CRISIS MANAGEMENT IN BUSINESS CYCLES
CASE STUDY: KOSOVO

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Abstract

The problem of understanding the economic cycle at the present time is a challenge for macroeconomic wealth to adjust the change models and approaches to competition cycle. Ever since the onset of the recent crisis, monetary business cycle theories have started to regain their relevance and timeliness in explaining business fluctuations. Approach of insufficient under-consumption, monetarism, innovation and psychology responses to conducted cycle. According to these theories, it is monetary mismanagement that lies at the bottom of macroeconomic dysfunctions in inter temporal allocation of resources. Economic policy is based on the implementation of neo-liberal ideology, and it is reflected in excessive public spending making it necessary to constantly foreign borrowing, excessive imports, the national economy, subsidies, corruption, absence of meaningful reform and eternal hope in foreign investors. So this work is based on these processes using statistical analysis of the Kosovo economy. Recommendations from the conclusion of the work will be carried out in the proper approach in a competitive environment cycle of Kosovo as well as creation of a new economic strategy and macro-economic policies of Kosovo.

What are the reasons of the high level of crises? Why business cycles remain on low levels? Is the percent (%) of business cycle due to wrong actions of our politicians? Does the education level have impact on business rate? Do family businesses affect the cycle of businesses?

Answers to these and many other questions you will get through this paper, where method of secondary data has been used

Keywords: Crisis, Factors, Innovation, Economy, Strategy, Policy, Kosovo, Transition.
JEL Classification: C4, E0, N1

Introduction

The economic crisis has always represented a great challenge for economic theory and policy. We live in a time in which the crisis has unfortunately become a companion or a framework of contemporary human life. Indeed today, nothing is as certain as the crisis, it has become an environment in which individuals, organizations and the society as a whole operate. The crisis, whatever it may be, it takes us into the area of risk treatment.

The crisis can be seen as a threat-step to the abyss or the possibility of-way to an upswing – progress. Anyway, there are four key factors that influence the response of companies to the crisis: business strategy, organizational structure, organizational culture and character of employees in the company.

Changes companies' faces with since the end of the last century are mostly a discontinuity character. Today's companies are facing new challenges that are difficult to successfully respond to internal changes in the scope and structure of the business.

Key features common to all crises are: unexpectedness, the reluctance and time pressure. Based on that, the complexities of modern crises often require the involvement of many actors, above and beyond emergency services, and this demands effective co-ordination for a successful outcome. The need for coordination also raises significant public governance challenges, as crisis management functions are often exercised at sub-national levels, but co-ordinated at the centres of governments. The capacity to coordinate crisis management is a fundamental element of good governance, as it tests governments' capacity to provide the appropriate responses at the right time, in order to protect their citizens and businesses and mitigate the impact of disasters. Ensuring that national authorities have the right tools and institutional framework for co-ordinated action is critical.

This paper presents the main theoretical implications of monetary business cycle models, regarding the causes of the cycle and the appropriate policies required to overcome recessions. In addition, we investigate whether, at the policy level, macroeconomists are indeed addressing the causes of the business cycle, in order to provide feasible solutions to end recessions.

1. Literature Review

The history of the capitalist mode of production has shown that the capitalist economy inherent to cycles. Cyclical economic fluctuations have always been the subject of macroeconomic analysis. And it does not matter what kind of crisis was at stake, it has influenced both the developing and developed countries. However, when we say "crisis" that does not mean collapse of the system. Crisis is a phase of difficulties in which mechanism falls, but the crisis also creates conditions to overcome these difficulties and the further accumulation on a wider basis.

Economic and social changes that have taken place in the framework of the 20th century, give it a revolutionary character, especially when it comes to monetary economics. During this period there has been abandonment of the gold standard, the development of financial market instruments and derivatives forming a monetary union and a common currency.

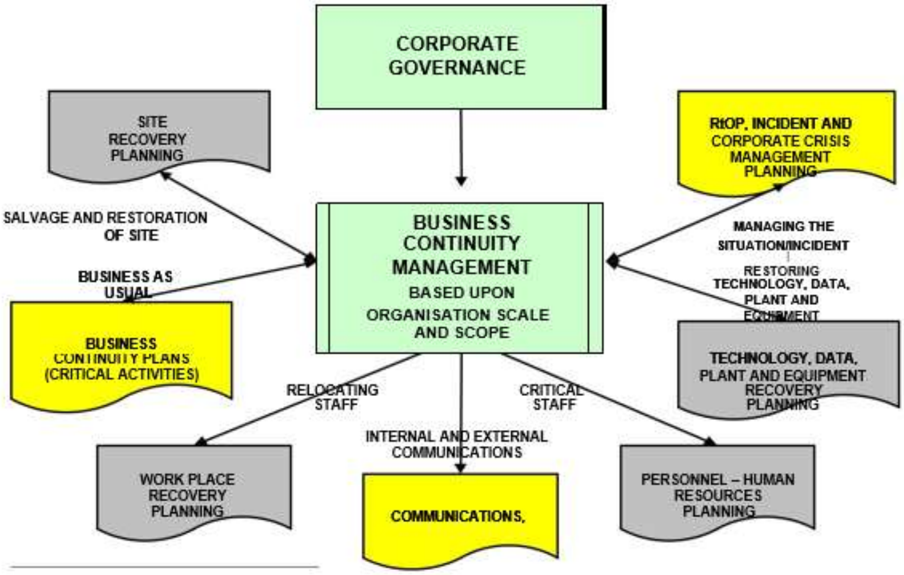
20 century has recorded and the most dramatic economic downturns, such as the Great Depression of 1929-1933 or economic destruction during the two world wars. The period between the 1940s and the 1970s was remembered as a period of incredible economic boom, with strong growth in macroeconomic variables such as investment, tax, wages, etc.

In 2008 the world economy faced its most dangerous crisis since the Great Depression of the 1930s. The contagion, which began in 2007 when sky-high home prices in the United States finally turned decisively downward, spread quickly, first to the entire U.S. financial sector and then to financial markets overseas. Another global crisis has occurred 2 years later, a so called Greece's Debt Crisis that began in 2010. Where most international banks and foreign investors have sold their Greek bonds and other holdings, so they are no longer vulnerable to what happens in Greece.

All the crises that have occurred in recent years have greatly affected the business cycles, both in developed and in developing countries. Recent crises have challenged political leadership and risk managers in many countries, often due to unexpected or unforeseen circumstances, but also due to weak links and breakdowns in information flow (OECD Risk Management, 2013). However, regardless of the difficulties, all organizations must have mechanisms in order to be prepared for any difficulties.

Thus, whilst there are now accepted management standards, regulations, good practice guidelines and other criteria against which an organisation can implement and measure Business Continuity Management and its key components it should always be remembered that as a risk management discipline not all organisations will want to have their BCM system certificated against a whole standard but rather 'align' to a standard. They will properly use the standard to enable them to achieve sufficient organisation resilience via BCM, incident and corporate crisis management capability to meet their needs and the requirements of their interested parties/stakeholders. These needs are shaped by legal, regulatory, organisational and industry requirements, the products and services, the processes employed the environment in which it operates the size and structure of the organisation but its risk appetite in particular. This approach is frequently described as good practice and is favoured by many organisations based on good risk management and cost benefit alone. (See Figure 1)

Figure 1. Governance and Business Continuity Management



Source: IBCM, 2012

On the other hand, it should also be remembered that in addition to corporate governance there are also a number of other key drivers in respect of Business Continuity Management (See Figure 2) as very important for the better management.

When we talk about Western Balkans, in 2009, the economic and financial crisis hit the EU countries hard, as reflected in the slump of the cyclical component of the EU-25 aggregate and eventually in the decoupling of the business cycle of all WB countries from the EU-25. The Western Balkans also experienced some economic downturn, but it occurred later and was less pronounced than in the EU-25. According to some authors, the WB countries were partially protected from the economic and financial crisis of 2009 as they had a low exposure to international financial markets and the foreign banks active in the region were strong capitalized. Albania and Kosovo even overcame the crisis years without dipping into a recession. (Hildebrandt A. & Moder I, 2015)

Figure 2. Corporate Governance and other key drivers

Source: IBCM, 2012

From 2010 to 2013, the convergence of the business cycles of the EU-25 and the Western Balkans increased. Even the group of Western Balkan countries recording less synchronized cycles exhibited a high degree of synchronization in that period.

2. Research Methodology

Based on our research of secondary data, we can conclude that the business cycles of the Western Balkans who have clearly converged with the EU business cycle over the past 15 years, leads to the question which factors drove this convergence process?

Throughout our research we briefly describe the set of variables identified in the literature as important determinants of business cycle convergence. There is a broad fact that trade integration is an important driver of Business Cycle Synchronisation. It is argued that the elimination of trade barriers results in stronger transmission of demand shocks and eventually higher business cycle co-movement. Another very important used variable is the degree of economic specialization, which could affect the impact of trade on Business Cycle. Fiscal policy is another possible determinant, which can be used as a stabilizer at the national level to help smoothing the business cycle, but also it can by itself be the source of idiosyncratic shocks.

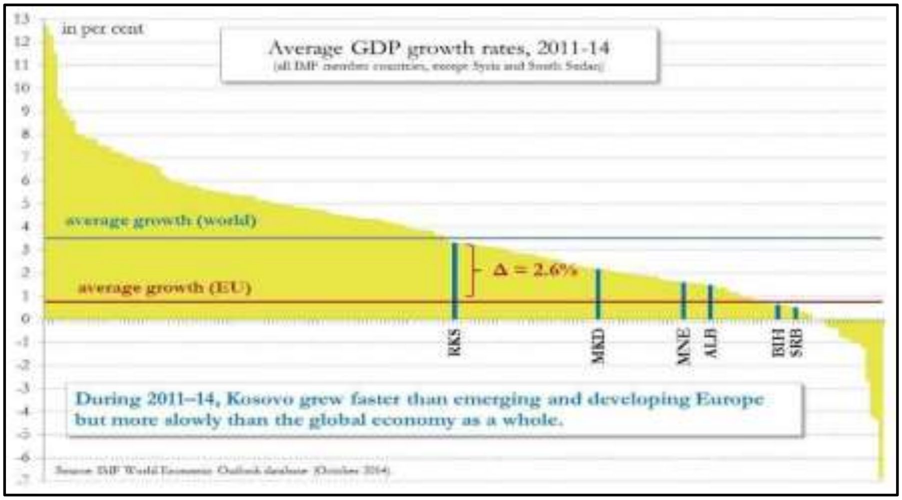
An important source of income in most Western Balkan countries is Remittances. And to take account of the importance of these flows to the Western Balkans, we investigate the effect of remittances on business cycle between the sending and the recipient country.

3. Result

As we have already mentioned, our research is focused on a number of factors that we saw as very interesting for the movements of business processes during a crisis, such as: market, GDP, economic specialization, fiscal policy, Remittances.... We can say that each of these factors played a major role in economic activity both in its development and in defence of the various crises.

For instance, from 2011 until 2013, Kosovo's economy was managed quite well, but risks have been increasing, which is normal for the country such as Kosovo. Kosovo has been one of only four countries in Europe that recorded positive growth rates in every year of the post-crisis period after 2008. The average growth of 3.5 percent during 2011–14 contrasts favourably to the region but has remained slightly below the global average (figure 3). The growth outlook over the medium term remains moderately buoyant—with estimates and projections for 2014 and 2015 of being in the 2.5–3-% range (largely reflecting declining marginal contributions of key engines of past growth such as workers' remittances, foreign aid, and public investments).

Chart 1. Kosovo's' Growth 2011-14



Source: The World Bank IBRD – IDA, 2015

Kosovo has from after the war enforced various reforms, i.e. reforms that aim at increasing domestic productivity. The resilience that Kosovo's economy had exhibited during the crisis periods after 2008 reflected on:

- its limited integration into the global economy;
- the success of its Diaspora, resulting in a steady influx of remittances;

- a pro-growth composition of the budget; and
- the steady inflow of donor support.

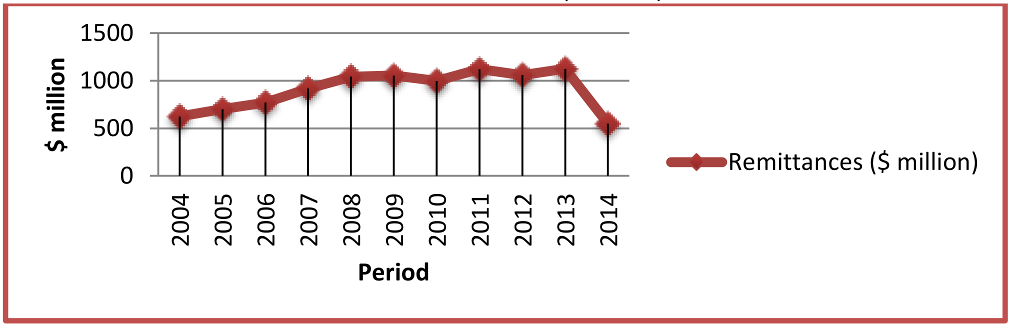
Earlier studies have shown that Kosovo's economic growth has been steady and generally at rates above those in neighbouring countries. The robust growth since independence was largely attributable to public investments in infrastructure, donor assistance, and remittances (See Table 1 for the description of the remittances dedicated to Kosovo). The particular structure of Kosovo's economy—limited financial linkages and a small export base—has implied that, similar to the aftermath of the global crisis in 2008–09, spillovers from the euro zone crisis have been less severe than in neighbouring countries. In particular, remittances and other non-debt– creating flows from Kosovo's (economically successful) Diaspora, many of whom are working in central and northern Europe, were substantial and are expected to remain relatively stable.

Table 1. Remittances ($ million) dedicated to the Kosovo

Year	$ million	Year	$ million
2004	624	2010	997
2005	701	2011	1.122
2006	771	2012	1.059
2007	919	2013	1.125
2008	1.042	2014	549
2009	1.055		

Source: Ajdarpašić S. & Ciriković E., 2015

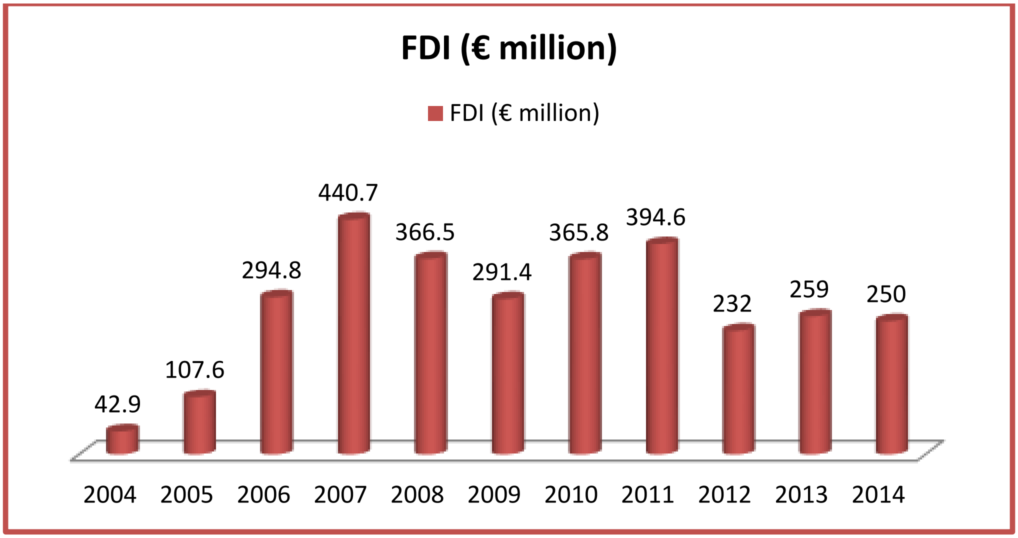
Chart 2. Remittances ($ million)



Source: Ajdarpašić S. & Ciriković E., 2015

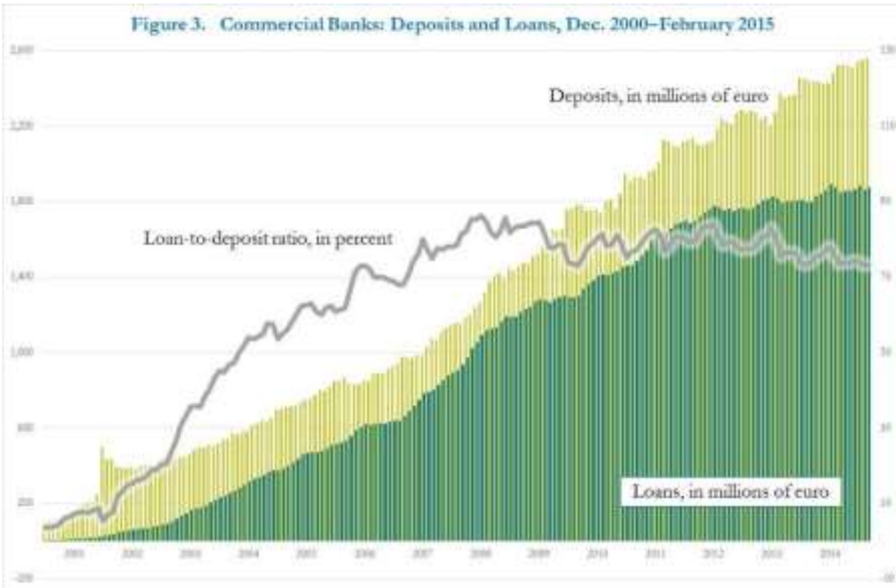
While on the other hand, in the absence of fiscal and monetary policy tools, key challenges continue to be reforms aimed at strengthening public administration to increase the quality of, and access to, public services, reinforcing the business climate, and upgrading public infrastructure. These reforms, closely embedded in the EU integration process, are key policy instruments to attract direct investments (See figure 5) of the scale, scope, and quality to increase productivity in key sectors of the economy, generate "catch up" growth and, ultimately, reduce the high rates of unemployment and poverty.

Chart 3. FDI in millions of €



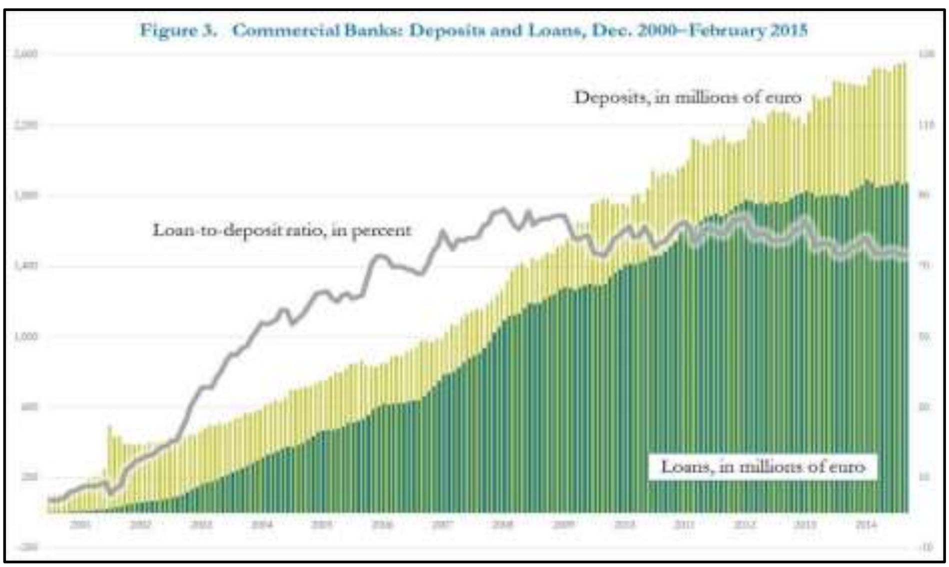
Source: Ajdarpašić S. & Ciriković E., 2015

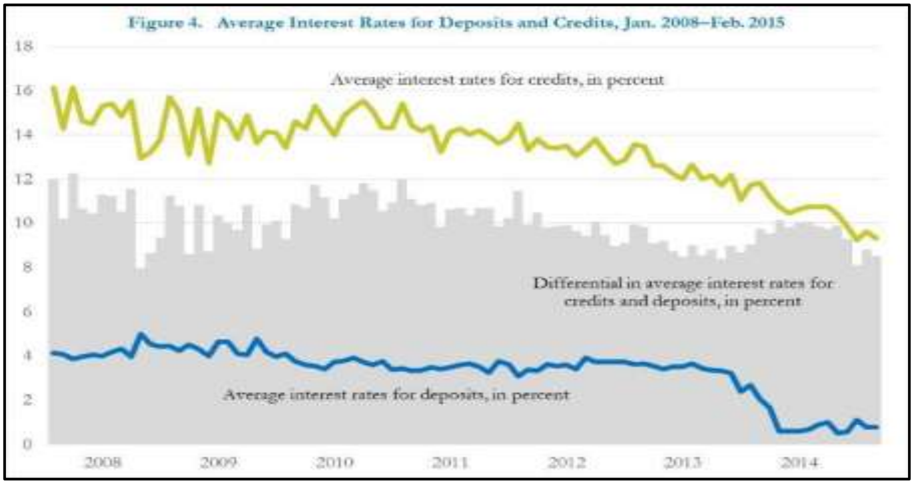
With the adoption of the fiscal rule in 2013, Kosovo has limited overall budgetary deficits to 2 percent of GDP, starting with the 2014 budget. However, the country's ability to adhere to the fiscal anchor(s) is being questioned due to pre-electoral decisions on future spending. To add to the challenges, new benefits to war veterans and civilian victims of the war have been introduced, with unspecified costs to the budget

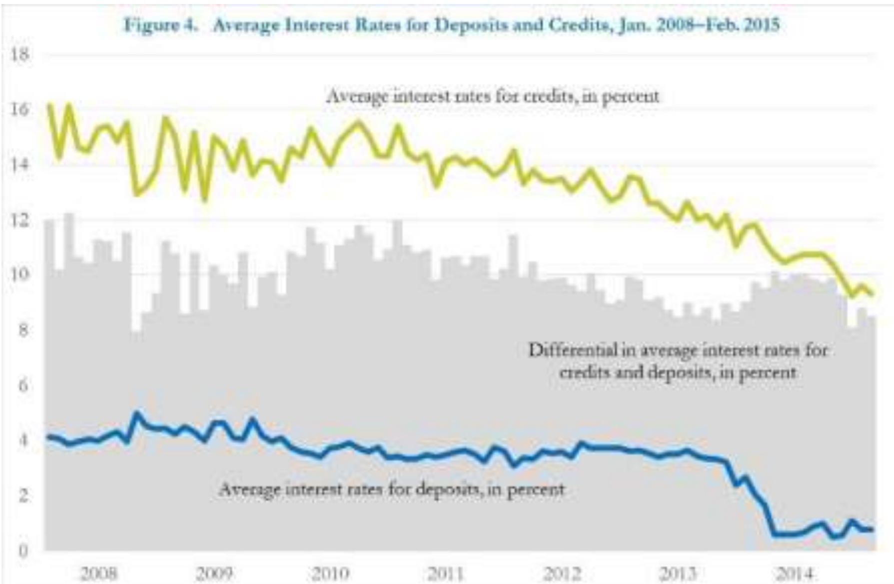


(See figure 6).

Chart 4. Deposits, Loans and Interest Rates 2000 - 2015



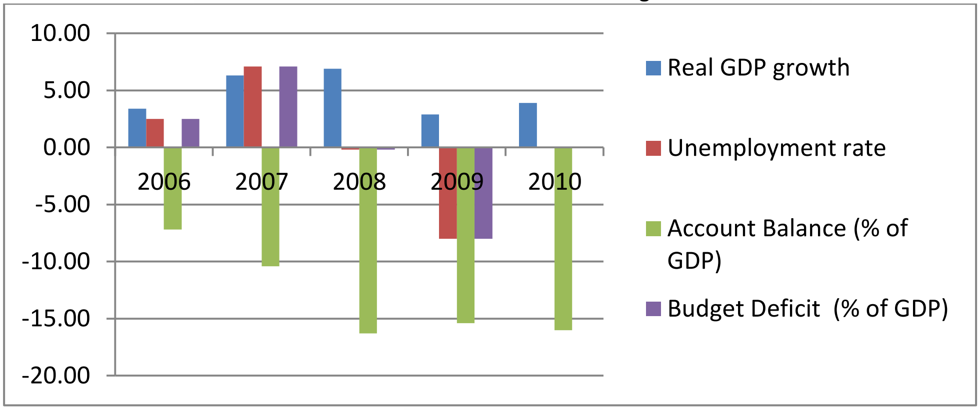




Source: The World Bank IBRD – IDA, 2015

Also, it is worth mentioning that the financial system in Kosovo is dominated by the banking sector, and it has the most important role in stabilizing the financial system as a whole. Unlike the global financial crisis where the real sector was mostly affected and the financial system remained stable, now the roles are opposite due to the high level of exposure of Kosovo to the Greek financial system. However, what is very important to note is that those countries whose banking system is included in the banks of the euro zone, it is expected that all these countries are affected by any crisis. However, when it comes to the Greek crisis, Kosovo has not been affected by this crisis because it is not in the euro zone. During the Greek crisis, the situation in Kosovo is as below. (See Chart 5)

Chart 5. Economic situation in Kosovo during the Greek crisis



Source: CCEQ, 2011

Conclusion

The main objective of this study was to find out which factors drove the process of a systemic crisis and an eventual contagion of the crisis on Kosovo. The estimates show that the variables such as the trade, GDP, remittances and fiscal policies give a sense of a strong impact in predicting the incidence of a crisis in the Western Balkan countries such as Kosovo.

Whether it is a developed or underdeveloped country, each should have a defensive model, where developing reliable prediction models therefore can be of substantial value by allowing policy-makers to obtain clear signals when and how to take pre-emptive measures in order to mitigate or even prevent financial or economic turmoil.

This paper suggests that:

The crisis should not affect the resources that Kosovo can use to implement reforms;

Special attention should be paid to the SME, industry, FDI, Remittances and education processes;

Limiting factors are import-export imbalance and less possibility of sustainability of economic growth from the previous years;

Political reforms should strengthen and accelerate as they have a major impact the economy;

The general situation in Kosovo is at an early stage of integration, so there is enough time to prepare to resume this process. When it joins the EU, we believe that Kosovo would be prepared for any change in the world.

Kosovo as a candidate for EU membership has a lot of potential for sustainable growth and stability. What Kosovo need and should to do is to take as a model a developed country in order to reach such a development. Only then this country could be able to achieve integrity and sovereignty worthy of all.

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