Greek Crisis and Its Spillovers in Southeastern Europe

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Abstract In moments of recovery from recession of global financial turmoil, Balkan countries started to face a new risk. Greek debt crisis began in 2010 and is one of the deepest economic and financial crises in both the Greek and European Union history. It has already created spillover effects in the weak economies of Southeastern Europe. This is mainly due to the strong economic integration between them and Greece, primarily as a result of intensive trade relations and high flows of Greek direct investments to those countries. The purpose of this paper is to show how Romania, Serbia (and Montenegro), FYROM, Bulgaria, and Albania have been affected by the financial turbulence of Greece. The methodology of the paper is to conduct statistical analysis by using datasets on a series of macroeconomic fundamentals that were found to be severely hit by the crisis. The empirical research uses extensive annual data spanning from 1995 to 2014, in this manner, covering a significant part of the transition period of Balkan countries, the boom period in the region, as well as the time of manifestation of the Greek debt crisis and its impact on Southeastern Europe.

Keywords Greek debt crisis • Balkan countries • Spillover effect

1 Introduction

After the period of communist regimes, Balkan countries especially in the second decate of their transition towards market economy started to have continuous economic growth. In 2008, the financial turmoil that burst in the developed countries affected the less developed economies, including the Balkans as well. Yet, in 2011, a certain level of stabilization was achieved, and the macroeconomic indicators of the Balkan countries showed satisfactory recovery. However, in 2011, the

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Greek sovereign debt crisis erupted, making Greece a source of instability in Europe. Thus, the countries of the Balkan Peninsula that were economically integrated with Greece and still vulnerable from the global financial crisis were deeply affected by the negative spillovers of the Greek crisis. This was mainly due to the significant trade and financial integration between the two areas.

This paper will explore the impact of both crises on the Balkan countries and how the new, unfavorable climate is affecting their economic progress. The analysis will be presented in four sections: the first part will present the role of Greece in the Balkans since the early 1990s. Part two will analyze the economic connections of Greece with Balkan economies since the moment Greece became a member of the Eurozone. Moreover, the third part will present the effects of the global economic crisis on the economies of the region, specifically on region's macroeconomic indicators, trade volume, foreign direct investments, and financial sector. The fourth part will analyze the consequences of the Greek debt crisis that very quickly spilled over into the Southeastern Europe and the EU as a whole. Four transmission channels through which the Greek sovereign debt crisis affected the neighboring Balkans will be examined. In addition, the Granger causality test was used, and the results will be submitted at the end of the section four. In the last section, the conclusions of the study will be given.

2 Greek Role in the Balkans Since the Early 1990s

In 1981, Greece was the only Balkan state that became a full member of the European Economic Community (today European Union). "It was the first time that Greece was accepted as an equal political and economic partner of the most powerful European states, while at the same time having its opinion taken seriously on issues affecting the general future of Europe."[1] A decade later, it was a country with dynamic economy, stable institutional frameworks, and high social prosperity. Still, in the moments when the communist regime was collapsing and Balkan countries (BCs) were facing with social and political instability, Greece lost a unique opportunity to become a leader of development for them and the region as a whole, mainly because of policy mistakes that Greek government was making.[2]

On the other side, Greek-Balkan exchanges recorded a remarkable expansion during this period.

As it can be seen from Table 1, Greek trade with the Balkan Countries (BCs) was expanding. On the other side, Greek exports to the EU partners did not mark any remarkable growth. By contrast, import penetration by the EU economies to Greece became more intense. On top of that, Greek economy was facing with competitiveness losses in the sectors where traditionally it had comparative advantages.[3]

[1]Svolopoulos (1999, pp. 26).

[2]Ioakimidis (1999, pp. 172–175).

[3]Arghyrou and Bazina (2003, pp. 763–767).

Table 1 Greek trade with the Balkan countries (Balkan countries: Bulgaria, Albania, Romania, former Yugoslavia, FYROM) and the EU, million €

	Greek imports from		Greek exports to		Trade balance	
	Balkan countries	EU	Balkan countries	EU	Balkan countries	EU
1989	349.4	9141.2	217.0	4485.7	−132.3	−4655.5
1990	369.0	9988.9	243.5	4008.0	−125.5	−5980.9
1991	392.3	10,490.3	278.2	4454.0	−114.1	−6036.3
1992	256.1	11,646.3	313.0	4977.2	56.9	−6669.1
1993	277.3	11,282.1	591.4	4029.7	314.2	−7252.4
1994	371.3	11,636.6	631.2	4286.4	259.6	−7368.2

Source: Wallden (1999, p. 86), ELSTAT (1989, 1990, 1991, 1992, 1993, 1994)

Despite the political instability, Balkans was a region with great potentials, and that was recognized by the Greek small- and medium-sized companies. Even though the initial investments were low and companies were following short-term strategies, they still were able to earn valuable knowledge and information for their future investments.[4] Thus, Greek outward direct investments toward the Balkans during this period marked a meaningful dynamism.[5]

In 1995, Greek foreign policy regarding the Balkans changed its direction toward establishing cooperation with countries previously in conflict with.[6] In addition, Greece government was also encouraging the gradual integration of BCs into the European Union and NATO. Thus, Greek government initiated a meeting of all the foreign affair ministers of Southeastern Europe countries that took place in Sofia, in 1996. The second gathering was held in Thessaloniki 1 year after, and it confirmed the leading role of Greece in the region.

Along with the normalization of Greece's Balkan relations, Greek economic policy in that region had progressed. Total Greek trade with the Balkan countries was increasing from 1.26 billion euros in 1995 to 1.51 € in 1996, 1.84 € in 1997, 1.82 € in 1998, 2.0 € in 1999, and 2.75 € in 2000.[7] In that period, the Balkans was one of the few areas in the world with which Greece was recording positive trade balance.[8]

Additionally, during this period, a lot of Greek banks established their subsidiaries in Balkan states, especially in Bulgaria and Romania. This was a motivation for the large Greek companies, because they knew they could benefit from the necessary financial backup. However, this time Greek companies were doing market research, implementing long-term strategies. Moreover, privatization was

[4]Maditinos et al. (2011, pp. 209–211).
[5]Wallden (1999, pp. 71–121).
[6]Constas and Papasotiriou (1999, pp. 232–237).
[7]ELSTAT [online] Available: http://www.statistics.gr/en/statistics/-/publication/SEL30/-
[8]Wallden (1999, pp. 102).

in full speed in Balkan region, so Greek companies developed a lot of joint ventures with firms from BCs.

3 Greece as a Member of the Eurozone

On January 1, 2001, Greece became a member of the Eurozone. Nevertheless, it stayed a relatively closed economy. According to data presented in Table 2, accepting euro failed to improve the export performance of the country. Based on the exports and imports as a percentage of GDP, Greek trade openness was decreasing during the period 2000–2006 and marked just a slight growth in 2007.

A reason behind this was an uneven development in exports and imports, mainly because of the low level of competitiveness. In addition, data is showing that export growth was consistently lower than that of imports. Thus, the difference between these two rates indicates the continuing trade deficit of Greece.

The top destinations for the Greek products were the Eurozone countries in the EU. In 2000, Greek export to the EU countries was 62% of total; it was growing during the period and reached 64% in 2007. The share of the EU member states in the Greek imports decreased from 64.9% in 2000 to 56.1% in 2007.[9]

Trade balance between Greece and six Balkan countries remained positive through the period 2000–2007 (Table 3).

The BCs were, to a great extent, a dynamic export market for Greek products. Greek companies were mostly unprofitable, and their goods were mainly noncompetitive at the EU market; thus they saw the Balkans as an easy outlet. Nevertheless, although trade relations between Greece and the Balkan countries were increasing, the trade volume was low.

Table 2 Greek imports and exports as a % of GDP

	2000	2001	2002	2003	2004	2005	2006	2007
Imports	34.7	33.4	30.2	29.7	29.2	29.6	31.7	35.0
Exports	23.7	22.8	20.1	18.6	20.7	21.3	21.2	22.5

Source: Authors' elaboration based on Bank of Greece data

Table 3 Greek imports/exports to the Balkans as a % of total Greek imports/exports

	2000	2002	2004	2007
Imports	2.0	1.7	2.2	2.5
Exports	5.3	5.4	5.1	5.9

Source: ELSTAT online data (2016)

[9]Magoulios and Athianos (2013, pp. 195).

The most important BCs for Greek imports and exports were Bulgaria and Romania during the observing period. Greek imports from Bulgaria and Romania increased from 426.90 and 411.47 million euros in 2000 to 940.14 and 759.62 million euros in 2007, respectively. Greek exports to Bulgaria and Romania marked a significant growth from 452.06 and 411.47 million euros in 2000 to 1163.57 and 759.62 million euros in 2007, respectively.[10]

In addition, Greece was the most important trading partner for Albania and FYROM. As far as Greek exports were concerned, the situation was slightly different. FYROM and Bulgaria were the most dependent from imports from Greece compared with the other examined Balkan countries (Table 4).

Since 2000, the Balkan countries started the deeper process of Europeanization. It means that they continued with the process of stabilization of social, political, and economic environment. As a result, the region became even more attractive for FDI. Over the 2000–2008 period, Greece became a top investor in the region. The country was the number one investor in Albania and FYROM and among the three leading investors in Serbia and Bulgaria. Greek FDI stock in the Balkans increased from 1690.00 million euros in 2001 to 2605.80 million euros in 2007 (Table 5).

More than 4000 Greek companies established their enterprises in the Balkan region, mostly in the sector of trade, services, and manufacturing.[11] They were taking part in the mass process of privatization that was taking place in all Balkan countries. In that way they could use already developed distribution networks and existing infrastructure. Additionally, Greek FDIs were highly concentrated in the financial sector. Some of the major Greek banks led by the National Bank of Greece, Alpha Bank, Piraeus Bank, and EFG Bank managed to recover the financial system of BCs, improving its stability and increasing investments and consumption of host population. Therefore, Greek banks had a significant market share in the financial sector of the Balkans: around 30% in Bulgaria and FYROM, 25% in Albania, 15% in Serbia, and 17% in Romania.[12]

According to GDP growth data, Greece along the Southeastern Europe economies, performed strong economic growth rates (Table 6).

Greek annual growth rate was one of the lowest among the Balkan economies. Still, it was one of the highest in the euro area. Notwithstanding, this growth of Greece was fast, but unsustainable, pursued under weakening systemic growth forces.[13] Greek government was borrowing money at low interest costs, because its credibility rose significantly after the country joined the Eurozone. With borrowed money, the state was financing fiscal expansion; thus, the budget deficit as a percentage of GDP was 6% in 2000, 8.8% in 2004, and 6.7% in 2007.[14] The

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[10]ELSTAT [online]. Available: http://www.statistics.gr/en/statistics/-/publication/SEL30/-

[11]Panagiotou and Valvis (2014, pp. 98–102).

[12]Panagiotou and Valvis (2014, pp. 98–102).

[13]Balcerowicz et al. (2013, pp. 18).

[14]EUROSTAT [online]. Available: http://ec.europa.eu/eurostat/statistics-explained/index.php/Government_finance_statistics

Table 4 Greek imports/exports to the Balkan countries as a % of their GDP

	Greek imports as % of GDP per country of origin					Greek exports as % of GDP per country of destination				
	Albania	Bulgaria	Romania	Serbia	FYROM	Albania	Bulgaria	Romania	Serbia	FYROM
2000	1.15	3.04	0.80	1.13	1.18	6.48	3.22	1.01	1.72	12.29
2001	1.08	3.13	0.84	0.68	2.19	8.34	4.18	0.88	1.35	11.18
2002	0.22	1.78	0.70	0.69	1.30	7.01	3.64	0.63	1.05	8.08
2003	0.34	2.02	0.75	0.49	2.15	6.11	3.98	0.58	1.05	7.09
2004	0.29	2.28	0.83	0.70	2.67	5.32	3.82	0.63	1.09	6.77
2005	0.30	2.53	0.54	0.35	3.78	5.29	3.51	0.53	0.53	6.48
2006	0.46	2.93	0.52	0.73	4.24	5.24	3.97	0.61	0.94	6.86
2007	0.82	3.06	0.44	0.61	7.68	6.14	3.78	0.61	0.98	10.14

Source: ELSTAT online data (2016)

Table 5 Greek FDI stock in the Balkans, million €

	Albania	Bulgaria	Romania	Serbia (with Montenegro)	FYROM	Total
2001	108.2	554.7	662.9	203.5	160.7	1690.0
2002	142.6	445.3	771.8	254.6	202.3	1816.6
2003	208.3	493.5	1130.5	338.7	273.1	2444.1
2004	175.0	568.7	1158.3	377.2	371.5	2650.7
2005	284.5	721.5	2002.8	659.2	272.7	3940.7
2006	389.6	924.7	2452.5	1335.5	367.0	5466.3
2007	441.4	1155.0	3940.6	1645.7	423.1	7605.8

Source: Bank of Greece online data (2016)

Table 6 GDP growth rates (annual, %) of Balkan countries

	Greece	Albania	Bulgaria	Romania	Serbia	Montenegro	FYROM
2000	4.2	6.7	5.0	2.4	7.8	3.1	4.5
2001	3.8	7.9	4.2	5.6	5.0	1.1	−3.1
2002	3.9	4.2	6.0	5.2	7.1	1.9	1.5
2003	5.8	5.8	5.1	5.5	4.4	2.5	2.2
2004	5.1	5.7	6.6	8.4	9.0	4.4	4.7
2005	0.6	5.7	7.2	4.2	5.5	4.2	4.7
2006	5.7	5.4	6.8	8.1	4.9	8.6	5.1
2007	3.3	5.9	7.7	6.9	5.9	10.7	6.5
2000–2007	4.1	5.9	6.1	5.8	6.3	4.6	4.2

Source: World Bank online data (2016)

average annual deficit of the general government was 6.4% of GDP in the 2000–2007 period. The very low competitiveness of the Greek products resulted in achronic weakness of the Greek economy where the country's imports were steadily and increasingly exceeeding its exports. Hence, the country's trade balance was −7.7% of GDP in 2000 and reached −14.6% in 2007. Additionally, Greek inflation rates were modest between 2000 and 2007 but still relatively higher compared to the EU average.

4 Greece and the Balkans Since 2008

Since 2008, the Balkans were hit by two crises. The first one was during the period 2008–2011, when the region was exposed to the impact of the global economic crisis. Yet, in 2011, certain level of stabilization had been achieved, and macroeconomic indicators of the Balkan countries showed satisfactory recovery. How-

Table 7 GDP growth (annual, %) of Balkan countries

	Greece	Albania	Bulgaria	Romania	Serbia	Montenegro	FYROM
2008	−0.3	7.5	5.6	8.5	5.4	6.9	5.5
2009	−4.3	3.4	−4.2	−7.1	−3.1	−5.7	−0.4
2010	−5.5	3.7	0.1	−0.8	0.6	2.5	3.4
2011	−9.1	2.6	1.6	1.1	1.4	3.2	2.3

Source: World Bank online data (2016)

ever, the Greek sovereign debt crisis errupted, making Greece a source of instability in Europe. Thus, certain BCs that were economically integrated with Greece and still vulnerable from the global financial crisis were severely hit by the negative spillover of the former (Table 7).

In 2009, a reduction of GDP was marked in all Balkan countries as a consequence of the global financial crisis. All economies had negative economic growth, except Albania. A reason for this may be "the low volume of Albanian exports and its comparatively low level of integration into the international economy."[15]

The relatively worse affected countries were Greece, Bulgaria, and Romania, which were also the most developed ones in the region. In 2010/2011, the best performing countries were Albania and FYROM, while the other economies continued to stagnate.

Mainly due to economic recession that led to a severe reduction of imports, a huge decline in current account deficits for the BCs did occur. The Greek current account balance (as a % of GDP) improved from −14.5% in 2008 to −9.9% in 2009, the Albanian from −15.7 to −12.9%, Bulgarian from −21.7 to 0.2%, Romanian from −11.4 to −4.5%, Serbian from −21.1 to −8.3%, Montenegrin from −49.9 to −17.4%, and FYROM from −12.5 to −2.5%.

For more than a decade, Greece enjoyed a trade surplus with the BCs. However, the spillover effects of the crisis in the Greek economy could not be avoided. Thus, Greek imports and exports declined heavily in 2009, imports from 87,039.00 million euros in 2008 to 68,319.00 million euros in 2009) and exports from 56,533.00 million euros in 2008 to 45,089.00 million euros in 2009. In addition, Greek imports and exports from and to the Balkan countries, as well as the EU followed the same path, i.e. they both decreased in 2009. Exports of Greece to the Balkan region marked a recovery in 2010 and 2011, but still the value of exports in 2011 was below the level of 2008. Greek imports from the BCs, recorded a small decline in 2009, but still its value was higher than in 2007 (Tables 8 and 9).

The trade balance between Greece and the Balkan economies was in surplus through the period 2008–2011, except in the case of Bulgaria for the year 2010. The trade balance surplus, though, marked a decrease from 1123.62 million euros in 2008 to 928.53 million euros in 2009 and 760.14 million euros in 2010. However, in 2011, it started to increase and reached 1076.80 million euros.

[15]Panagiotou (2012, pp. 2).

Table 8 Imports of Greece from the Balkan countries and the EU, million €

	2008	2009	2010	2011
Albania	90.54	72.69	97.23	76.90
Bulgaria	1277.84	962.32	1089.09	1217.48
Romania	548.16	469.48	486.11	505.97
Serbia (with Montengro)	216.85	140.54	214.74	236.89
FYROM	355.86	213.07	196.47	167.61
Total	2489.25	1858.10	2083.64	2204.85
WBCs % total	2.86	2.72	3.00	3.30
EU	33,910.00	28,100.00	24,230.00	22,320.00

Source: ELSTAT online data (2016)

Table 9 Exports of Greece to the Balkan countries and the EU, million €

	2008	2009	2010	2011
Albania	547.43	514.80	458.02	426.30
Bulgaria	1369.99	1022.71	1082.20	1280.33
Romania	835.97	590.66	614.61	628.96
Serbia (with Montengro)	403.23	248.39	297.66	380.45
FYROM	456.25	407.07	391.29	565.61
Total	3612.87	2783.63	2843.78	3281.65
WBCs % total	6.40	6.17	5.70	6.21
EU	10,720.00	8870.00	9610.00	10,600.00

Source: ELSTAT online data (2016)

Moreover, during the same period, there was not any other factor e.g. quotas, subsidies, quality standards, administrative procedures, etc. that affected trade between Greece and the Balkan region. Hence, a decrease in trade volumes was a direct consequence of the Greek economic crisis.

As it can be seen from Table 10, all Balkan countries suffered a reduction of their exports to Greece. FYROM suffered the relatively larger loss of more than 50%. On the other side, Greek exports to Serbia, Bulgaria, and FYROM recorded some growth during the period 2007–2011, while to Romania and Albania, they marked a modest decline. Paying attention just on the years 2009 and 2010, Greek imports and exports from and to all BCs followed a downturn path. That is why the significance of these countries trade with Greece fell (Table 11).

From the point of view of the Balkan countries, Greece was one of the most important sources of FDI during the whole previous decade. In 2007, the total Greek FDI stock in the Balkans was 7287.80 million euros and reached its peak of 8821.00 million euros in 2008. The next year the total volume of Greek FDI stock in the Balkan region marked 7738.90 million euros. In all Balkan economies, a fall of the Greek FDI stock as a percentage of total was reporetd, except for Bulgaria where it marked an increase of almost 2%. In Albania, though, was reported the

Table 10 Greek imports/exports to the BCs as a % of import/export of BCs

	Greek imports as % of exports per country of origin					Greek exports as % of imports per country of destination				
	Albania	Bulgaria	Romania	Serbia	FYROM	Albania	Bulgaria	Romania	Serbia	FYROM
2007	7.35	5.53	1.39	3.06	12.06	16.51	5.04	1.51	2.27	10.25
2008	6.37	6.54	1.46	2.91	13.11	16.77	5.03	1.43	2.47	9.74
2009	2.86	6.10	1.45	2.34	10.93	15.26	5.42	1.42	2.18	11.15
2010	7.56	5.37	1.26	2.92	7.80	13.85	5.08	1.19	2.40	9.51
2011	5.19	4.77	1.11	2.80	5.20	11.57	5.10	1.01	2.66	11.20

Source: Authors' elaboration based on ELSTAT data

Table 11 Greek imports/exports to the BCs as % of their GDP

	Greek imports as % of GDP per country of origin					Greek exports as % of GDP per country of destination				
	Albania	Bulgaria	Romania	Serbia	FYROM	Albania	Bulgaria	Romania	Serbia	FYROM
2007	0.82	3.06	0.44	0.61	7.68	6.14	3.78	0.61	0.98	10.14
2008	1.03	3.61	0.39	0.59	5.28	6.25	3.87	0.60	1.10	6.77
2009	0.84	2.76	0.40	0.42	3.15	5.94	2.93	0.50	0.74	6.02
2010	1.08	3.02	0.39	0.66	2.78	5.11	3.00	0.50	0.91	5.53
2011	0.83	3.16	0.38	0.58	2.22	4.60	3.29	0.48	0.93	7.49

Source: Authors' elaboration based on ELSTAT data relatively larger decline in all Balkan countries by almost 50% between 2008 and 2011.

The majority of the Greek direct investments was concentrated primarily in the services industry and secondly to the final stage of the production chain of mature products. Additionally, Greek MNCs diversified their expansion into all Balkans economies. All this helped to minimize the negative effects of the global crisis.

Greek presence into the banking sector of Balkan countries was considerable. However, as it was mentioned earlier, the global crisis did not leave the Greek financial sector untouched. Thus, Greek banks started to "retrench and focus on home markets, thereby curtailing and/or putting on hold their business expansion plans in the region."[16] This means that Greek financial institutions were decreasing their investments and cutting their loan portfolios in the BCs. As a consequence, more than 8000 Greek companies located in the neighboring countries stayed without the financial service they were expecting from the Greek banks. Hence, Greek FDI outflows towards the Balkan economies marked a significant drop in 2010 and 2011.

The global financial crisis weakened the public finances of Greece. Thus, Greek public debt reached 129.7% of GDP in 2009.[17] The same year the new Greek government corrected the estimated budget deficit for that year from 6.7 to 12.7% of GDP.[18] That figure was lately corrected further to 15.7% of GDP.[19] The IMF and the Eurozone sent financial assistance to Greece in 2010 and 2011. However, the numbers were showing that the Greek economy was hit more severely than expected. The EU realized that they were facing with the Greek sovereign crisis which can be a trigger for instability and insecurity in the EU, but also in the Balkan region. As it was stated in the EBRD Transition Report, "the main short-term challenge is to survive possible contagion effects from economic weaknesses in the Eurozone, especially in neighbouring Greece."[20] The Greek crisis slowed down the economies of the Balkans resulting in a drop of imports from Greece and a decline in return of Greek investments. There are a few transmission channels through which the Greek sovereign debt crisis spilled over to the neighboring Balkans.[21] Those are trade, FDI flows, and the banking sector.

Greek exports to Balkan countries decreased during the period 2011–2015, except for Romania. However, in 2015, Greek trade with Romania marked a negative trade balance for the first time during the last decade. In addition, Greek trade balance with Bulgaria was in deficit for 3 consecutive years, reaching its peak of −145.83 million euros in 2015.

Viewed on a regional level, the Greek trade balance with the BCs decreased from 968.89 million euros in 2011 to 611.08 million euros in 2015. However, the

[16] Bastian (2009, pp. 4).

[17] Sadiku et al. (2013, pp. 33).

[18] Ozturk (2015, pp. 32).

[19] Sadiku et al. (2013, pp. 33).

[20] EBRD (2010, pp. 98).

[21] Backe and Gardo (2012, pp. 31–48).

Table 12 Greek stock as a % of total stock of each Balkan country

	Greek stock as a % of total stocks in Albania	Greek stock as a % of total stocks in Bulgaria	Greek stock as a % of total stocks in Romania	Greek stock as a % of total stocks in Serbia (and Montenegro)	Greek stock as a % of total stocks in FYROM
2008	24.96	4.51	7.39	12.26	15.33
2009	14.94	4.25	6.66	11.35	11.25
2010	16.83	5.92	7.41	9.70	11.76
2011	12.71	5.94	6.23	7.94	11.06

Source: Authors' elaboration based on ELSTAT data

country-by-country analysis shows that the Greek imports as a percentage of Balkan countries' GDP were growing during the observing period. More precisely, Greek imports from the Balkan region was 2297.29 million euros in 2012 and achieved 2713.37 million euros in 2015. A case-by-case examination illustrates that the Greek imports reached its higher values in Romania, FYROM, Bulgaria, and Albania in the previous year. On the contrary, the Greek exports as a percentage of the BCs' GDP marked a drop in all the countries, and the highest fall was in FYROM (from 10.9% in 2012 to 8.31% in 2014). In total, Greek exports decreased from 3793.42 million euros in 2012 to 3324.12 million euros in 2015. The bigger reduction of Greek exports was with Serbia, Albania, and Bulgaria.

The second transmission channel of contagion was FDI. A significant decrease in Greek FDI was evident even before the full impact of the Greek crisis, which is presented in Table 12. Overall, Greek FDI outflows to all Balkan countries decreased considerably and they turned to negative figures in some cases during the Greek crisis, remaining positive in net terms in Albania and FYROM (Tables 13, 14 and 15).

In total, Greek FDI outflows to the BCs was −553.52 million euros, because there were significant disinvestments (Greek companies were selling their assets that were located in the neighboring countries). Greek disinvestment in the Balkan region amounted up to 928.99 million euros. Thus, Greece that was one of the largest foreign investors in the region reduced its significance. The stock of Greek FDI as a percentage of total in the region decreased from 7.94% in 2011 to 4.42% in 2014 in Serbia, from 6.23 to 5.29% in Romania, from 11.06 to 7.25% in FYROM, and from 5.94 to 4.43% in Bulgaria. The only countries where the percentage of FDI stocks from Greece marked an increase were Albania and Romania, where that number rose from 12.71% and 4.78% in 2011 to 26.47% and 5.29% in 2014, respectively (Table 16).

Possibly the most critical transmission channel is through the Greek bank subsidiaries operating in the Balkans. As an agreement between the Greek Ministry of Finance, the Bank of Greece, and the managers of the other Greek banks, the bailout package of 28 billion euros that Greece received in 2009 would be used to support parent banks and lending at home, not at their branches in the neighboring

Table 13 Greek FDI outflows and inflows toward the Balkan economies, million €

	Greek FDI outflows to the country of destination					Greek FDI inflows from the country of origin				
	Albania	Bulgaria	Romania	Serbia	FYROM	Albania	Bulgaria	Romania	Serbia	FYROM
2010	55.58	68.93	−30.17	24.71	8.50	0.34	2.13	6.80	0.30	0.04
2011	22.35	−10.52	−249.3	−14.77	19.34	8.73	8.25	12.93	0.60	0

Source: Bank of Greece online data (2016)

Table 14 Greek trade with the Balkan countries, million €

	Greek imports from					Greek exports to				
	Albania	Bulgaria	Romania	Serbia	FYROM	Albania	Bulgaria	Romania	Serbia	FYROM
2012	82.10	1372.38	493.27	179.19	170.35	414.83	1561.53	590.70	399.00	827.36
2013	64.58	1453.91	526.95	232.55	153.78	343.35	1446.64	617.96	359.14	744.83
2014	89.97	1522.34	625.62	194.49	195.84	411.50	1413.88	653.33	361.11	707.21
2015	99.70	1486.55	729.46	168.74	228.92	348.37	1340.72	722.78	327.53	585.02

Source: World Bank online data (2016)

Table 15 Greek FDI outflows to the Balkans, million €

	Albania	Bulgaria	Romania	Serbia (with Montenegro)	FYROM
2012	21.83	−3.54	−241.18	−16.29	26.35
2013	16.22	−46.43	−52.69	−1.06	30.25
2014	11.69	−64.85	−36.42	−20.01	33.69
2015	6.69	−48.85	−71.91	−22.51	34.38

Source: Bank of Greece online data (2016)

Table 16 Greek stock in the Balkans, million €

	Albania	Bulgaria	Romania	Serbia (with Montenegro)	FYROM
2012	511.80	1914.90	2847.50	1497.40	311.70
2013	589.00	1717.30	2325.80	1264.00	269.90
2014	888.90	1550.8	2973.50	1268.10	280.10

Source: World Bank online data (2016)

countries.[22] Consequently, as the Greek debt crisis was spreading and Greek parent banks were facing sevcere liquidity pressure, they started to withdraw money from their operations in the Balkans. Therefore, the Greek banking sector declined to 23% in Bulgaria, 22% in FYROM, 12% in Romania, 16% in Albania, and 14% in Serbia in 2015.[23] Moreover, in 2015, the Greek banking system experienced capital controls, and the Balkan countries were even more affected. The outcome is uncertain. Yet, one thing is for granted: the crisis will have a deep effect on the Western Balkan EU integration. To start with, BCs are highly dependent of the EU, through subsidies, trade relations, FDI, etc. The crisis slowed down the reforms and progress and deteriorated economic conditions and macroeconomic performance of the Balkan economies. Additionally, Greece, which was the bridge between the EU and the Balkans, cannot play anymore that role.

Finally, the causal links between the Greek FDI outflows to the Balkan countries and GDP of the country of destination were analyzed by using the Granger causality test. Using data from 2000 to 2014, for Albania, Serbia, and Romania, there was no cointegration relationship between the Greek FDI and their growth. However, for Bulgaria and FYROM, the null hypothesis of "GDP does not Granger-Cause FDI" was strongly rejected at 10% level of significance for the tested two legs. Thus, for those two countries, the causality is accepted in the countries' GDP/Greek FDI relation.

[22]Panagiotou (2012, pp. 10).

[23]EBRD (2015, pp. 93).

5 Conclusion

As it is presented in the paper, Greece has developed strong, important, and mutually beneficial economic relations with the Balkan region over the last 25 years. Since 1993, Greek trade balance with the neighboring countries was continuously positive and growing over the years. Despite the political instability that still was present in the Balkans during 1990s, Greek small- and medium-sized companies recognized the economic potential of the neighboring countries. Thus, Greek FDI outflows towards them marked a meaningful dynamism. Additionally, a lot of Greek banks established their subsidiaries in the Balkan states, especially in Bulgaria and Romania.

A trend of growth and expansion continued during 2000s. Greece became the first Balkan country that entered the Eurozone. Trade relations with the Balkans were increasing. Moreover, Greece became a top investor in the region. More than 4000 Greek companies established their affiliates in the neighboring countries, mostly in the sector of trade, services, and manufacturing. In addition, Greek banks had a significant market share in the financial sector of the Balkans.

The global financial crisis came in 2008, and it became clear that it will have impact on all dimensions of Greece's relations with the countries in the region. The repercussions were spilled over through several transmission channels. After more than one decade of expansion, Greek trade relations with the Balkans were negatively affected. The biggest decline in Greek imports and exports appeared in 2009. While the volume of imports managed to recover until the next crisis, Greek exports to the neighboring countries had an extensive drop and then they were increasing very slowly. However, the trade balance was in surplus through the period 2008–2011. In 2011, certain level of stabilization was achieved, and the economies of the Balkan Peninsula showed satisfactory recovery; but the Greek sovereign debt crisis had already been errupted. The Greek trade balance surplus with the BCs decreased during the period 2011–2015. However, country-by-country analysis shows that Greek imports were growing during the aforementioned period, yet the Greek exports marked a drop in all Balkan countries.

After expanding rapidly since 2000 and reaching its peak in 2008, Greek FDI stocks decreased. This decline had a negative impact on the economies of the region that were counting on Greek investments. In addition, Greek banks at home were facing a liquidity squeeze; thus they were forced to withdraw their funds from their operations in the Balkans (consolidation through downsizing). Hence, the Greek banking sector assets declined in Romania, Bulgaria, and Serbia where the biggest drop was marked. Consequently, Greek companies located in the Balkans stayed without the level of financial services (business loans, working capital etc.) they were expecting from the Greek banks. Moreover, in 2015, the Greek banks were imposed capital controls, and the banking sector of neighboring countries was even more affected. In total, Greek FDI outflows to the BCs were −553.52 million euros in net terms during the period 2011–2015, because Greek companies were selling their assets that were located in the neighboring countries. The only Balkan country where the Greek FDI stock marked an increase was Albania.

Due to Greek powerful involvement in the region and strong interdependence between Greece and the Balkan economies, Greek crisis led to the decline of all key economic indicators of those countries. Additionally, Greece that was one of the largest investors in the region has become less significant. The Greek sovereign debt crisis has weakened the dynamism of bilateral relations, and it had a negative impact on Greece's position in the region as well. Greece, lost its role as a leader of the region. In addition, the refugee crisis intensified with thousands of refugees passing through Greece heading to Europe through the Balkan road. Soon after, some Balkan countries closed their borders, and as a result Greece lost part of its geopolitical importance as the external borders of the European Union. The role of neighboring Balkan countries was upgraded.

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