

## Chapter 13

# Financial Systems Reforms in Western Balkans Countries

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### ABSTRACT

*Tax system and tax policy today are becoming the most important instruments of national economic policy. Globalization process is objective in nature and is also inherent in market economy, whereas the neoliberal model of globalization is constantly getting more popular in both developed and developing countries. While developing countries in this regard are concentrating mostly on a multitude of potential reforms and resolving their numerous economic and social problems which are getting only more complicated, the interest of developed countries concerns mostly newest innovative technological trends and their application in a specific economic context. That is, in order to provide better conditions for full convergence of socioeconomic systems with higher rates of economic growth reforms, tax systems and tax policies are needed to reduce the barriers to free and global movement of goods, services, capital, and manpower.*

### INTRODUCTION

In the today's world change is the precondition for successful development. Global economic recovery has been accelerating since the last year, mostly due to the growth of investments, acceleration of world trade volumes' growth, improved business conditions and rising consumer confidence. Disparity remains to be one of the main features of the global growth though, both among the regions within countries and also between different strata of population.

The first step taken in the Balkans towards "healing" the regional economy has been being implemented through equity and sectoral restructuring. Ownership restructuring was meant the change the vision on the concept of property as such and later lead to sectoral restructuring which assumes better capacity of economic units to maintain their competitive position and their ability to materialize the results of the innovative technical processes.

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The goals of economic policies of each country in the Balkans can be formulated as follows: GDP growth, full employment, low inflation and positive balance of payment. Our analysis suggests that the process of privatization has become a common response to the financial problems of many firms and the countries in question overall. These actions taken by almost all Eastern European countries are often treated as a fairly drastic remedy, at least for their development cycle, where the already accumulated economic problems are supposed to be solved via rising the economic competitive superiority so that to satisfy future needs and also comply to technological and social changes. However, some of these local problems are more complex in nature and thus require a more sophisticated driver, oriented toward the future market development and even having no real criteria for assessment.

Countries' commitment to the consistent program of economic restructuring under increased efficiency and stronger business competitiveness requires the availability of an adequate financial and fiscal system and also well functioning market institutions under economically acceptable terms with an opportunity to relocate the factors production according to changing needs of certain sectors and activities. In the course of this objective realisation the role of States play manifests itself through the allocating function, redistributing function and also stabilizing function, all three resting on the foundations of neoliberalism.

Fiscal consolidation in the countries of the Western Balkans requires rising more stable balance of payments, which would exceed the inflow of direct investments. Internal demand should be also increased, which includes the recovery of private consumption due to growing employment rate and thus more earnings in the private sector. Growing foreign direct investments are in most cases directly related to the developments in the Euro zone. FDI growth has resulted in additional growth in competitiveness, thus, it is extremely important to continue with the implementation of structural reforms in the Balkans. Of particular interests for the local national economies would be promoting competitiveness in agriculture and services, and this can be the result of better innovative scientific and technological education that also contributes to the reform process.

Implementation of structural reforms in the Western Balkan countries is lagging behind the projected rate of their economic growth. However, newer inflows of foreign investments have all complementary capacities so that to contribute to domestic economies in any case. For the purposes of more balanced regional development it is necessary to reconsider the local interests in each of the countries in question.

## **DEVELOPMENT PERFORMANCE OF THE WESTERN BALKANS' ECONOMIES**

In the course of economic reforms and establishing newer development policies in the Balkans, these countries must bear in mind their many developmental comparative advantages in terms of attracting foreign capital, while not allowing their economy to be placed in a strongly dependent, subordinate position in relation to close developed economies. The most recent economic crisis has emphasized the need to outline/reformulate newer competitive economic advantages, some of them posing quite a serious challenge for the institutions within the European Union. Belief in the long-term benefits of free movement of goods and services, people and money is countered by the short-term challenges of protectionism without any obvious positive effect. The sense of solidarity within Europe, between the East and the West, the rich and the poor, the old and the new Europe must be constantly re-examined and adequately aligned with the growing socioeconomic needs and challenges.

Economic reality of the majority of developed countries includes the challenges related to population aging, low productivity growth and limited potential growth, and therefore economic policies of these

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