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THE GLOBAL FINANCIAL CRISIS AS A SERIOUS THREAT TO THE NATIONAL SECURITY IN THE COUNTRIES IN TRANSITION ECONOMY - KOSOVO CASE

Abstract:

The prevention and the minimization of the negative effects that have derived from the financial global crisis lay down on governmental institutions through the implementation of the economic-legal measures which scientifically are also known as a state intervention. More than two years have passed since this commitment commenced in U.S. and in Western Europe countries, which are widely known with a liberal economic system. In global extent, bailing out of the banks it has been considered the tool through which the fundamental goal is achieved- preservation of the economy from collapse. Recently, the logic of the broadened economic liberalization system has shown signs of apathy and inefficiency. In Kosovo being a newly found state nobody insofar has not stated clearly nor seriously any action that needs to be undertaken to bail out in terms of the financial crisis. Due to the significance that this crisis constitutes it requires rapidly to find and undertake the appropriate actions. The role of the state intervention is not only inevitable but it is imperative and such actions are to be very specific, reasonable, effective and constructive. The primary outcome that derived from this situation is the fact that banks are creating a special relationship with the state. Trying to avoid profound current political issues, the role of the state needs to be focused on economic and legal policies, in course of strengthening the banking system, credit market system, protection of investments, amendment of the tax policies including the capital incentives. It is compulsory, as long as it is not too late, that the respective institutions of the Republic of Kosovo need to be much more committed in terms of establishing strategies against this crisis. This strategy would require intervention policies and measures of economic nature as well as legal instruments that would enable the immunization of the national economic system and at least to be capable to bail out the pension fund, fund out of the privatization process and those very few savings made by the citizen within the banking system.

Key words: Global financial crisis, state intervention, neo-liberal economy, legislation, action plan, anti-crisis.

Introduction

While all social and institutional mechanism of European countries are attempting to plan their future in the globalization processes, charged with many different problems and issues, in the early time was quiet but its increasingly becoming more powerful, now are faring effects that are being caused by the global financial crisis. Surprisingly, the so-called “contemporary” crisis which is widely known that the genesis derives from mortgage loans and global financial stock exchange, it has gradually started to manifest itself suddenly. Perhaps it’s not real but at least up to now it has created a perception that this crisis that in many papers is called “American tsunami” if it can’t be stopped in a short term will not be able to help even with the state intervention measures.

Movements occurring within stock indexes are showing consistently that the unstable tendency of growth and actually you may get the impression that nobody is concerned anymore about the situation. Here (in Kosovo) even though there is no institutionalized financial market with the actual funds has already marked a decline. In Kosovo the pension fund and asset fund for the privatization are wasted and nobody has the courage to report about the real situation. In a broader plan, actually there are differences as far as the approach is concerned towards the crisis by political forces from USA and Europe but all have one goal: unsparing action in reducing the devastating consequences of the crisis and maintain economic stability as well as national security. Americans and some European leaders have demanded strongly that the crisis are in global range and the reaction has to be globally. However, Europe basically still did not manage to have a joint action plan, but they reacted on unilateral individual basis of the certain countries. In the Republic of Kosovo the first signs of the economic crisis, although silent, begun to reflect and certainly no one knows when this is going to end. Based upon general perception it is emphasized that the crisis may cause two negative effects: the economic recession or the economic collapse which is followed with significant consequences which may lead towards destabilizing the national security. The economy of our country is fragile and due to this is perhaps no economic collapse will occur but the effects of this crisis most probably will effect in leading the country to a recession as well as to psychological effects caused by this crisis. Interestingly, no country within Central and East Europe including Kosovo has issued any statement in respect to the risk and the consequences that may arise in area of national security.

It is imperative that within the international plan as well as within responsibilities of the respective governmental institutions, Central Banks,

Commercial Banks, information tools, etc, aiming to coordinate its activities in establishing a comprehensive anti-crisis strategy. To this extent the institutions in governmental level urgently needs to review specifically the fiscal policies, by providing legal amendments and supplements aiming to ensure that a facilitation is provided for business entities and to the citizens. The central bank has to establish liberal and rational policies in line with the commercial banks which requires including flexibility. Information tools need to be rational and to report directly on volume and risk effects of the financial crisis in order that the “psychological risk” will not reflect uncertainty. In this situation there is a serious permanent risk that the financial system faces during the effects of the crisis.

Brief outline on some of the causes and effects of the global financial crisis

Although this paper does not intend to treat the causes and effects of the global financial crisis for economic related reasons it is inevitable that at least need to be mentioned some of the key events. Due to the fact that policy and legislative measures proposed must be in interaction with the minimization or elimination of this phenomenon. After the boom of global financial crisis within various scientific, political, economic etc, areas, it has been discussed in relation to the causes that affected that this phenomenon to have a wide devastating and a negative dimension. Frankly, due to the importance and the security that the international financial system constitutes, during decades a series of international institutions related to financials character have been established which up to this day aim to maintain a stability of this market, stability within the stock exchange, issuance and implementation of the financial policies aiming to provide stability on international transactions, financial aid on lending and borrowing or preventing potential financial unbalances etc.

The financial crisis started in the second half of 2006 with the difficulty of declining of mortgage debt returns in the U.S. where many debtors were not able to repay them. Following the February 2007 the crisis was carried over to the major banks passing on financial crisis which included larger mortgage credit, since the summer of 2007. This crisis caused a decline on stock exchange in the summer of 2007. The stock market decline was much lower in comparison with the deep slump in the stock market in 2008. State authorities and financial experts considered that we are dealing with a crisis that poses lack liquidity among banks, therefore the way of reaction was putting money within the market bank. But the crisis gradually slipped as global bank financial instability. It has to be emphasized that in Europe at that

time nobody talked about the risks of involvement in this crisis. Many banks expedited the increase of their own equity by selling their shares or through participation in foreign investment especially in Asia and Persian Gulf. This amount only from mid 2007 until 2008 rised up to 300 billion dollars. But this amount based op analysts perception remained very inferior compared to the real needs fo bank capital and the equilibrium of the banks balance sheet structure. In reality banks failed to estimate the real value of their own activities, any kind of assessment became unreliable, different, aiming to determine the real value. This situation caused an increase of liquidity crisis within banks. The financial crisis was worsened in September 2008, where many U.S. financial institutions found themselves in bankruptcy position or they were bailed out by Fed reaction (insurance company AIG, Fannie Mae and Freddie Mac), with a very symbolic price was purchased Bear Stearn from JPMorgan or the ones who bankrupted (Lehman Brothers).

These events caused a chaos even out of U.S. – especially in Europe where many financial institutions found themselves close to bankruptcy. The entire international bank system was interrelated, especially to with the key player American¹ central bank. Based on historical data on financial and banking crisis as well as based on assessments made by many scholars, experts and researchers this is only the first phase of a deeper crisis of the real economy. The governments of most powerful economic countries turned on the alert signal for state intervention in order to save the banking system, and to reduce the devastating effects caused by crisis on real economy.² The bail-out plans of the banking system initially endangered in U.S and Europe were mostly were referred to two major players: governments and central banks. The central banks reacted on reducing the percentage of their own interest as well as granting the activities of the infected banks that were in a difficulty position³. Despite these foreseen measures on stabilizing banking sector and to minimize crisis effects, regardless of this it still pursued to worsen.

¹ Out of this situation rapidly changed and it continues to change the banking structure whereas the stock exchange had the largest decline in its own history, only from January up to 24.10.2008 which was one of the highest declines : Dow Jones (USA) declined for 36.83, Nikkei (Japan) 50.03, FTSE 100 (UK) 39.86%, DAX (Germany) for 46.75, CAC 40 (France) declined for 43.11%, Moscow stock exchange was shut down for several weeks due to the fear of stock exchange effects.

² Bedri Dr. Selmanaj :What are the dimensions of the financial crisis on global economy : this paperwork was taken from the following website http://www.gazetashqiptare.eu/bedri_selmani/kriza_financiare_2008.html

³ US. Government introduced the Paulson Plan which foresees acquisition of the banking infected activities in an amount of 700 billion dollars. France: The government bailed out all the banking operations in an amount of 320 billion dollars and asisted in banking equity in an amount from 40 billion dollars; Germany: Government bailed out banking operation in an amount from 400 billion dollars and assisted in banking equity from 80 billion dollars; United Kingdom: Government bailed out banking operation in an amount from 320 billion dollars and assisted in banking equity in an amount of 64 billion dollars;

Swisterland: the banking equity is bailed out with 6 billion sf and are acquired infected assets from 60 billion sf : India: the banking sector is bailed out with 9 billion US Dollars; China the interest rate is lowered.

Many scholars support the idea that crisis related to credit immobile “sub-prime” is only one of the sparks of the deeper crisis. Crisis slowly is being carried out in the real economy. The banking crisis is changing its shape and is presented as super production crisis. Many governments are creating gigantic plans of investments by increasing budgetary deficit in order to stimulate the economy and reduce the negative effects of the crisis. Today, probably some time in the future the question will reign as the possible financial and economic tsunami of modern capitalism to take this dimension terrific when everyone thought that capitalism and its modern forms neo-liberalism were wonderful market regulators and society? How is it possible to create democratic systems model space for such financial irregularities? Even the greatest defenders of free markets as the single regulator are drawn and are demanding more control and more powerful regulator to prevent recurrence of similar crises. But the question that arises is that who is losing and is there anyone that actually won out of this crisis?⁴

State intervention on financial system and the end of logic of neo-liberalism economy

Now there are no doubts that the global financial crisis has occurred and the world economy was hit hard without any doubt in a very professional manner. How much will it be financially deep crisis, which will be its cost and what other forms will occur remains to show time. Of course, under the logic of state intervention is expected to be strong and constructively to cope with any event because now is not safe from turbulencat. It created the belief that ideological and economic reasons for a liberal economic system led by the United States but was coming to an end. Also the neo-liberal economic idea with lower taxes, its financial markets - regulated by the influence of supply and demand and minimum legal provisions to regulate the economy and liberal democracy are questioned more than ever before. As the international financial crisis were born and developed in the U.S. state commitment is inconsistent with the neo-liberal idea. Intervention measures that yesterday were protectionist measures being considered the only ones who can save anything.⁵ These measures being taken by the state are generally going in the direction of:

⁴ Bedri Dr. Selmanaj :What are the dimensions of the financier crisis on global economy : this paperwork was taken from the following website http://www.gazetashqiptare.eu/bedri_selmani/kriza_financiare_2008.html

⁵ As shown the policies for bailing out the financier sector in the United States of America and the European countries has started with 700 billion US Dollars. The initial step of the financier aid in Europe was 500 Billion Euros, in Spain 100 billion Euros , Portugal 20 billion Euros., France 360 billion Euros in, in France 360 billion euros, Norway 55,4 billion euros; Germany 500 billion euros, Austria 85 billion euros etc;

- improvement of banking transparency in terms of their accounting level;
- enhancement of the control over banks through an audit process based upon the level of risk that are involved through the norms related to the Credit Default Swap;
- improvement of risk management by setting up models and new forms as well as payment control;
- improvement of market control by increasing the cooperation among countries and strengthening audit to major international banks;
- improvement of regulations' effectiveness by providing recommendation from the IMF as well as other Forums that aim a financial volatility in the course of limitation of financial cyclic effects;
- enhancing capacities of international financial institutions to support economies in troubles

What we have become aware of is that we need a new financial structure to fight financial disequilibrium, decrease of speculative forms in financial market. Banks operating in Kosovo and Central Bank⁶ itself have not at least officially stated any difficulties or problems in their functioning, and less on capital or bad loan portfolios having become worrying for functioning. Still problematic loan portfolio is in the permitted level and in moderated numbers for our bank system, even though it is expected for this level to increase in the following months. Until now it is evaluated that as a source of crisis in Kosovo the financial system did not have internal problems. This is encouraging and currently it makes the possible effects in world crisis less blowing in the Kosovo financial system and economy. There are no certain information, respectively indications whether it had crisis effects on banks operating in our country, what were the problems regarding their portfolios, their capital nature, or liquidity as a whole.

Not only this, but we can surely ascertain that the effects of this crisis in our country are clearly seen in the respect of delivery of emigrants, which have clearly shown signs of decrease, a situation which creates a further reduce of possibilities to finance economical.⁷ Not to forget that

⁶ Governor of the Central Bank in the Republic of Kosovo, Hashim Rexhepi, has evaluated that the bank system in Kosovo is sustainable and stable, and according to him even though there is no law to secure deposits there is no risk of deposits. This crisis, according to him, has still many unknowns, has many risks and many disclosures to be done in different financial statements, be it banking or business dealing with their assets, therefore we should be very careful for better managing for the impacts of this crisis to be as minimal as possible in Kosovo.

⁷ According to IOM's report – Impact of global financial crisis on migration taken from internet www.uri.org.al/uri/pub/raporti_shqip3.pdf clearly showing the effects caused and will be caused by global financial crisis in countries with migration.

remittances are main resources of social economical growth in our country. Recent years an evident increase was noticed of the level as well as rhythm of deposits. Market deficit has deepened due to decrease of export, but also machinery, equipment and raw material import. According to investment dynamics from the country budget it is expected for the budget deficit to increase and new processes to begin dealing with public debt and its cost.⁸

Role of state institutions in financial crisis and blocking the blowing effects of the crisis

Poor economical condition in the Republic of Kosovo is a wide known fact. Since this writing has no intention to analyze the reasons of this condition, this way we try to provide a strategic plan which will impact in minimizing blowing effects of this crisis. We think and propose that the action should be concentrated in four directions:

1. More specific political institutional engagement;
2. Media and Information Action
3. Measures and incentives of economical type;
4. Legislative measures;

Role of State Institutions to minimize the financial crisis

There is no doubt that facing the financial crisis without an efficient intervention of state institutions wouldn't make any sense. Due to high social risk of the crisis we are witnesses to the fact that countries have widened cooperation in this direction. Thus, political institutional reactions in this regard should be focused in this direction:

- Facilitating the economy of some taxes and not jeopardizing activities and effectiveness of government on eventual decreasing of budget income (e.g. decrease of VAT for some existential products);
- Review and undertaking of some protecting measures to several imports, though this way of action is not recommended in market economy. This strategy should be elaborated, analyzed, and eventually implemented if several countries act this way;

⁸ According to the fifth Report Development & Transition, published by UNDP in Kosovo, by all authors and specialists it is evaluated that the effects of global financial crisis are present in Kosovo. For more see www.ks.undp.org taken in March 2010

- Creating urgently disincentive policies to import through mechanisms as quality control, standards and inspection work, etc.
- Governmental plan to reduce public expenses, always considering not to jeopardize normal activities of its functioning;
- Increase of taxes for products not having social sensitivity as make-up and other luxurious things;
- According to the intended and stipulated strategic plan to stimulate export, to increase stimulation in agriculture and farming, generate agro-industrial products, considering the effects which could be achieved regarding employment and replacement of foodstuffs from import.
- Undertaking measures to support the poor, with the purpose to mitigate social problems, the poor being the ones who mostly experience crisis situation. Respectively not to allow social crises to become humanitarian ones.

Media and Information Action

Since this crisis in all written and electronic media is and will remain for a long time as “top topic”, we can easily ascertain that many activities against global arguing and even globalization phenomenon itself could not achieve to homogenize the world as this current global economical crisis did.⁹ This homogeneity is the result of media and it is exactly them who we should be thankful to. Medias are evokers of the fact and have insisted since the beginning on that what has happened is a serious crisis and with catastrophic effects in long-term. Due to the specific position they have in social life, they have become informers of the global financial crisis, informing on its volume and power in particular countries. Because of striking nature and power of the global financial crisis it is predicted that it will gradually move from rich countries to poor ones, and only because of negative effects which will directly be reflected in investments and real economies. Their role should be realistic informing the volume, nature and dimensions of the crisis. They should inform on the condition of crisis phenomenon and that it shouldn't be minimized or faked by no way, in contrary it should be reported in real regardless of the level of fear, due to the fact that the biggest losers are innocent citizens. The role of media in this segment is multilateral.

⁹ Veselin Dr. D & Radoslav DR. J., Current global financial crisis and media, Univerzitet Mediteran Podgorica 2009

- First, it enforces governmental institutions not be neglecting in compiling and implementing economical policies and legal anti-crisis measures;
- Second, it enforces governmental institutions to engage in regaining trust in bank system through fulfilling other mutual regional and European obligations and engagements;
- Third, it enforces Central Bank and commercial banks regardless of crisis spiral to continuously improve their performance, and not only this but also to be more serious regarding activity practice in securing sufficient break even.
- Fourth, it makes citizens, enterprises and stakeholders aware of the risk and of the necessity for methods and ways of reaction.

Measures and incentives of economical type

From the beginning of this writing we have ascertained that Kosovo Economy is fragile and with a lot of problems continuously growing. Regardless of official attitudes whether there is or is not a financial crisis in Kosovo, what are its dimensions, or what are the effects of blow it has caused in our country, I think that in any case we should have a real multidimensional action strategy. The way to get out of the crises should be searched through much harder work by improving order and discipline in the innovative institutional economical field. These measures should be strategic and combined and supported with operational techniques and operational tactics, composed of an efficient anti-crisis strategy. However, this strategy should be harmonized with a mutual strategy package of political, legislative, and economical aspects, which would be the basis for approval of the new development model based on building a sustainable institutional environment and acceleration to approve knowledge economy. These are the conditions of all the other conditions. In addition, this means stabilizing and strengthening the bank sector, severe and effective control of passive and active actions of all financial institutions, affirmation of sincere governmental anti-crisis policies necessary for economical growth. In this kind of situation all the anti-crisis measures should be evaluated on the basis of several basic criteria: production and increase of employment, liquidity, economical efficiency, restructuring and sustainability of economical growth and development. Special attentions should

be given to the possibility of production growth in farming wherever it is reasonable and possible. Global crises has been evaluated as unique¹⁰ because it has taught us to improve abilities to create different and better approaches in the best sorts of economical policy development, the implementation of which can secure a sustainable economical growth. In fact this process is complex and difficult because time is over to consider some minor and easily changes sufficient. Eventually, it is necessary to cross rhetoric and interests of a successful history based on economical neo-liberal doctrines. No doubt that facing financial crisis for an efficient intervention of state institutions wouldn't make any sense. Due to the high social risk of the crisis we are witnesses that countries have improved cooperation in this direction.

Legislative measures

By all means, global financial crisis should be included under the strategy for country protection. This document should be harmonized in conformity with state policy development to protect citizens, society and the democratic state against internal and external threats and risks of this nature. Legislation and activities in the field of Security for the Republic of Kosovo should be harmonized and meet the standards and principles of the democratic state, and with international acts accepted from it. Legislative strategy is not an entirety of regulations and norms given for eternally. In contrary, their adoption in new circumstances and promotion of rapid development of free economical market from now on should be reviewed in conformity with the above mentioned proposals. Growth of a healthy economy, fighting much harder the informal economy and corruption, will remain as key factor for the consolidation of institutions and national unity to achieve other important standards for integration. This will provide more possibilities for business development and a favorable economical climate for foreign investors. Impact of economical factor for national safety will gradually increase through strategic participation and integration of Albanian economy on regional, European level and further on. Under this plan, legislative measures specifically can impact in blocking negative effects of the said crises. The purpose of creating appropriate legal mechanisms should be seen as a way to undertake these measures:

¹⁰ Governor of the Central Bank in the Republic of Albania, Ardian Fullani "Every crisis brings new information, regardless of intensity, geographical location or duration. Each crisis completes the difficult puzzle of free economical market functioning with a new piece, helping in the better sense of the entirety" taken from <http://lajme.shqiperia.com/lajme/artikull/iden/337578/titulli/Sistemi-financiar-dhe-rreziku-evident>

- Creation of functional state mechanisms to prevent and fight informal economy, fiscal evasion, goods trafficking, etc. (financial audit, financial police, specialized customs services, specialized segments of attorney and judiciary in the financial plan);
- Issue and completion of legislation in compliance with the legislative framework of the European Union which shall regulate and monitor financial market in Kosovo;
- Revision and adoption of tax legislation in order to be flexible and to reflect economical policies mentioned above;
- Revision of Law on Customs and Excise of Kosovo in order to harmonize the economic policies mentioned above;
- Etc.,.

Conclusions

No doubt that preventing measures and struggle against global problems and negative effects globalizations inflicts in a wide context are not sufficiently homogenized even though there were some improvements. Being aware of the risk level in the country of global financial effects and its vulnerability to be imported in countries of fragile economy, the responsibility of state institutions seems to be necessary, first to develop efficient economical-financial policies to implement the strategy of economical and social growth in the country, which guarantees safety and stability to meet citizens' interests. As a priority remains development of regional and European integration process and deepening of economical structure reforms. In this direction main objectives should be: further consolidation of macro economical stability in the country and creating legal facilitating conditions to attract foreign investments; Enter agreements and implementation of mutual consortium strategic projects; Quality improvement of business climate to increase investments with private enterprises in infrastructure and technology, relying more strongly on bank and financial sector, to increase employment level and to improve market and financial balance in the country; Consolidation of property rights, continuing the process of privatization in strategic and economical sectors; Incentive of more dynamic developments of fields with higher and more rapid economical results, aiming among others to mitigate economical inequalities in rural zones within the country and decrease of poverty; Strengthening of legal state in the function of improving tax and custom administration; Preventing and repressing activity to the 'informal economy' phenome-

non and other negative occurrences in society. Therefore, taking political, legislative, and economical measures and international cooperation for a successful and rational reaction against this crisis with unpredictable effects is an imperative necessity. Social reaction with this measure package and with firm commitments impacts in the decrease of fiscal evasion and proper management of public expenses, in limiting corruption level and increase of transparency. Implementation of Safety Strategy of the Republic of Kosovo, which requires optimal distribution of economical-financial resources, gives priority to internal stability, and creation of necessary reserves in supporting state policies to fulfil constituent mission in the field of national safety which is connected to the effects of global financial crisis.

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