

SOCIAL STATISTICS

Analysis of Political Business Cycles in Transition Economies with focus on Albania

DRINI IMAMI (*Agriculture University of Tirana, Faculty of Economics and Agribusiness, Institute of Advanced Studies, University of Bologna, Institute of Open Society (Grantee), Development Solutions Associates, Albania, drinimami@yahoo.com*)

HOLGER KÄCHELEIN (*University of Tirana, Faculty of Economics, Albania*)

ENDRIT LAMI (*University of Tirana, Faculty of Economics, Development Solutions Associates, Albania*)

EDVIN ZHLLIMA (*Agriculture University of Tirana, Faculty of Economics and Agribusiness, Institute of Open Society (Grantee), Development Solutions Associates, Albania*)

Over the last decades, there has been plenty of research and articles on Political Business Cycles (PBC), aiming at analyzing and explaining the use of fiscal and monetary instruments to stimulate economic growth before elections, to impress the voters.

In our previous research on PBC in Albania, we found clear evidence of fiscal expansion before elections (Imami and Lami, 2007; Imami and Lami 2008). In transition economies, it is possible to identify special phenomena related to PBC for which there is limited or no evidence found in existing PBC related literature (Kächelein, Imami and Lami 2008; Imami, Kächelein and Lami 2009).

In this study, we look into greater details, the use of fiscal instruments such as public investment expenditure, government expenditures on compensation of employees and unemployment insurance benefits, subsidies as well as, monetary instruments (M1 and M2), and macroeconomic outcomes including GDP, unemployment, inflation also in the contexts of the recent parliamentary elections in Albania that took place in 2009.

In addition, we analyze other aspects related to PBC, such as peoples' expectations related to elections outcomes.

In our paper, we apply Intervention Analysis (Box&Tiao, 1975) methodology for constructing a statistical model in our study. Many other well known researchers in the field such as McCallum (1978), Hibbs (1987), Alesina and Sachs (1988), Alesina and Roubini (1992) have used Intervention Analysis in empirical studies of this kind. Basically, the test proceeds by subjecting the monthly or quarterly seasonally adjusted time series of these variables to a Box-Tiao (1975) intervention analysis, using the most appropriate autoregressive integrated moving average (ARIMA) model for the time process and an intervention term; here the intervention term models the time distance to the election day.

There is a wide consensus that PBC lead to inefficient outcomes, and therefore, should be avoided. Hence, conducting research on PBC in Albania, and publishing the results will contribute to raising the awareness to the existence of PBC, the related disadvantages and the importance of avoiding this phenomenon.