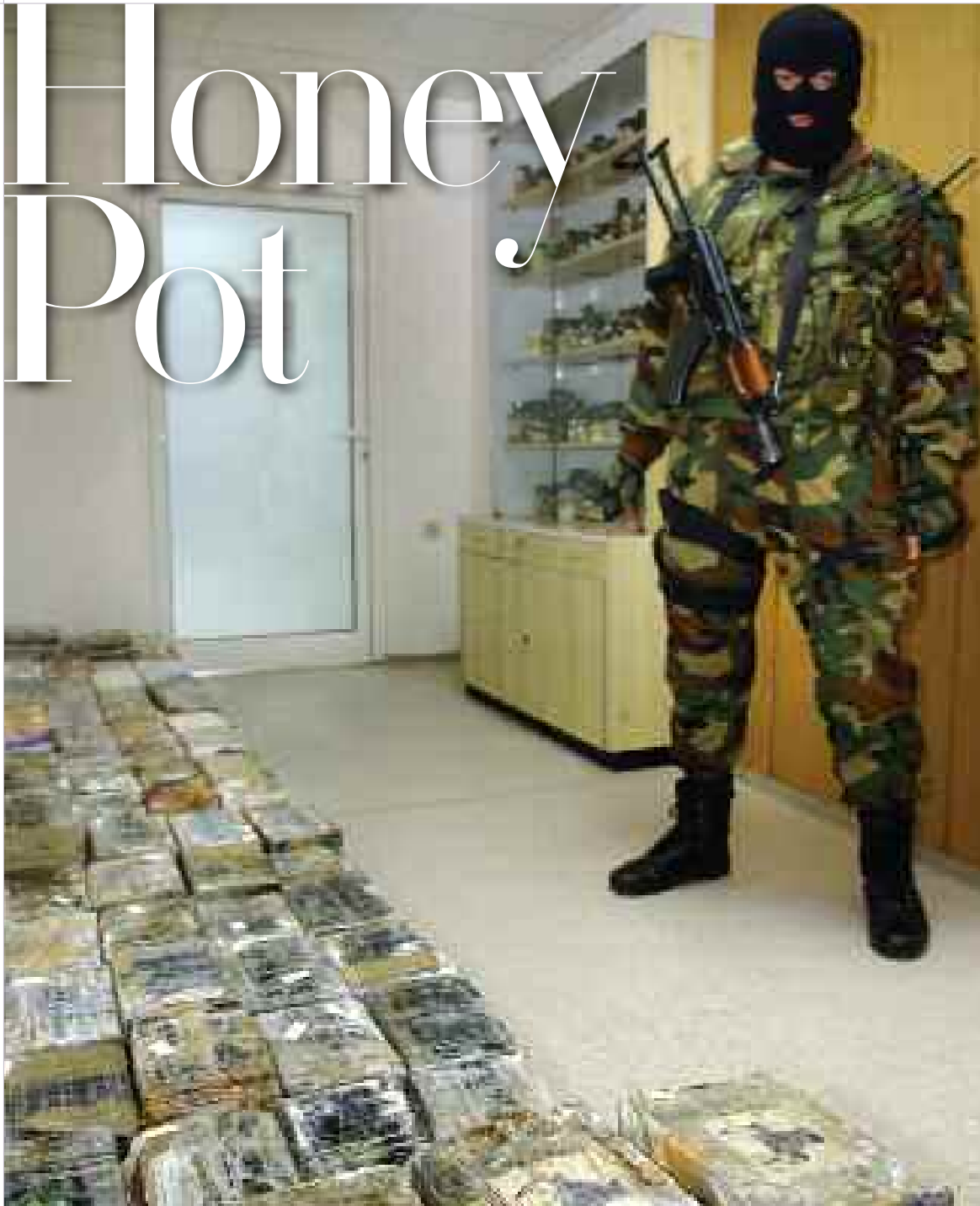


Honey Pot



The Balkans is so far missing from urgent reports of areas hard-hit by the international financial crisis. Once famous for pyramid selling – now familiar as Ponzi schemes – Albania is predicted some eight per cent growth by the World Bank. But behind this apparent stability is a much darker side.

bALKAN BANKS HAVE BEEN STRANGELY ABSENT from the alarm-ridden headlines of the past nine months. Has a miracle taken place? A November meeting of its central bankers issued a statement praising, among other things, the financial stability of the region. Have they found an alchemist who can turn the Balkan currencies into gold?

At a glance it might seem so. In the past ten years, European Union (EU) based banks such as Austria's Raiffeisen and Alphabank from Greece have invested heavily in the Balkan financial sector, and there are extensive

branch networks, even in out of the way places, with modern technology and secure Euro-denominated owners.

Cash is no longer king, with all the risks of an overvalued local currency. Kalashnikov raids are not now the most common way of taking money out of the bank. Today a Macedonian civil servant receives his or her salary into a bank account like their contemporaries in Paris or Denver.

Given the economic limitations in the regional economy, the banking on offer is fairly basic. Salaries are paid in and taken out, and small loans advanced on business assets. Few bank staff would have had any idea what a derivative was a year ago and possibly not much now. Recent rumours about the stability of Raiffeisen, with its plummeting share price last year, emerged from Austria, not from the Balkan countries.

VIRTUOUS THRIFT

Mortgages are much less common, and housing finance is often arranged with a chain of family loans. There is not much of a housing market in many places, anyway, or a stock market, and government bonds are distrusted by tradition. If you have a house you tend to keep it in the family. Savings are encouraged by traditional symbols, so, for instance, when you open an account with a German owned bank in Macedonia, you receive a little ceramic honey pot, representing virtuous thrift.

Modern Balkan banking closely resembles the world of the British Post Office a generation or more ago at the time of the early Giro account. It sounds a virtuous, even touching story so the world financial authorities, whatever other nightmares are on offer, do not seem to need to worry about bailing out dubious Balkan institutions. But is this the whole story? What does the future hold?

In some countries, like Kosovo, relative and maybe only short term stability has been achieved because there is still a steady rate of remittance income from gastarbeiter working in German-speaking central EU countries and Switzerland, which are still in fairly good economic health. Albania is vulnerable to a reduction in émigré remittances from Greece, already well down last year.

DARKER FORCES

There has been genuine economic development in some places, like Romanian

agriculture and Croatian and Montenegrin tourism. In many others though, the reason the banking system is not suffering the crippling shortages of cash and credit seen elsewhere in second tier countries, such as the Baltics, is because of much more difficult, darker forces of organised crime.

Some Balkan economies, the best known being Bulgaria, Albania and Montenegro, have a massive undisclosed income from the grey and black economies. The most important of these industries – which is what they should be called as they are as well institutionalised as fishing or farming – is cigarette smuggling. It deals in a legal commodity where ideal smuggling conditions have been created by the absurdly high tax policies of EU governments.

Revenue from cigarette trading is very evenly distributed throughout Balkan society, from the Serbian refugee pensioner who makes enough cash to survive from a street corner stall, to all sorts of minor middlemen who often run otherwise legitimate and useful businesses, to very wealthy international traders. But this is not the whole story.

The Balkans also still has a large and unregulated primary agricultural sector of very small farmers, over one hundred thousand in Macedonia alone, who have benefited considerably from post communist reforms, access to micro credit and higher world food prices, The Balkan peasant never ceased to be an economic player, if often forgotten. He and she are right back.

CONTRABAND

If peasants provide basic sustenance, the large quantities of cash generated by crime oils the wheels of banks and property markets, and can also fund the expensive and complex contraband operations in illegal hard drugs like heroin and people trafficking.

Nobody really knows how much of each economy is made-up of this, and there are vigorous debates about the quality of law enforcement agencies' data, but in some places smuggling may account for as much as thirty percent of the local economy.

In its way, it is a return to an Ottoman thread in Balkan life where an external, and often distant, authority like the old empire, sets very high tax levels, and whole segments of local indigenous society see a major economic opportunity in circumventing them. There is an almost

International Events

February

FEBRUARY 10

Parliamentary election in Israel

FEBRUARY 13

G7 finance ministers and central bankers meet in Rome

FEBRUARY 15

Referendum on constitutional change to presidential term in Venezuela

FEBRUARY 17

First anniversary of independence for Kosovo

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exact parallel between the role of EU cigarette taxation and the Ottoman salt tax in the social and economic structure of the Balkans.

This has produced economic stability, of an odd kind, as nobody can disagree that these businesses are important, and cigarettes are a perfectly legal commodity everywhere. Cultural differences are significant. In the west the cigarette is regarded in some circles as a dangerous drug, but this is not the case elsewhere. As a result, western law enforcement agencies are hobbled by problems of cultural definition.

Cigarettes are legal everywhere, but heroin is not, anywhere. Illegal drugs themselves are important in different ways, in a range of places, with varying economic contexts. In rural Albania marijuana cultivation is a key cash generative activity, mostly for the large Italian and Greek markets. The country has thus taken-on the aspect of an agricultural primary producer, and with rising prices benefited as much from world economic trends as New Zealand sheep farmers.

In Bulgaria and Serbia, things are different. Primary drug production is not much of an issue. Although there is some minor opium poppy cultivation in the countryside, the real money is in heroin trading in the cities, where transport into European markets

from Turkey is organised.

All Balkan countries participate in this criminalisation of significant economic areas, even those where the public image is most European and reformist, as the recent multiple Mafia killings in Croatia indicate.

It is an irony of the present crisis that some of the most economically vulnerable countries in eastern Europe are those, like Hungary and Latvia, which became true believers in the economic establishment script of legal reform, openness to foreign investment, transparent banking systems, the transformative role of the internet in the economy, and so on. Those which have retained a large – if backward – primary agricultural sector and traditional rural life are, as things look at the moment, the most financially stable.

The peasants are still there in the forested hills, and with them, the bandit, even if nowadays he drives a Porsche on forest tracks rather than a black steed with a silver bridle. There may well be a new Balkans, following the end of communism and post-communism turmoil, but much could still be immediately recognised by an Ottoman or Byzantine tax collector, even the old honey pot for household savings. This is likely to cause considerable concern in Brussels as far as EU enlargement prospects go.

