

## INTEGRATION OF FINANCIAL SYSTEMS OF WESTERN BALKAN COUNTRIES INTO THE EUROPEAN FINANCIAL SYSTEM

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### ABSTRACT

*The impact of international financial reporting of SMEs on economic performance continues to be one of the most debated issues among international economists. Theoretical models have identified a number of channels through which international financial reporting of SMEs can promote economic growth and economic development in developing countries and countries in transition. However, in spite of its benefits, financial reporting of SMEs can also be dangerous, as it has been witnessed in many recent financial crises. In fact, there are some evidences that financial globalisation leads to better macroeconomic outcomes only when certain “threshold conditions” are met. Therefore, this paper discusses the potential benefits and potential costs of financial reporting, which could face transition countries from Western Balkans while integrating their financial systems into the European financial system. Since the financial sector of Western Balkan countries is characterised by an increasing presence of foreign bank, this paper points out the potential advantages and a possible “danger” of the excessive presence of foreign banks in the host-country. This paper concludes with the idea that it is important to determine the optimal level of foreign banks participation in local banking sector and that financial reporting of SMEs should be approached cautiously, with good institutions and macroeconomic frameworks viewed as important preconditions.*

**KEYWORDS:** *Small and Medium Sized Enterprises, Economic growth, Balkan countries*

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