further collateral which they do not have. At the same time, the economic recession reduces profits if they were not already adversely affected by earlier damage to the companies during managerial takeovers. If "tycoon companies" do not manage to pay off the loans taken for MBO takeovers, the banks which granted the loans will suffer. If the owners do not recapitalize their "tycoon companies" it is reasonable for the state to do so, by direct investment of its capital into the company to save it or by exchanging treasury bonds for the loans banks claim from tycoon organizations. That is in fact a way of returning to the financial restructuring of banks in the 90s and simultaneously of enabling survival of these companies.

The price at which the state should buy shares, particularly regarding companies with strategic importance for a particular country of the region still remains an outstanding issue. Government and public authorities have to apply appropriate means of persuasion so as tycoons to agree on a suitable price which will be somewhere between the wishes of the present owners of the shares and their prior purchase price. The state would naturally suffer a loss for a short period of time if it is to buy a company more expensively than it was sold earlier. But in perspective any "bear" stock exchange trend will turn into "bull" trend with prices for three quarters of company higher than buying prices (state should keep for itself a quarter plus a share).

The majority of large companies in strategic sectors[53] should retain majority national ownership if there is a desire in country to belong to the group of developed countries with retained economic sovereignty. National "blue

[53] The question is which sectors and organizations are strategic. In fact, it is a question of a classic infrastructure area and we could classify as modern infrastructure most of the biggest organizations which have financial flows (banks, insurance companies) or trading flows (trading companies) network developed all over the country. Former English MP Tony Benn, for example, argues that the financial sector would have to be entirely nationalized in the UK due to its interest and importance. This is naturally too much but greater control would, nevertheless, prevent the blowing up of financial balloons with financial innovations.

chips" as micro policy instruments will make it possible to follow one's own social strategy, not to become only a Western European province.[54] An ownership structure of four owners (workers, state, suppliers, and other business organizations, national and foreign) is suitable and similar to my decade-old proposals for three equivalent ownership shares in the privatization of banks. The fact is that the structure suits managers as well, who, with a more dispersed ownership, become more independent in running the company which is not a bad thing if they are competent. They will be able to prove this by the results they achieve. It is only important that the owners of the corporate ownership quarter of an organization are from the same or similar sector as the organization in question since they are familiar with its operations, have accumulated know-how in it, and have, as participants, a strategic interest in the long-term ownership of the organization. In that context Jože Mencinger stands up for "the owners of the company" and not for "the owners of the property". According to theory we would say that it is a matter of diminishing the conflict between the principal (an owner) and manager (an agent). Besides the managers and the owners, the other workers in the company may become more interested in active management and destiny of company.

Companies on the stock exchange are sensitive to foreign takeovers at a time of low share prices. Therefore it would be good to protect them with state funds which would help them if necessary. Nicolas Sarcozy advocates a similar idea for France. He wanted to introduce it for the entire EU but he faced opposition from Germany which would probably have to pay the most into such a state European fund ("a sovereign wealth fund") but would get relatively less benefit out of it.

[54] All pubic surveys would show that at least 75% of people give support to national ownership as opposed to foreign.

THE SUBSIDIARIES OF FOREIGN BANKS AREOWNED BY FOREIGN STATES

Advocates of bank privatization through their sale to foreigners have always claimed that action with an explanation that the banks in private ownership have always been more efficient.[55] That is how many banks fell into foreign ownership and there is a great risk for the rest of them, still in public ownership, of sharing the same destiny. However, all foreign parent banks of the banks in the region were recapitalized by the state of their origin in 2008. Austrian parent banks have already mostly received a state injection of capital which at the very least means partial nationalization. As a result states have become their owners – in some cases only de facto, and in others de iure! It applies therefore indirectly to their subsidiaries in the region. They fall also in the ownership of foreign states. It is true that intervention by the state saved the parent banks and their subsidiaries in the region from the risk of collapse, but nevertheless: if the national state ownership of banks was rejected, why then is foreign stateownership "permitted"? In these cases it is a question of the crucial sovereignty issue of domestic Western Balkan country.

On the other hand it is absurd to now privatize domestic banks. They should still remain in state ownership when the main proponents of a liberal market system, the USA and Great Britain are nationalizing their own banks. It is irrational to follow path of privatization in time, when the leading ideologists of the liberal system try to escape from it. And also, to do it at a time of falling stock prices.

A SUITABLE OWNERSHIP STRUCTURE OF A NATIONAL ECONOMY

The global financial crisis and deep recession will thoroughly change the system of market liberalism praised so far. Therefore, it would be irrational for the countries in the region to persist as "the last of the Mohicans" on the way to a fundamentalist liberal market abyss. Nowadays when the social-market path in the world has turned out to be more suitable and the neo-

[55] Empirical analyses of the author with collaborators, as well as those of other analysts (for example, Marko Košak from the Faculty of Economics in Ljubljana) did not show any particular business advantage of foreign owned as compared to domestic banks in region.

liberalism system of market fundamentalism has fallen with the financial crisis it caused, it is necessary to regain a sense of proportion and make proper moves to retain national advantages and take on widely accepted social priorities.

It is necessary to focus on the right economic policy of the government and the policy of the financial authorities which will make it possible to mitigate the consequences of the global financial and real sector crisis successfully. As regards the problem of ownership of the production factors it still seems that the ownership structure of Norwegian and Dutch societies is appropriate, those I proposed as a role model at the time of writing the first Slovenian economic strategy between 1993 and 1994. It is a question of giving emphasis to a strong middle class and an ownership class which is the basis for steady democracy. It means that there is no place for tycoons or oligarchs who disturb society by the size of their wealth and the way they acquired it.

At the same time the poor who are affected most in the crisis and who have no accumulated savings to replace reducing income should also be socially assisted. The civilized state of a society is reflected in the level of guaranteed minimal social security (education, health service, pensioners, protection of children, old people and disabled people) it is able to provide.

Some clarifications are necessary here. Firstly, national ownership may mean ownership by permanent residents of the country, even if without national origin or citizenship of the concerned country. They live permanently in the local environment and therefore they care for the quality (environmental and social) of their living environment, that is, the environment in which their families live and the permanent seat of their business organization is located. On the contrary, nationals who moved their acquired wealth into tax havens all over the world have not ever been acting in the national interest of the protection of a national identity and act against domestic interest of country in question.

Secondly, when there is no financial or human capital to preserve the

"silverware of the society in the form of strategic blue-chips" in national ownership it is better for the country to borrow money and hire managers to retain national ownership in "blue chip companies" than to sell and lose it forever. Micro instruments of managing one's own specific development strategy and national priorities which, in fact, means retaining one's own identity, or sovereignty, may be lost as a result.

Thirdly, everything that applies to economic "blue chips" applies also to a land which should be kept in permanent domestic ownership so as to retain sovereignty, at least for as long as all other developed countries do it. We are talking about a land on the coast or a land under factories which are privatized and sold to foreigners. To lose the opportunity of accessing the coastal seaside in one's own country is shameful in itself and it should not be commented on any more. Furthermore, when factories are sold the land they are built on must not be sold, but only leased for 99 years and retained in permanent national ownership. The land sold in such a way is, in fact, frequently the goal of the buyers of the factory because it is frequently more valuable than the factory itself. New buyers shut down the factory as soon as possible and pull it down, so as to get the land which could be sold at a higher price. Thus, the process of shutting down factories and losing jobs accelerates. Therefore, a country could prevent such manipulations with its land by just leasing out the land on which the factories are built and at the same time it could regularly collect rent for its budget.