

*Economic and Policy Foundations for Growth in South East Europe:  
Remarking the Balkan Economy*

edited by Adam Bennett, G. Russel Kincaid, Peter Sanfey, Max Watson

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reviewed by George Makris\*

The book by the writers mentioned above provides an invaluable analysis of the transition south-eastern European countries recently experienced from a planned economy system to market economy and the democratic functioning of society. The book is also a useful tool aiming at analyzing the techniques through which a more effective implementation of reforms and practices will lead to the economic growth of these countries. The need for a more carefully designed economic policy has become obvious, especially after the global financial crisis reached the region in 2008/09 and following the recent turmoil within the Eurozone. This is necessary if we want to avoid the distortions and impasses caused by the transition model formed in the course of twenty five years. These problems were not readily visible during the euphoric second decade of the period in question. More specifically, the need to strengthen the existing economic policy of the countries of the region is supported, through targeted and coordinated assistance from relevant expertise of international institutions. In addition, EU's development of more efficient practices to implement reforms is supported, particularly in regard to its architecture and the architecture of the Eurozone, the aim being to accelerate European integration.

The first chapter of the book describes the economic model of the region, as this was formed during the transition period, which identifies three stages: the difficult implementation of the first decade's reforms; the rapid growth that ensued until the global financial crisis and the Eurozone turmoil. This chapter focuses on the transmission of these recent crises to the economies of the region through their integration into the global and, mainly, the European financial system and, in particular, through the financing of domestic consumption and the impact this had on shaping the production structure of these economies.

\*Professor, School of Economic and Regional Studies, Department of Balkan, Slavic and Oriental Studies, University of Macedonia, Thessaloniki, Greece

The second chapter focuses on structural reforms carried out until the beginning of the crisis. It should be noted that a lack of enthusiasm on the part of the public in the countries concerned prevented the continuation of such reforms. This, in some cases, is masked by the encouraging developments in production and employment. According to the authors, an ongoing implementation of these reforms is deemed necessary, through using a different approach from that of past experience. This concerns both EU member states and candidate countries. Therefore, the role of the EU, as well as that of the International Monetary Fund, is vital, without underestimating the role of the EBRD, the EEIB and the World Bank within a project conditionality context.

The fiscal policy being applied and the financial institutions available - an issue whose importance was strongly felt after the transmission of the crisis into the region - are the subject of the third chapter. The need for fiscal reforms has become evident, although there are differences between countries as to the intensity of the problems caused to the budgetary balance. However, according to the authors, the best guarantee to tackle both current difficulties and future contingencies is to strengthen the financial architecture of the region, namely, the institutions and rules. In this case the recent EU experience can be particularly useful.

The fourth chapter focuses in detail on the problem of the financial sector, the role of which is considered largely responsible for the derailment of certain economies of the region during the second transition period. In that sense, the negative effects of credit expansion, which contributed towards overheating these economies, ignoring the requirements of a rational configuration of production structure, became apparent during the crises. In this chapter, after a detailed presentation of the financial sector in SEE, attention is drawn to the criteria of Optimal Currency Areas, which should be met by countries outside the Eurozone. In addition, experience on the effectiveness of macroprudential measures is gained, which, in combination with traditional macroeconomic instruments, has tried to help limit the impact of the crisis on certain countries of the region. Nevertheless, according to the authors, implementation of such macroprudential policies cannot possibly have long-term potential for success with chances of growth, unless applied in coordination by national and supranational authorities.

The fifth and final chapter of the book is a continuation of the previous one and focuses on the solutions needed so as to address the financial sector challenges to be faced in SEE. The region's particularities are portrayed in detail by the authors. What they stress is that risks are arising from the intense europisation of this sector, the extensive participation of banks in public debt or the high volatility of the economic activity in the region. These hazards, which also entail a high financial cost for non-financial sectors, can be managed by ensuring financial stability, effectively using a grid of macroprudential tools over and through the cycle. The authors consider this to be effective at a cross-border level, within the EU and with the EU, and, indeed, in the context of the new architecture of the EU financial sphere, which is analysed in detail.

This book can be useful in two ways: on the one hand, it helps us understand the current state of the economies of SEE countries, as shaped over a course of twenty five years, highlighting errors and weaknesses of its dynamics. On the other hand, it recommends concrete solutions to overcome obstacles impeding these economies from long-term growth.

There is one issue that could possibly lead us to further reflection, though it is somewhat remote from the very specific goal of the book: the, albeit theoretical, connection between achieving the objectives of the nominal economic variables in the region -which is what the proposed reforms and measures seek to do- and reaching an actual convergence of the countries' economies with the European average. Indeed, this is a challenging issue that will have to be addressed in the future. This final comment, however, does not detract anything at all from the fact that this book can be of great interest to academics, practitioners and policymakers.