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Abstract

This paper examines the macroeconomic dimensions of Security in the Black Sea Region (BSR), focusing on how member countries of the Black Sea Economic Cooperation Organization (BSEC) have evolved, transformed through crises, and adapted to ongoing challenges. The paper analyses strategies for economic and financial security to enable the smooth continuation of their economies in the face of endogenous and, especially, exogenous shocks that risk derailing regular economic activity. First, the paper examines how the member states of the BSR have adapted to recurring shocks and rising geoeconomic fragmentation. In this paper, economic security is conceptualized as the capacity of states to mitigate vulnerabilities arising from dependence on external partners for finance, goods, and critical services. Using a risk-management framework, the study reviews the BSR's evolution since the 1990s, highlights the role of major crises in shaping policy responses, and assesses the current macroeconomic and geopolitical landscape. The analysis demonstrates that regional resilience has been crisis-crafted rather than inherited, supported by the gradual accumulation of buffers, diversification of supply chains and markets, and increasing emphasis on autarchy, insurance mechanisms, and institutional credibility. The paper concludes with policy recommendations to strengthen macroeconomic security through buffer building, enhanced connectivity, deeper risk-sharing arrangements, and strategic alignment with reliable partners.

Keywords: *Geoeconomic fragmentation, globalization, regional economic integration, geopolitical blocs, international monetary system, supply chains, global financial safety net, multilateralism, costs of economic fragmentation, rules-based multilateral system.*

Introduction

Economic security, though widely discussed in policy circles, remains an evolving and contested concept. There is no definitive or fully satisfying definition of economic security. Recent analysis, including that by the European Parliament (2024), defines economic security as the undertaking of a set of measures designed to prevent economic harm arising from economic coercion or to protect the economy from broader trade disruptions. From this perspective, economic security strategies and instruments aim to 'secure' economic outcomes against certain types of shocks. It also defines economic security as encompassing measures aimed at ensuring (national) security using economic policy tools.

The EU paper openly acknowledges that the concept of economic security is loosely defined, thereby allowing different actors to project their own ideas. This latter point is very true, as there is much variability in the definition, though, by and large, it reflects a country's ability to implement its chosen policies to develop the national economy as desired.

The current paper's definition of economic security overlaps with that of the EU and is certainly not definitive. Still, it differs slightly in approaching the topic from a risk management perspective. As such, it considers 'economic security' as the attempt by an entity- governmental or non-governmental - to reduce risks from dependence on counterparties for the provision of financing, goods, or services. Such risks may be real or perceived and may stem from factors such as uncertainties in global markets, geopolitical tensions, or the reliability of foreign partners. The 'counterparties' may be any entity perceived as being external, and thus not under the potential control or influence of the concerned entity. The counterparties may be foreign governments, foreign firms and banks, or monopolistic suppliers of goods or services; conceivably, they might even be other regions within the same country that enjoy autonomy or other independence of action. Fundamental to concerns about economic security is a lack of trust on the part of an entity, or concern, that the counterparty will not be willing or able either (i) to provide the economic activity demanded by, or (ii) to fulfil a commitment to, the concerned entity.

In the Black Sea region (BSR), economic security is not a static concept; it may shift unpredictably and suddenly in response to changing threats and opportunities. The key point is that it represents a perceived risk on the part of an entity, for which that entity believes that mitigating measures- such as insurance, expanded alliances, greater self-sufficiency, diversified sources of supply and/ or markets- are necessary to enhance its sense of economic security. In this sense, policymakers need to continuously assess vulnerabilities and implement strategies such as diversifying supply, alliance-building, autarky, and insurance mechanisms to enhance resilience. Therefore, this paper aims to examine how the Black Sea Economic Cooperation

(BSEC) member countries have navigated crises, adapted their economic security strategies, and built resilience against external shocks.

The paper does not address cybersecurity, even though it is a significant and still growing area of economic importance. Its impact can be dramatic for a country and is relevant to all sectors of the economy and society. Threats may come from individuals, organized groups, or state actors, and their motivations are exceptionally varied. They may include mere mischief, financial gain, revenge, the generation of fear and uncertainty, and political coercion, among others. Interestingly, it is also an area with tremendous potential for cooperation. But it is not specific to the BSR; it affects every country worldwide, and it is of a scope and magnitude that cannot be adequately addressed in this document. However, due to its global nature and critical importance, it represents a key area for cross-border cooperation to share know-how and mitigate risks.

The remainder of this paper is organized into five sections. The first provides a historical overview of economic development in the BSR since the 1990s. The second explores how the region has transformed in the aftermath of the major crises it has experienced, which catalysed institutional learning and reshaped its policy frameworks. The third section reviews the current geoeconomic environment and the global context in which the BSR economies operate. Section 4 outlines a set of policy recommendations aimed at enhancing resilience, reducing exposure to external shocks, and strengthening the economic foundations of security in the BSR. The final section concludes the paper.

The Historical Context of Economic Development in the Black Sea Region

Transition to Market Economies (late 1980s - 1990s)

Since the end of the Cold War, the BSR has undergone significant transformations, with countries experiencing challenging periods marked by turmoil, yet also achieving significant progress while demonstrating tremendous resilience and adaptability. The BSR entered the 1990s with profound structural legacies: heavy industry, central planning, and limited market institutions. The post-Soviet transition produced sharp output collapses, dislocation of trade networks, and divergent reform speeds. Early regional trade patterns did not cohere into a distinct 'Black Sea bloc'; instead, integration trajectories largely reflected each country's relationship with the EU and, to a lesser extent, Russia's gravitational pull (Astrov and Havlik, 2008).

The initial transformation was foundational in eight of the 13 countries, as the dissolution of the Soviet Union and Yugoslavia led to the formation of many new states that needed to establish the instruments and institutions of a sovereign

country.[1] For these eight, along with Albania, Bulgaria, and Romania, it also entailed a systemic transformation as they moved from centrally planned economies to market-based systems. This period extended through most of the 1990s. It was initially marked by a sharp economic decline due to the collapse of old production and distribution systems, macroeconomic and financial instability, difficulties in implementing structural reforms, and the establishment and operation of legal frameworks. It was made more difficult by a series of shocks, including the 1998 Russian financial crisis, the devastating 1999 earthquake in Turkey, and the 1999 Kosovo crisis. However, the countries stabilized and consolidated, exhibiting improved security and political situations, and economic stabilization following periods of sharp economic decline in transition countries in the early 1990s, during which cumulative GDP contractions ranged from around 50% to as high as 75%. For the period 1995-1999, real annual GDP growth in the BSR averaged 0.7%.[2]

Recovery, Commodity Upswings, and Partial Convergence (2000s)

Despite the difficulties of the 1990s, countries learned and adapted, undertaking essential structural reforms and making substantive progress towards fiscal and monetary stabilization. Together with the benign global economic environment, this set the stage for a period of rapid growth in the 2000s, which lasted up to the global financial crisis (GFC) that struck in the third quarter of 2008.

From the early 2000s until the crisis, most BSR economies experienced rapid growth, buoyed by commodity prices, capital inflows, and EU accession dynamics (Bulgaria and Romania in 2007). Real GDP growth from 2000 to 2008 averaged 6.1% per annum, well above the 4.3% average for the World Economy during this period, and equal to a cumulative real economic expansion of 70%. This had real impacts on regional economies- many of which had fallen into low-income status during the transition period of the 1990s stepped back up into the middle-income category. At the same time, living standards rose, and poverty rates dropped sharply, as per capita income (in nominal US dollars) increased nearly fivefold. This period was also characterised by an accelerated transition to market-oriented systems and greater integration into both the broader European and Global economy; financial flows increased substantially, total external trade increased sixfold, and foreign direct investment (FDI) increased twentyfold.

Yet vulnerability to external financing and current-account pressures persisted. This extraordinary period came to a sudden end in the aftermath of the GFC, which broke out in September 2008 and brought about a near-collapse of financial markets worldwide.

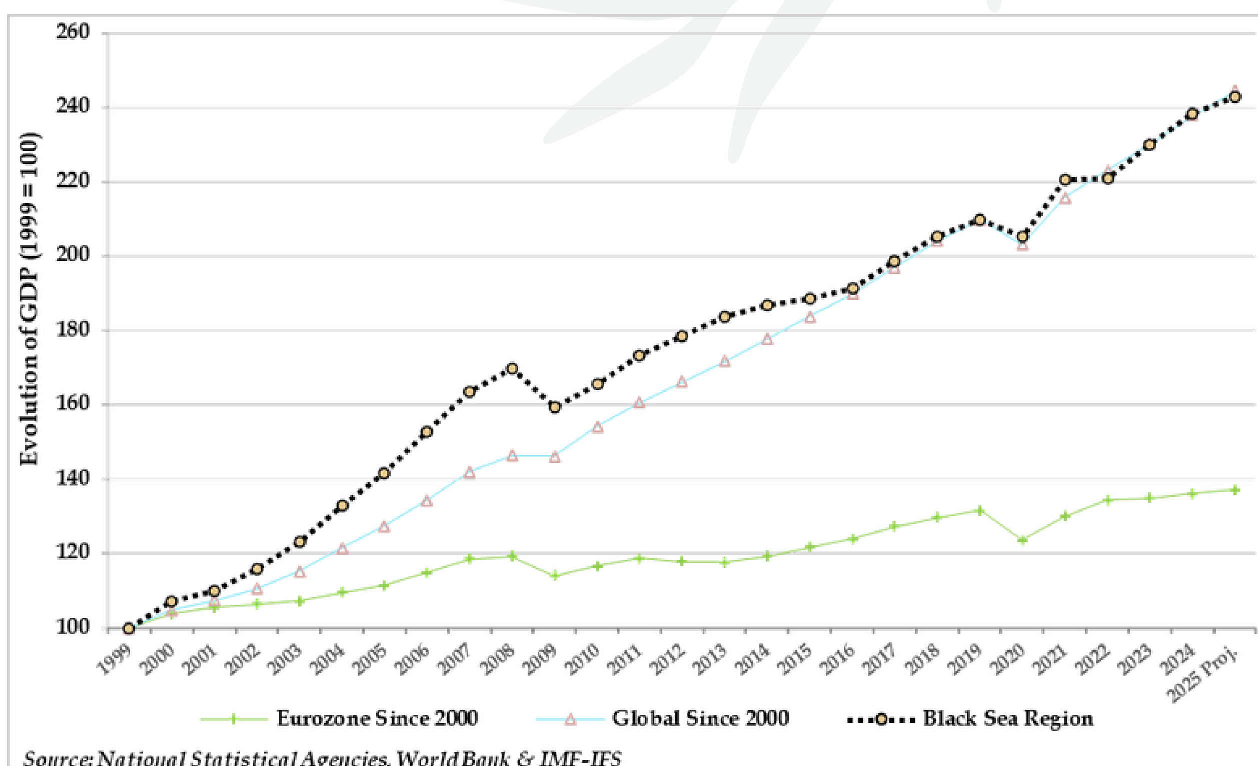
[1] Armenia, Azerbaijan, Georgia, Moldova, Russia and Ukraine from the former USSR, and North Macedonia and Serbia from Yugoslavia.
[2] Black Sea Region figures based on author calculations from data from National Statistical Agencies of the countries of the Black Sea Region and the International Monetary Fund's macroeconomic database. Additional sources include Global Economic Prospects of the World Bank, and the IMF's World Economic Outlook publications.

The BSR was among the hardest hit, as in the latter stages of the boom, growth had become increasingly consumption-driven rather than investment-driven, and the economies had become increasingly dependent on continued access to cheap external financing. When external funding suddenly became prohibitively expensive or impossible to obtain, countries dependent on such inflows suffered the most. Average Regional GDP shrank by -6.3% in 2009.

Energy Corridors and Institutional Deepening (2010s)

Most countries recovered quickly and posted growth in 2010-11, but at the same time, greater divergence in growth patterns emerged. Whereas all economies grew positively between 2000 and 2008, from 2010 to 2019, overall regional GDP growth slowed, averaging 2.8% annually, less than half the average of the high-growth era. This outcome was also lower than the global economy's average annual growth rate of 3.7% and masked substantial variation across individual countries. Some countries resumed steady- albeit lower than in the 2000s- growth, while others struggled with protracted recession and even sovereign debt crises, which resulted in steep downturns. The 2010s saw intensified work on energy connectivity—the Southern Gas Corridor (SGC) network (SCP, TANAP, TAP) and complementary routes—aimed at diversifying Europe's supply and monetizing Caspian resources through the Black Sea. Scholarly and policy analyses emphasize the SGC's dual geo-economic and geopolitical rationale, though social-environmental factors complicate the calculus (Morrison, 2017).

Figure 1: Global, Eurozone, and BSR GDP Growth 1999- 2025



Source: National Statistical Agencies, World Bank & IMF-IFS

Growing integration into the world economy slowed as well - external trade in the BSR fluctuated year on year, and annual FDI, after exceeding 4% of GDP during the boom period, declined both nominally and as a share of GDP to around 2%. This relative sluggishness was due not just to slower economic growth but also to rising geopolitical tensions on the regional level, and a growing tendency towards ‘weaponisation’ of economic power via the imposition of measures such as tariffs, investment restrictions, economic sanctions, etc., at the global level.

Pandemic, Disruptions, and Geoeconomics (2020s)

In early 2020, the COVID-19 pandemic began. The pandemic stressed health systems and public finances, but by 2021–22, inflation and supply-chain strains dominated the macro agenda across BSR economies. Central banks faced complex trade-offs as they navigated imported price spikes in food and energy. The priority given to safeguarding public health in most countries led to lockdowns worldwide to curb or at least mitigate the virus's spread. These lockdowns, along with the high uncertainty about their duration and extent, led to significant economic slowdowns as demand collapsed and supply chains and international trade experienced severe disruptions. However, while the BSR experienced negative GDP growth of approximately -2.2% in 2020, it was significantly lower than initial projections for a contraction of approximately -5%, and it compared favourably with the 3.2% decline in global GDP.

Not only did regional economies show a high degree of resilience, but they were also able to implement expansionary monetary and fiscal policies to varying degrees, thereby substantially limiting economic damage. At the same time, this support laid the foundation for a rapid and impressive post-COVID-19 recovery in 2021, with regional GDP growth spiking to 7.4%. Region-wide GDP growth in 2022, by contrast, slowed to 0.2%, but this was heavily influenced by the outbreak of war between Russia and Ukraine. GDP in the rest of the Region grew by a still robust 5.1%. This gap largely disappeared in 2023-24, and the Region grew at healthy rates of 4.1% and 3.4% in each year, largely in line with growth rates in the World economy.

Transformations and Building Resilience Through Crisis

The last three decades confirm that resilience in the BSR has been ‘crisis-crafted’ rather than inherited. Two crises stand out for their importance in shaping perceptions of security in the BSR: the GFC and the COVID-19 pandemic of 2020-21. Both were global in nature and exogenous in origin to the BSR, but highly impactful. To be sure, other crises also influenced the transformation of countries. In the 1990s, BSR countries experienced various crises and periods of turmoil, which ultimately led to needed measures such as undertaking structural reforms, achieving fiscal consolidation, and improving legal and regulatory frameworks. Countries experienced their own economic and/or financial crises, and most notably, the region-wide Ruble Crisis of 1998.

Despite the turmoil these crises caused, their effects were largely and rapidly overcome by the subsequent benign 2000-2008 period of high growth. In addition to growth and rising prosperity, it brought tighter links to the world economy and increased openness to external influences- be it the external inflows of financing or the increased cooperation with global and regional bodies- in particular, the expansion of NATO and the European Union into the Region either directly via new membership[3], or indirectly via the acknowledgement of candidacies for membership.

The economic crisis that ensued from the GFC was different in scope and scale, as well as in long-term impact; the lingering effects are still felt today. This crisis exposed the vulnerabilities of credit-fuelled growth models dependent on external financing and thin macro-prudential toolkits. The Region experienced a 6.3% GDP contraction in 2009, with the magnitude varying across countries and reaching double digits in some cases.

The principal reason for the severity of the contraction was that over the course of the period of robust growth from 2000-2008, many Regional economies began to display features of 'overheating', accumulating internal and external imbalances such as rising inflation and current account deficits, and a growing dependence on continued inflows of external financing (chiefly from western Europe) to sustain the growth. Growth in the early part of this period had been based on increasing investment rates to capitalise on high-skilled, relatively low-cost labour and other competitive advantages, as well as rising productivity. However, over time, an increasing number of economies lapsed into pro-cyclical policies, with rising wages and asset prices, sharply increased private-sector borrowing, and growing domestic demand. These trends were not duly corrected, and instead, the easy flow of financing exacerbated the situation and worsened the imbalances. When the crisis struck and financing stopped, sudden corrections were forced upon the countries. The need to undertake abrupt, sharp remedial fiscal and financial measures to avert collapse led to the significant economic downturns observed.

While most countries successfully imposed austerity measures to restore balance, the political and economic fallout was unpleasant. It led to a re-evaluation of the prevailing economic growth model, which was driven by external financing. While it had fuelled the high growth, the realization of its unpredictability frightened regional policymakers. Perhaps the principal key 'lesson learned' from the 2008 financial crisis was that although external financing can fuel high growth, it is inherently uncertain and can reverse abruptly and without warning. This can be extremely dangerous for economies that have become reliant on such financing for continued growth.

[3] Bulgaria and Romania joined the EU in 2007, while Albania, North Macedonia, Serbia and Turkey became candidates during this period. Albania, Bulgaria, North Macedonia, and Romania became NATO members during this period.

Thus, after the initial stabilization, policy responses focused on reducing vulnerability. Depending on where they were most vulnerable, countries focused on adjustment measures to improve financial regulation, contain unrestrained credit growth, achieve balanced budget and debt indicators, build up reserves, and reduce current account deficits. These measures were implemented effectively for the most part and achieved their main intended objectives.

However, they also came at a cost: reduced investment rates and economic growth on the one hand, and reduced interest in cross-border economic activity and cooperation on the other. There was a distinct reduction in both dialogue about enhancing cooperation and actual economic cooperation. Although not always quantifiable, specific key measures point in this direction. Foreign direct investment as a share of GDP rose rapidly in the 2000s and averaged over 4.5% of GDP per annum in the peak period of 2006-08. Post-crisis, it fell by over half and averaged between 2.1% of GDP per annum between 2010 and 2019. External trade grew at an average annual rate of 26.2% from 2000 to 2008, whereas from 2010 to 2019 it grew at an average yearly rate of 6.2%, with significant year-to-year fluctuations. As a share of GDP, total regional external trade has largely stayed flat.

Greater self-reliance and autarchy also gained traction as a way to reduce vulnerability. This can be seen in energy markets, where the shift to renewable energy sources has been impressive, aided by significant reductions in investment costs for wind and, especially, solar power. The driving force, though, does not appear to be averting climate change or meeting the targets set at the 2015 Paris climate accords. Instead, it is a combination of seeking to save outflows of foreign exchange and to lessen reliance on imported sources of energy to reduce vulnerabilities from external suppliers perceived by policymakers as carrying higher geopolitical risk. Another area where self-reliance has been a key factor driving policy decisions is in the effort to deepen domestic markets and reduce reliance on external financing and the use of foreign reserve currencies for domestic transactions and valuations- so-called 'de-dollarization'. Because dependence on continued external inflows increased vulnerability, countries decided to reduce their reliance on them. However, while the reduction reduced dependence, it also reduced investment and economic growth. Domestic financial markets were, and remain, too small to provide the level of financial intermediation needed to achieve sustained growth. Such a policy choice emphasised prudence, and under the circumstances, it was understandable. But it was a choice that had economic consequences, including foregone economic activity.

The COVID-19 pandemic was consequential in demonstrating the success of these vulnerability-reduction strategies and underscoring the degree of maturation and stability that enabled BSR economies to mitigate the worst effects of the crisis and recover rapidly. While there were differences in degree, almost all countries introduced lockdowns, closed borders, and, to the extent possible, discouraged non-essential business activity, shifted education to remote learning, and advised working

from home. In tandem with unprecedented uncertainties and global supply chain breakdowns, they had a significant negative economic impact.

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To counter the negative impacts, governments implemented various mitigating policies. These policies included reducing interest rates, increasing fiscal spending, reallocating funds from previous spending categories, providing guarantees, tapping international funds, and entering into swap agreements. What is most notable is that, in 2020, the BSR countries provided fiscal support measures amounting to 6.2% of GDP, well below the nearly 25% of GDP in advanced economies but higher than levels provided in other emerging economies.[4]

The economic downturn in the BSR was relatively mild, with GDP contracting by 2.2% in 2020. The recovery in 2021 was also more robust, as the BSR grew by 7.4%. Beyond the benign economic activity figures, what stood out was the remarkable stability of the Region's economies. There was no panic when markets initially froze in the spring of 2020. Exchange rates remained broadly stable, and even as governments increased fiscal deficits and public debt through mitigating measures, these were accepted as responsible policy interventions. The COVID-19 pandemic showed that even though the BSR economies may not yet be considered developed, they are considered stable by the markets, and they are not perceived as 'at risk' as they were in 2008.

The strong rebound in growth from COVID-19 in 2021 was undercut by the war in 2022 and the attendant price shocks, as global energy price spikes quickly fed into higher inflation rates. Once again, though, there was no undue pressure on exchange rates or reserve levels in Black Sea countries. In many cases, their central banks gained credibility by aggressively raising interest rates even before developed-economy central banks did so, thus curbing inflation pressures more quickly and being in a position to resume interest-rate cuts as inflation abated in 2023. The impact on growth was also smaller than initially feared, and the BSR posted GDP growth of 4.1% in 2023 and 3.6% in 2024. They have shown a high level of adaptability and resilience, and a remarkable ability to navigate severe turmoil with limited impact on their domestic economies.

[4] For more information, see the IMF's Fiscal Monitor Database of Country Fiscal Measures in Response to the COVID-19 Pandemic at https://www.imf.org/en/topics/imf-and-covid19/fiscal-policies-database-in-response-to-covid-19.

Current Macroeconomic & Geopolitical Context

Assessing where the BSR economies stand at present is a mix of positives and negatives, with considerable uncertainty given the broader global and regional context in which they operate. As 2025 closed and 2026 dawned, they found themselves in a situation of stable, sustained growth with most macroeconomic indicators either healthy or on an improving trend. They have a demonstrated track record of adaptability and a willingness to undertake necessary measures, even if politically difficult, to reverse imbalances or maintain stability. From being low-income countries, almost all have risen to the middle-income tier and currently sport annual GDP growth rates of 2-4%. Nevertheless, all lag behind the European Union average in per capita income terms and, on current trend, will require decades to achieve convergence.

While their macroeconomic stability suggests they are in as good a position as they could hope for to manage global uncertainties, the prospects for a return to more rapid growth are remote. High levels of global financing are unlikely to resume. In any event, it is not clear that countries would welcome significant increases in external inflows, given the vulnerabilities they are perceived to create and the possibility of being left in a precarious situation if sentiment suddenly shifts. Prospects for global trade are also very uncertain, and while the BSR has not been appreciably affected by the United States' 2025 tariffs, it could be affected by their secondary impacts. More specifically, to the extent that European Union countries such as Germany are affected, any slowdown in the EU will inevitably affect economic activity in the BSR, given its importance to the Region.

Furthermore, most BSR countries have avoided the negative fallout from the many sources of geopolitical turmoil affecting the Region as well as the uncertain and increasingly tense global economic system. The latter includes increasingly confrontational rhetoric and the willingness of the most prominent global players to use, or threaten to use, their financial instruments to inflict damage on others and secure improved conditions for themselves. There is little regard for cooperation or for the impact on small countries.

The EU, whose expansion into Eastern Europe in the 2000s helped propel increased cooperation and growth, has lost much of its perceived attractiveness. It remains an essential economic actor, and EU countries remain the largest trade partners and sources of financing for Black Sea economies (except Russia). However, as growth has slowed, so has the trend of integration slackened.

The appeal of EU accession has also diminished. Albania, Georgia, Moldova, North Macedonia, Serbia, Turkey, and Ukraine are all candidates for EU membership and have formally stated that their objective is to join the EU. While it is undoubtedly positive that more countries have been accepted as candidates for EU membership

and some have made progress in EU accession negotiations, there is no imminent prospect of EU accession for any of them. Their candidacies are at various stages of the accession process, and there is no individual case that is near conclusion. A sense of fatigue describes how this process is viewed in many, if not most, BSR societies: the accession process generates constant pressure for countries to enact more reforms that align them more closely with the EU, but the lack of a prospect of accession has rendered the process tedious and tiring. Sustaining reform momentum without the prospect of a positive payoff becomes increasingly complex politically and less credible. In some cases, rising public scepticism threatens to derail the process entirely.

The Way Forward- Recommendations to Enhance Security

Enhancing macroeconomic security is best understood as risk management in the face of uncertainty. BSR economies operate in an environment where shocks—financial, geopolitical, energy-related, or logistical—can disrupt the continuity of economic activity even when domestic fundamentals are sound. The objective of policy is therefore to reduce vulnerability, strengthen capacity to absorb shocks, and ensure that critical systems continue to function during periods of stress. This paper proposes a structural policy agenda organised around five levers: liquidity backstops, risk-sharing arrangements, supply chain and corridor diversification, buffers and institutional strength, and targeted cooperation and coordination on shared risks.

Policy choices inevitably involve trade-offs and opportunity costs. When policy choices divert resources from ongoing economic activity, there is a risk of reduced economic growth, which may be temporary or permanent. To the degree that a policy intervention curbs economic activity that would otherwise have occurred, it is essential to identify the nature and the cost of the curtailed activity, including any positive or negative externalities. Barring an activity, limiting its full expression, or taxing it can impose high financial, political, and social costs. It may also result in corruption or the creation of vested interests that promote activities that are inefficient and distortionary for the overall economy but favourable to that group.

Finally, in an even more interconnected world, specific sources of vulnerability cannot be eliminated, particularly dependence on critical external infrastructures (e.g., payment systems, satellite, network, or operating systems) that rely on advanced technology, know-how, or patents and are controlled by a small set of providers. Similarly, if a significant economic power issuing a reserve currency decides to cut off a country- or the firms, banks, and agencies from a country- via sanctions or other exclusionary policy, the entities that are excluded cannot do very much different than seek alternatives, usually at much greater cost and risk. For these sources of vulnerability, contingency planning and diversification of access points are often the most feasible forms of insurance.

As Carney (2026) emphasised in his remarks on global economic resilience at Davos, “collective investments in resilience are cheaper than everyone building their own fortresses; shared standards reduce fragmentation, and complementarities are positive sum”. In a policy context, this formulation highlights the superior efficiency and stability gains from coordinated regional action compared to isolated national strategies. For the BSR, where vulnerabilities often span borders and shocks propagate rapidly across interconnected systems, the logic of collective investment and harmonized standards reinforces the case for deeper cooperation, joint capacity-building, and institutional alignment.

Two principles guide the approach. First, security has externalities: private agents underinvest in resilience because the benefits—financial stability, reduced panic dynamics, and uninterrupted trade—are widely shared. This creates a clear role for public policy when the spillovers of resilience investments are economy-wide. Second, resilience is not cost-free. Buffers, redundancies, and diversification involve both fiscal outlays and opportunity costs. Policymakers must therefore prioritise high-impact, low-regret measures, while recognising the trade-offs and avoiding inefficient “autarchy by default”.

In such a context, it stands to reason that measures that reduce insecurity, reduce perceived vulnerability, and enhance overall security will be more appealing to countries seeking greater certainty and stability. Against this backdrop, several policy directions stand out.

Liquidity backstops: swap lines

One initiative with a successful track record of enhancing economic security and maintaining stability is the use of swap lines between the central bank of an at-risk country and a global central bank that manages a reserve currency, such as the US Federal Reserve or the European Central Bank. Better yet, the mere existence of such a swap line has proven in practice sufficient to soothe market nerves, and they have needed to be utilized far less than initially expected when they were activated. These lines are set up and implemented very quickly, and from the perspective of the global central bank, the sums involved are tiny, while for the beneficiary, they are more than adequate.

At the onset of a crisis, demand for foreign exchange rises sharply as market panic sets in but then eases quickly once liquidity is plentiful. The beneficiary central bank borrows from the global central bank and then on-lends to eligible beneficiaries in its home country, thus ensuring the smooth continuation of economic activity.

During the GFC in 2008 and the pandemic in 2020-21, Fed and ECB swap lines with other central banks had a positive, stabilising effect on markets, with the latter active in assisting BSEC members. In 2020, the ECB set up a €2 billion swap line with the

Bulgarian National Bank, and a very similar repo line[5] with Romania (up to €4.5 bn). Serbia (up to €1 bn), and Albania and North Macedonia (up to € 400 million for each). Swap lines require a reliable global central bank to serve as a backstop, but have proven enormously successful, generating goodwill and underscoring the importance of collaboration in a low-cost, high-impact manner.

Risk-sharing arrangements: pooling of risks or resources

An alternative to international cooperation that may enhance economic security is an arrangement that helps countries share risks and resources. At a global level, the International Monetary Fund is an example of an institution set up as a lender of last resort to help ensure that its members always have an entity to which to turn in a time of need to provide assistance and head off a balance of payments crisis. The IMF has a long track record in this regard. Still, its assistance comes with strict conditions- typically austerity measures such as fiscal spending cuts, increases in taxation, and increases in lending rates- which are often politically difficult for a country to impose. Its assistance is also subject to Board approval, which can become very political if the country does not enjoy good relations with key IMF Board members, above all the US, which has an effective blocking veto.

At the regional level, countries may also come together to establish arrangements to assist participating members in times of need. The most notable example of this is the European Union (EU), which has established a common currency and an independent European Central Bank (ECB) with a mandate to protect the currency and participating 'Eurozone' members. During the Eurozone Crisis in the early 2010s, the EU established support institutions to assist member states in severe economic difficulty, which eventually morphed into the European Stability Mechanism.[6] In the BSR, Greece was a significant beneficiary of this.

In Asia, a looser arrangement known as the Chiang Mai Initiative has been set up to help the 10 participating countries access pooled reserves from one another in a time of crisis. Created in the aftermath of the 1997 Asian Financial Crisis, CMI provides short-term liquidity through currency swaps. As it has evolved, it has grown into a US$240 billion multilateral arrangement that supplements IMF financing but also seeks to reduce reliance on the IMF by boosting regional cooperation.[7]

Such a pooling arrangement would seem to be far-fetched for the BSR exclusively, not just politically but also financially, since to achieve confidence with financial markets, they require a credible 'backstop'- the presence of a reserve currency issuing country. For CMI, China and Japan provide the backstop. The BSR has no such

[5] The difference between swap and repo lines is that repo lines provide euro liquidity in exchange for adequate euro-denominated collateral, while swap lines provide liquidity against accepted currencies without collateral.
[6] For more information on the ESM, see https://amro-asia.org/about-us/regional-financing-arrangements/.
[7] For more information on the CMI, see https://amro-asia.org/about-us/regional-financing-arrangements/.

reserve-currency issuer, but it is proximate to the Eurozone, and two countries, Greece (since 2002) and Bulgaria (starting in 2026), are members of the Eurozone. This suggests that any pooling arrangement would need somehow to involve the ECB.

Supply chains and corridor diversification

Strengthening macroeconomic security also requires greater supply chain resilience. Diversification should occur both upstream (at the sources of critical imports) and downstream (at the destinations of exports).

In the case of upstream resilience, countries should diversify supply chains for food and critical agricultural inputs, energy, including both fossil and renewable sources, and critical raw materials.

The goal is not complete self-sufficiency, which would be costly and inefficient, but rather to reduce dependence on single suppliers or single routes that pose geopolitical or logistical risks. In the case of downstream resilience, export markets should be diversified to reduce reliance on a narrow set of buyers. Diversification of trading partners cushions the impact of external demand shocks, sanctions spillovers, or corridor disruptions.

Diversification should extend to infrastructure links. For small or landlocked economies in particular, reliance on a single corridor poses significant vulnerability. Developing alternative transport routes—rail, road, or maritime—and investing in the modernisation of ports, customs, and logistics systems reduces exposure to disruptions and improves overall economic security.

A complementary implication is that diversification is strengthened not only by adding suppliers and routes, but also by preserving access to a rules-based multilateral trading system, which expands the set of feasible “outside options” during disruptions. Recent analysis emphasizes that a strong WTO-anchored system delivers ‘flexicurity’ - security through flexibility - because it allows households and firms to substitute rapidly across suppliers when shocks occur. By contrast, fragmentation, reshoring, or narrow friend-shoring can reduce choice and raise costs. This is especially relevant because supply shortages are inherently difficult to predict ex ante, so maintaining broad market access functions as a practical resilience mechanism. For example, as highlighted in a 2022 WTO report on the trade effects of the war in Ukraine, Ethiopia’s wheat imports from Russia and Ukraine fell sharply after the war began. Yet, it was able to pivot quickly toward alternative suppliers (including the US and Argentina), demonstrating how open trade channels can mitigate concentrated mport exposure in real time. For BSR economies, the policy implication is that upstream and downstream diversification should be pursued in a way that avoids ‘autarchy by default’: domestic measures (buffers, contingency routes, prudential

tools) are most effective when complemented by external arrangements that preserve wide market access and predictable trading rules.

Buffers and Shock-Absorbing Capacity

A cornerstone of macroeconomic security is maintaining adequate buffers. For financial systems, this means ensuring high levels of bank capitalization, strong liquidity positions, and limiting tendencies for excessive credit growth and risk-taking. For the broader economy, it requires maintaining key indicators of external sustainability within prudent ranges, including the current account balance, the fiscal balance, public debt, external debt (public and private), and international reserves.

Research consistently shows that countries with higher reserve levels are better equipped to navigate crises, reduce exchange-rate volatility, and maintain investor confidence (Frenkel, 1983; Edwards, 1985; Aizenman and Lee, 2007). Trade performance has also been linked to reserve adequacy. Rodrik (2006) and Hausmann et al. (2005) suggest that countries with robust reserve positions can pursue more aggressive trade policies without risking macroeconomic imbalances. Moreover, empirical studies by Ghosh et al. (2012) and the IMF (2016) show that reserve accumulation is positively associated with investor confidence and lower sovereign risk premiums, thereby indirectly supporting GDP growth.

Precautionary reserves help countries withstand sudden stops in capital flows and pursue trade policies without threatening macroeconomic stability. Additionally, some degree of autarchy in the provision of critical items - especially food, energy, and water - may be justified when external dependence poses unacceptable risks. The goal, however, is not isolation but selective risk mitigation, focusing on the vulnerabilities that are most severe. Finally, countries should seek to establish fallback options and insurance mechanisms wherever feasible— whether through reserves, diversified suppliers, contingency trade routes, or financial safety nets. Moreover, countries that are highly dependent on the performance of a particular sector or a particular commodity should seek to encourage diversification. Ideally, they would promote this via market-friendly policies that promote investment, are predictable, and respect the rule of law. Alternatively, economic diversification can be pursued by a mix of import substitution policies, subsidies, and tax breaks. Still, these almost always introduce distortions into an economy- some of which become very costly or difficult to remove. The common bottom line of all these measures, if successfully implemented, is that they reduce the probability that a shock in one sector cascades across the economy.

Targeted cooperation and coordination on shared risks

Even during periods of tension and low trust, regional cooperation remains a vital risk-mitigation tool. Interest in collaboration may wane, and appetite may be limited for collaborative schemes that seek to boost growth but require high degrees of trust and interdependence. However, schemes that help manage risks and uncertainties and are based on shared interests are worth considering. Countries can develop collaboration among willing partners who share sufficient common interests or values to act together.

Handling natural disasters is one area where resources can be pooled from multiple countries to help a country facing a severe weather event, earthquake, fire, or other natural catastrophe. Another is the creation of early warning systems to prepare for or prevent disasters. Such events may be either natural or man-made- a financial disruption, a pandemic, a pollution event, crime, etc. Cyber security represents an area where some degree of cross-border cooperation is essential- such things as early warnings, new threats, new remedies, knowledge sharing and training, and ensuring the integrity of infrastructure, among others.

The level of cooperation could involve dialogue and information exchange, pooling of resources, exchange of personnel and equipment, or supranational institutional arrangements, depending on participants' appetite and mutual trust. A collateral benefit of successful cooperation is that it helps build trust among participants and increases the willingness to deepen cooperation.

Conclusions

This paper argues that macroeconomic security in the BSR is fundamentally a matter of risk management. Rather than viewing security as a fixed state, the region's experience since the 1990s demonstrates that it is shaped by how effectively countries identify vulnerabilities, build buffers, adapt to changing circumstances, maintain stability, diversify exposure, and sustain the continuity of critical economic functions under stress. This perspective helps discipline what can otherwise be a broad and politically malleable concept.

The region's trajectory reveals that resilience has been crisis-crafted. The post-socialist transition created structural weaknesses, uneven reform progress, and externally dependent growth models. The high-growth of the 2000s masked these vulnerabilities until the GFC, which exposed the fragility of externally financed expansions. In response, many BSR economies strengthened prudential frameworks, accumulated reserves, and adopted more credible monetary and fiscal policies. These reforms proved consequential in shaping how countries later confronted unprecedented shocks. Subsequent crises, such as the COVID-19 pandemic, tested these improvements. The pandemic underscored that macro-financial buffers and

policy credibility can prevent temporary disruptions from escalating into systemic instability. Meanwhile, the war in Ukraine reshaped trade routes, energy markets, and logistics across the Black Sea, revealing the region's dependence on secure corridors and diversified supply sources. These developments highlight a core theme of the paper: in a world of rising geoeconomic fragmentation, macroeconomic security increasingly depends on the resilience of flows—energy, food, goods, and finance—rather than on macro fundamentals alone.

Five principal policy pillars emerge from the analysis. The first two are essentially insurance mechanisms—notably swap lines on the one hand and precautionary liquidity facilities and pooling arrangements on the other —with credible financial backstops. They demonstrably help prevent liquidity shocks from turning into full-blown crises. Third, supply-chain and market diversification—upstream and downstream—reduces dependence on single suppliers, single export markets, and single corridors, thereby lowering exposure to geopolitical or logistical disruptions. Fourth, buffers and institutional strength—adequate reserves, sound financial regulation, sustainable fiscal positions, and credible policy frameworks—expand the capacity to respond countercyclically. These measures are not costless. The challenge is to prioritise high-impact interventions that generate economy-wide security externalities without creating inefficiency or slipping into indiscriminate autarchy. Transparent governance, rigorous vulnerability assessment, and clear communication can ensure that resilience policies reinforce—not distort—markets and institutions.

Finally, while national policies are central, the region's exposure to cross-border shocks underscores that macroeconomic security also relies on selective cooperation. Corridors, energy networks, trade routes, and financial channels link BSR economies, in ways that can transmit in ways that can transmit both stability and stress. Practical, modular forms of cooperation—whether on infrastructure standards, risk-pooling mechanisms, or critical-infrastructure protection—can complement domestic reforms and amplify the effectiveness of resilience investments. In sum, the BSR's experience demonstrates that the macroeconomics of security is the macroeconomics of resilience. Future prosperity will depend not only on growth strategies but also on the capacity to navigate an environment marked by geopolitical insecurity, supply disruptions, and fragmented global economic linkages. The policy agenda outlined in this paper provides a pragmatic path to strengthen that capacity and ensure greater stability and continuity in the years ahead.

Two limitations merit attention. First, the BSR is heterogeneous; country-specific institutions, exchange rate regimes, economic dollarisation, and exposure profiles mean that policy priorities differ across countries. Second, cross-country data quality and comparability remain uneven. Future work could quantify macroeconomic security using a composite resilience index, linking macro-buffers to trade and financing data, and evaluating the effectiveness of specific instruments (swap lines, contingency corridors) using quasi-experimental approaches.

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The Black Sea region has long been a focal point of geopolitical competition, shaped by historical rivalries, strategic interests, and evolving security dynamics. In recent years, the region has witnessed growing instability due to escalating tensions, hybrid threats, and the ongoing war between Russia and Ukraine. These developments have not only disrupted regional security but have also posed broader challenges to the European and transatlantic security order. Given NATO's strategic interest in the region, a comprehensive reassessment of security frameworks is necessary to address emerging threats and enhance regional stability.

SecureBlackSea seeks to examine and propose a future security architecture for the wider Black Sea region, aligning with NATO's evolving strategic priorities. Through an in-depth analysis of existing security structures, regional conflicts, and cooperation mechanisms, it aims to provide evidence-based insights into key threats and potential policy responses. A particular focus will be placed on the intersection of conventional military threats, hybrid warfare, economic security, and geopolitical rivalries, recognizing the complex and multi-dimensional nature of regional security challenges.

The project activities include expert workshops, field research, and data-driven assessments. It will evaluate the effectiveness of existing regional security frameworks and NATO's role in shaping stability in the region. In collaboration with policymakers, security experts, and academic institutions, the project team will facilitate policy dialogues and strategic foresight discussions to identify pathways for strengthening regional security cooperation. These efforts will result in the development of comprehensive policy recommendations aimed at enhancing institutional resilience and fostering a more cooperative security environment.

The expected outcomes of this initiative include a thorough assessment of regional security threats, a set of actionable policy recommendations, and strengthened dialogue between NATO and regional stakeholders. By producing analytical reports and policy briefs, the project will contribute to an informed security discourse and provide practical solutions for mitigating risks in the region. By fostering collaboration between academic and policy communities, it will support long-term strategic planning and resilience-building efforts.

SecureBlackSea aspires to provide a timely and in-depth examination of the evolving security landscape in the Black Sea region. It will offer insights that can guide NATO's strategic engagement in the region. Thus, it aims to contribute to a more stable, secure, and cooperative Black Sea security environment in the face of emerging geopolitical complexities.