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MANAGEMENT OF FINANCIAL STABILITY IN THE AGRARIAN SECTOR OF THE REPUBLIC OF KOSOVO

Dissertation abstract for the award of the educational and scientific degree "doctor" in the scientific specialty "Organization and management of production" in professional direction 3.8 "Economics"

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Plovdiv, 2022

I. GENERAL DESCRIPTION OF THE DISSERTATION WORK

1. Relevance of the topic

The impact of global trends and financial innovations on the financial system of the economy, through the prism of financial stability and security, is one of the key factors for the development of the national economy integrated in the international environment. The changes brought about by the information and communication technologies of the modern age are radically transforming the financial services industry. These changes enable the linking of national markets and affect the growth pattern of individual economies. Market connectivity gives investors access to price and return information on individual financial instruments and assets at extremely low cost and in real time. Thus, they build their portfolio based on market signals, maximizing utility, while the international financial system effectively fulfills the function of capital allocation. However, the same trends, applications and innovations in the financial services market can be associated with the opening of regulatory and institutional gaps, market anomalies and a high incentive for risk-taking. Lack of preventive action and timely response can weaken risk control mechanisms and lead to a situation where risks are not properly addressed and covered. Then there may be a relaxation of tight budget constraints for both debtors and creditors, inadequate assessment of risk and return, asymmetry in market information, which may further lead to sunk costs, ie. loss. Vulnerability that opens up the market creates volatility, increases uncertainty and impairs the efficient performance of financial market functions. A financial market that is not stable and efficient contributes to the further deepening of the anomaly, which may eventually lead to a financial and then an economic crisis. The current situation at the international level reveals how strong spillovers from one market to another are, but also shows how deep the shocks in the economic sphere can be when instability and mistrust are introduced into the channels of financial intermediation.

Therefore, we will deal with the issue of financial stability in open economies. Special attention will be paid to the conditions for a unilateral euroization regime, such as the choice that exists in the Kosovo system. Preservation of financial stability in a euroized economy becomes the main goal not only of monetary policy, but also of a broader approach to economic policy. It dominates the choice of other policies in the system if it wants to preserve the regime and create the potential for economic development.

2. Objective of the dissertation research

The goal is to analyze and evaluate the financial stability of the agrarian sector of the Republic of Kosovo in the conditions of an open economy and to propose recommendations for effective management of the financial stability of agrarian enterprises

3. Dissertation Research Tasks

In order to achieve the intended goal in the dissertation research, the following research tasks are defined:

- Theoretical analysis and identification of the main factors determining financial stability in an economic system;
- Analysis of the decision-making process in managing financial stability at the macro and micro level in an economic system;
- Analysis of the development and management of the financial system in the agrarian sector of the Republic of Kosovo;
- Analysis of the financial stability of agricultural enterprises in the Republic of Kosovo and synthesis of conclusions and recommendations for improving management practices in this area.

4. Research thesis

Inconsistencies in policy objectives and the lack of structural reforms in the agrarian sector create financial instability, and these inconsistencies are a major barrier to the sector flourishing in accordance with the efficient allocation of scarce resources in the market.

5. Object of research

The object of research is the financial system in the agrarian sector of the Republic of Kosovo.

6. Subject of research

The subject of research are the processes of managing the financial stability of agricultural enterprises in the Republic of Kosovo

7. Structure of the dissertation work

The dissertation work consists of introductions, five sections, a conclusion, a list of sources used, in which there are 193 literary sources, of which 37 are Internet-based. The work is presented in 141 pages of typewritten text, 11 tables and 12 diagrams.

The introduction presents the author's view on the relevance of the chosen topic, the reasons for the choice as well as the arguments defending the originality of the dissertation research are defined. In this part of the dissertation, the purpose, tasks, subject and object of research are described. The research thesis defended in the dissertation is defined.

In the first and second sections of the dissertation work, a literature review of the opinion of the researchers of the problem of managing the financial stability of the economic stability was carried out. The role of money in the process of managing financial stability is examined. The main stages of the global financial development of economic systems in the conditions of globalization are described. The main functions of the financial system and how it affects economic processes are identified. The main sources of risk in the management of the financial stability of the economy and of the agricultural sector in particular are defined.

In the third section of the dissertation, financial stability in the conditions of a market economy is analyzed. The main defects and anomalies of the market economy are identified and how they affect the financial stability of the agricultural sector. The role of market information in the process of making managerial decisions concerning the improvement of financial stability at both the macro and micro level is clarified. The market efficiency function is compared against the market information asymmetry function. On this basis, conclusions are formulated regarding the critical role of market awareness of market participants in the formation of financial stability of the economy.

The fourth section of the dissertation analyzes the financial stability of the agrarian sector of the Republic of Kosovo. The analysis was carried out in a comparative plan with the other countries of the Western Balkans in order to highlight the main differences in the factors determining the financial stability of the agrarian sector of the Republic of Kosovo.

The main differences in the financial systems of the countries of the Western Balkans region have been established. The consequences of the country's choice to use the euro as its national currency on the financial stability of the economy and the agrarian sector of Kosovo are analyzed.

In the fifth section of the dissertation, the financial stability of agricultural enterprises in the Republic of Kosovo is analyzed. The main sources of stability/instability are identified and their role in process management in agrarian enterprises is clarified.

In conclusion, the main conclusions of the dissertation research are given, as well as recommendations for improving the financial stability of the agrarian sector of the Republic of Kosovo.

PARAGRAPH 1. HISTORY OF GLOBAL FINANCIAL DEVELOPMENT THROUGH THE PRISM OF ECONOMIC GLOBALIZATION

Money and the role of money in the economic development of the economy. The flow of money and capital plays a major role in the development of society and the economic prosperity of a nation. In growth theories in the literature, there are different approaches to the role of money, i.e. the relationship between the financial and the real sector of the economy. What can be said for certain is that money relies on the surplus produced in the economy. With the need for exchange develops the need to materialize these surpluses. Also, with the growth of exchange comes the need for temporal and spatial division of consumption. The exchange of goods at the beginning of the development of society is colored by the exchange of goods for goods, while as a result of the development of trade there is an exchange of goods for money. The emergence of money.

The role of money, or what is given to it as an attribute of money because of the functions that the chosen commodity can take on, has been an open question since the beginning of money. Money, in its present form, as

Karsais (1991) points out, is believed to have originated in the seventh century BC in the Kingdom of Lydia in Asia Minor, in present-day Turkey. The forerunner of money is the ancient coinage of this kingdom, which arose from the accumulation of wealth in trade. The development of trade necessitated the minting of bimetallic coins (a mixture of silver and gold), the so-called "Stater", as the same author points out, means "standard". The concept of "standard" can be used to describe the specifics of the commodity, which over time takes over the functions of money. It will always be a "standard" that will provide a measure of value, a medium of exchange and savings. Commodities took over the functions of money. Different peoples assigned these functions to different goods: livestock, cereals, spices, rare metals and other valuables. The characteristics of the goods, depending on their rarity, determine the monetary equivalent. What all these commodities have in common is that their functions have always been the same: exchange was possible, the value of the goods to be exchanged was determined, and the value could be preserved for another exchange. Today, in economic theory, they are recognized as three main functions of money, as stated, among others, by the famous economist of finance and macroeconomics Myshkin (2007, p. 8): a medium of exchange, a measure of value and saving financial resources. depending on their rarity, determine the monetary equivalent. What all these commodities have in common is that their functions have always been the same: exchange was possible, the value of the goods to be exchanged was determined, and the value could be preserved for another exchange. Today, in economic theory, they are recognized as three main functions of money, as stated, among others, by the famous economist of finance and macroeconomics Myshkin (2007, p. 8): a medium of exchange, a measure of value and saving financial resources. depending on their rarity, determine the monetary equivalent. What all these commodities have in common is that their functions have always been the same: exchange was possible, the value of the goods to be exchanged was determined, and the value could be preserved for another exchange. Today, in economic theory, they are recognized as three main functions of money, as stated, among others, by the famous economist of finance and macroeconomics Myshkin (2007, p. 8): a medium of exchange, a measure of value and saving financial resources.

The development of trade, the spatial and temporal convergence of the market, has created the need to create goods that can perform these functions, but with lower transaction costs than the existing solution of rare goods. The request came down to defining a common denominator of surplus, a manufactured surplus ready for exchange that would eventually evolve into what exists today as paper and coins. The technological revolution has taken a step forward and introduced virtual money into the global economy of the 21st century. so-called electronic money. The transition of these flows can be represented as a path from commodities to proclaimed fiat money.

Money is used today according to the definition given in the dictionary of economics, Banok I dr. (2011, p. 260), is a product of agreement and decision of the competent authorities, materialized in the law and monetary policy. Through a legally defined framework, these goods are given a monopoly position among other goods to act as a common equivalent in exchange. Mishkin and Eatkins (2005, p. 655) define money as something generally accepted as a means of paying for goods, services or repaying loans. Money defined in this way is theoretically known as declared money or Fiat Money. Ledoit i Loc (2011) explain the property of declared money as money that is "discovered" by another commodity and declared as official means of payment in a country. This means that the law provides that there is no cover for any type of commodity and that there is no provision for convertibility into precious metals or other commodities. What is materialized by law is that this type of goods is assigned the role of a medium of exchange. The very name fiat money comes from the Latin word fiat, meaning "I must do."

Mankiw (2007, pp. 22-32) points out that proclaimed money - like paper moneydollar - is money without intrinsic value, i.e. shows that these goods would have no value if they were not used as money.

Banknotes and coins therefore have no real value in themselves as commodities. Their value derives from the belief that they can be exchanged for another commodity that has value. In this way, the use of money is defined as a measure of the value of various goods and at the same time a medium of exchange. Apart from these functions, money also serves as a store of value, i.e. it enables saving. Monetary policy and policy-making bodies have a duty to ensure that these functions are not compromised and that their sustainability is ensured. Thus, the task of monetary policy becomes price stability in order to preserve the purchasing power of money. Sound monetary policy creates sound and secure money, makes it possible to preserve the purchasing power of money and delay consumption and makes it possible to temporally and spatially separate consumption from savings. All this leads to the conclusion that a convertible and safe currency is the state of all financial and economic transactions and then integration to achieve the exchange that exists today. Converting savings into consumption, investment or ultimately one of the sources of growth and development of economies around the world. All these basic and derivative functions of money must be guaranteed by those who create a policy of stability and security of what is determined by political choice as an official means of payment and a means of resolving debt-credit relations in the country's economy.

The separation of approaches in the objectives of monetary policy boils down to the choice of views on the influence of the money supply on real flows. In the 20th century, two schools stood out whose teachings overlapped in this approach. Monetarists, among themthe best known are Fisher (1911) and Friedman (1968), who with their followers defended the theory of the neutrality of money created by the quantity theory of money. Keynes (1936) andThe Keynesian school takes a different approach to this.

At the heart of these two approaches is the attempt to answer the key question that monetary policy must address: can the central bank, as an institutional maker of monetary policy, have a significant impact on real flows without creating instability and imposing short-term imbalances his role is "small" as impact asstates Friedman himself (1968). In other words, the choice comes down to answering whatshould be a priority in the objectives chosen by the central bank in times of open economies and free movement of capital.

In the theory of the Keynesian school of the 1930s, the quantity of money could not affect the real sector in any direct way, but only indirectly by affecting the interest rate. This influence, as the proponents of this approach claim, is negligible. In contrast, economists from the University of Chicago took a different view and interpretation of the theory, arguing that money is responsible for almost every economic phenomenon, that is, that the development of all events in the real world is explained by differences in the money supply.

The teaching of the Keynesian approach was relevant in the post-World War II period, but the emergence of stagflation in the 1960s reduced the influence of the school and focused on the teachings of the monetarists.

The choice between these alternatives is a dilemma in approaching what should be set as the long-term objective of monetary policy and how to approach the creation of monetary policy without creating further imbalances. The price of the stability of the economic system achieved by the monetary policy is reflected precisely in the balance between the stability and the effectiveness of the monetary policy. The assumption which is not questioned in these theories and which both economic schools rely on is that there is no monetary illusion, i.e. that information is complete and markets are perfect.as Erber (2010, p. 6) points out in his article. Please review thisan assumption is not questionable because it is considered a correct assumption in a market economy and which eliminates the possibility of irrational behavior and wrong conclusions of market participants in such conditions. It is accepted that markets are fundamentally efficient. However, it is precisely in the adoption of this solid principle that the causes of the ineffectiveness of monetary policies can be found, especially in the area of open financial markets, where deviations of real from nominal values can occur beyond the control of competent policy. . The internationalization of the market, i.e. the liberalization of capital flows opened the materialization of this deviation. Therefore, in the policies of the central banks, besides the main goal is also the establishment of price stability.

The orientation towards financial stability in the economic and monetary policy places great emphasis on preventive actions and the timely detection of potential threats in the financial system that may arise from other spheres of the economy and which are not under the auspices of the central bank. It may happen that the goals of price and financial stability deviate in the short term, but in the long term these goals should complement each other and contribute to the achievement of each other. The approach to maintaining financial stability is systemic, which leads to the conclusion that the focus is not only on the movement of individual indicators or individual market participants, but also on the long-term development of trends, potential dysfunctions and disruptions in the market and their mutual impact. All these factors affect the accumulation of systemic risk. Systemic risk reflects the state of financial stability, but also the stability of the overall economic system. It consists of all relevant risks that exist in the market. This risk, when not properly assessed and sufficiently controlled, i.e. covered by safeguards, may negatively threaten the state of financial stability. Therefore, the policy to preserve this segment of the economy should be viewed from several angles to identify all sources of its threat. The focus of economic and monetary policy on financial stability requires a continuous approach to monitor all changes in economic factors and create such solutions that will create sound money, promote a stable and secure financial sector, a competitive business environment stimulating economic growth and living standards. Only under such conditions can long-term economic and therefore financial stability be achieved.

PARAGRAPH 2. FINANCIAL STABILITY

Definitions of financial stability. In modern theory, there is no single and generally accepted definition of financial stability. This approach assumes the normal functioning of the financial market so that it performs its functions correctly. The orientation towards financial stability in the economic, i.e. monetary policy, places great emphasis on the timely detection of potential threats in the financial system in order to stop the spread and deepening of such vulnerabilities as quickly as possible. Otherwise, if this stability threshold is exceeded, they must take the next step to strengthen safeguards (usually buffers in the form of additional capital, excess liquidity or provisions for potential losses) so that stability is not further compromised.

Failure to act on these steps can lead to a high degree of instability in the system and develop market disturbances that then require management of financial flows. Now with elements of a financial crisis. The approach is systematic, which leads to the conclusion that the orientation is not only focused on the movement of individual indicators or individual market participants, but also takes into account the long-term development of trends, potential dysfunctions and market distortions, as well as their mutual influence. All these elements affect the accumulation of systemic risk. Systemic risk is a general market risk and reflects the state of financial stability. It consists of all the relevant risks that exist in the economic system. This risk, when not properly assessed and sufficiently controlled or covered by safeguards, may negatively threaten the state of financial stability. Therefore, it has been proven that systemic risk, which is most often the result of high and inadequate credit activity, accompanied by other anomalies found in the financial market, can threaten financial stability. The focus of economic policy on financial stability requires a continuous approach to monitor all changes in economic factors and create such solutions that will promote a sound and secure competitive business environment in the financial sector that stimulates economic growth and household standards. Only under such conditions can long-term economic and therefore financial stability be achieved. which is most often the result of high and inadequate credit activity, accompanied by other anomalies found in the financial market, may threaten financial stability. The focus of economic policy on financial stability requires a continuous approach to monitor all changes in economic factors and create such solutions that will promote a sound and secure competitive business environment in the financial sector that stimulates economic growth and household standards. Only under such conditions can long-term economic and therefore financial stability be achieved. which is most often the result of high and inadequate credit activity, accompanied by other anomalies found in the financial market, may threaten financial stability. The focus of economic policy on financial stability requires a continuous approach to monitor all changes in economic factors and create such decisions, which will promote a sound and secure competitive business environment in the financial sector that stimulates economic growth and household standards. Only under such conditions can long-term economic and therefore financial stability be achieved. The focus of economic policy on financial stability requires a continuous approach to monitor all changes in economic factors and create such solutions that will promote a sound and secure competitive business environment in the financial sector that stimulates economic growth and household standards. Only under such conditions can long-term economic and therefore financial stability be achieved. The focus of economic policy on financial stability requires a continuous approach to monitor all changes in economic factors and create such decisions, which will promote a sound and secure competitive business environment in the financial sector that stimulates economic growth and household standards. Only under such conditions can long-term economic and therefore financial stability be achieved.

The orientation of the competent authorities towards financial stability influences the creation of policy goals, which directly and indirectly summarize the risks faced by the country's institutional and economic subjects in their activities. The current economic crisis shows that almost all economies are facing increasing uncertainty, crisis and potential deepening of the crisis, precisely because institutional regimes have not created an environment that includes all the necessary elements to properly manage financial risk. In this sense, the quality of the financial information on which risk management is based is of paramount importance. Quality information is a prerequisite for the efficient functioning of the market and the correct assessment of risk, which will allow its management. Based on complete and accurate information, lenders are given the opportunity to correctly assess the profitability of projects and identify the risk levels of their investments, thus ensuring an efficient allocation of funds. Timely recognition of signals that may threaten the rationality and efficiency of decision-making will lead to optimization of the use of financial resources. A financial system that contains the above elements can be characterized as stable and as such will adequately perform the function of capital allocation of common resources and dispersion of risk. Timely recognition of signals that may threaten the rationality and efficiency of decision-making will lead to optimization of the use of financial resources. The financial system that contains the above elements, can be characterized as stable and as such will adequately perform the function of capital allocation of common resources and dispersion of risk. Timely recognition of signals that may threaten the rationality and efficiency of decision-making will lead to optimization of the use of financial resources. A financial system that contains the above elements can be characterized as stable and as such will adequately perform the function of capital allocation of common resources and dispersion of risk.

Unlike stability, financial uncertainty arises from market imperfections. The transaction risk rating is a measure of uncertainty and determines the return on investment. Market uncertainty provides an opportunity to make money, but the occurrence of high market uncertainty may indicate that certain market functions are not working well and/or that there is no proper regulation to regulate the business activity of this segment of the business. As a result of this situation, inadequate risk assessment and suboptimal market performance may occur. Economic inefficiency manifests itself in both the volume and the quality of the allocation of resources that can materialize in the market under existing constraints.

The financial crises that have occurred in the last 50 years support the claim that the imperfections of economic policy makers, global market development and integration, in addition to positive achievements, leave room for a strong impact of shocks on the stability of financial systems. These developments create pressure for, regionally and globally, the synchronization and convergence of economic cycles. Magud N (2012) calls this phenomenon economic or financial divide, i.e. separation of the same flows (return) when such a spillover of influence does not exist. At the same time, these flows open up the constant need for constant review of the policy goals that create system stability. Monetary policy is just one of them. What will be done as a choice of monetary policy in its objectives depends on a number of factors and long-term directions. Zugic and Fabrice (2010) point out that differences in objectives can also be explained by differences in the environment in which central banks conduct monetary policy. It is quite clear that "fine-tuning" tools will produce better results in the conditions of a developed financial market, such as exist in developed countries, than in the conditions of the initial financial market, which are often present in developing countries. The most important differences in the environment that can influence the setting of objectives and the implementation of monetary policy are also related to the size of the country, the degree of openness of the country's exchange rate regime, development and implementation of prudential regulations, trust in the makers of economic policy, independence of the central bank, economic development, possible inflationary episodes of the past, presence of currency exchange (official or informal) and others. The choice of fiscal policy comes as both a cause and a consequence of the choice of monetary policy. These policies have a reciprocal impact that requires consistency in implementation to ensure the confidence of market participants. It is unlikely that either of these two policies will be effective and sustainable if there is no synchronization in goals and policies. The strong relationship between monetary and fiscal policy will determine the quality of money. Countries that, despite good monetary policy, The choice of fiscal policy comes as both a cause and a consequence of the choice of monetary policy. These policies have a reciprocal impact that requires consistency in implementation to ensure the confidence of market participants. It is unlikely that either of these two policies will be effective and sustainable if there is no synchronization in goals and policies. The strong relationship between monetary and fiscal policy will determine the quality of money. Countries that, despite good monetary policy, The choice of fiscal policy comes as both a cause and a consequence of the choice of monetary policy. These policies have a reciprocal impact that requires consistency in implementation to ensure the confidence of market participants. It is unlikely that either of these two policies will be effective and sustainable if there is no synchronization in goals and policies. The strong relationship between monetary and fiscal policy will determine the quality of money. Countries that, despite good monetary policy, The strong relationship between monetary and fiscal policy will determine the quality of money. Countries that, despite good monetary policy, The strong relationship between monetary and fiscal policy will determine the quality of money. Countries that, despite good monetary policy,

Furthermore, the quality of monetary policy transmission channels is increasingly questioned, as Boivin et al. (2011). In this sense, they say, policy transmission channels through real estate prices (eg, real estate and stocks) and the credit channel, rather than strictly through the traditional interest rate channel, become important. Mishkin

(2011) also talks about the new era and the challenges facing monetary policy choices. He highlighted five lessons for monetary policy from the experience of the current global economic crisis. First of all, he argues that today developments in the financial sector, through the so-called "Financial Frictions", have a much greater influence on economic flows than previously thought. This element requires a revision of the input data in the models, used to define general equilibrium variables, both in economic theory and in central bank policymaking. Second, the macroeconomic environment during a crisis cannot be represented by a linear function, i.e. during a crisis there is significant non-linearity in the flows that are assumed to be variables in optimal monetary theory. In this regard, the bankruptcy of Lehman Brothers in the last quarter of 2008 can be noted, which opened a spiral of problems in the financial and economic sphere and which politicians did not recognize as a threat. Indicators used for decision-making show significant non-linearity. The decline in asset values (especially real estate and stocks) caused by the bursting of the financial bubble, which devalued collateral in the banking sector, led to a non-linear decline in credit activity. The reduction in credit supply had a recessionary effect on economic activity. These flows led to a further decline in fiscal revenue and other imbalances that emerged. In addition to the assumption of linearity in the development of events, the original assumption that the probability of events having a normal schedule is shaken is also shaken. This assumption assumes a symmetrical stroke movement, while the possibility of error is distributed only in the "tails" of the plot. Symmetrical too. The reality is that the effects of the shock and the accumulation of risk are much more complex, and that these trends do not fully support this schedule. Mishkin The third lesson is that the lower bound on nominal interest rates is more problematic than previously thought. The author explains this lesson through the failure of quantitative monetary easing, which is basically implemented by all central banks to act countercyclically on interest rates and/or provide liquidity to banks. Practice shows that despite the significant reduction in interest rates, aggregate demand is not expected to recover after central bank interventions. However, it is not a dilemma whether the central bank should intervene with available tools or not, but the issue of shock and nonlinearity in transmission is much more complex than can be captured by the assumptions in the models. The fourth element is that the costs of resolving the financial crisis are extremely high. When calculating the total lost revenue, in addition to the costs of solving the crisis and the lost growth in the previous period, it is necessary to estimate the lost growth that will follow in a slow recovery after the crisis, a fiscal adjustment in repairing the consequences and the costs appear in monetary or fiscal policy in order to preserve and ensuring future stability of the system. And fifth, in a sense summarizing everything before, the author points out as a final lesson that this crisis showed that at the same time price stability and low income fluctuations are not enough to achieve financial stability. Despite the period characterized by a stable situation in official terms, through the stability of prices and incomes, the low risk premium created in such an environment, affected the high indebtedness of all sectors and the strong accumulation of credit risk. Thus, high risk-taking has not affected price stability and the level of GDP, which would have created signals for monetary and economic policymakers to change policy. There was a lack of timely reaction and in a short period of time inefficiencies in the activity of business entities, risks in the balance sheets of banks and companies, which turned into losses with the opening of the crisis, accumulated. The credit expansion created a bubble in the real estate market, opened up vulnerabilities and led to extreme financial uncertainty. Financial stability has turned out to be much more vulnerable than expected at all levels, from the micro-level of individual companies that did not shoulder the burden of large debt to cumulative debt. national and global level in related markets. Inefficiency, which appeared, first, in the financial market and then transferred to the real sector of the economy, indicated the need to revise regulatory policies in order to reduce negative incentives and market anomalies. Inadequate treatment and assessment of risk, both by the lenders who financed these activities and by the borrowers who undertook them, showed a significant weakening of budget constraints, which reduced the efficiency of resource allocation. highlighted the need to review regulatory policies to reduce negative incentives and market anomalies. The inadequate handling and assessment of risk, both by the lenders who financed these activities and by the borrowers who undertook them, show a significant weakening of budget constraints, which reduces the efficiency of resource allocation. highlighted the need to review regulatory policies to reduce negative incentives and market anomalies. Inadequate treatment and assessment of risk, both by the lenders who financed these activities and by the borrowers who undertook them, showed a significant weakening of budget constraints, which reduced the efficiency of resource allocation.

Research shows that monetary policy does not play a key role in maintaining financial stability. The analysis shows that weaknesses created outside the control of central banks have a large impact on financial stability, as measured by the imbalances exposed during the financial crisis. This leads to the conclusion that financial stability should be treated as a public good and that the responsibility for its preservation, apart from central bank choices and monetary policy, should be borne by other institutions responsible for the regulatory framework of the financial and economic system. , designed to increase productivity and competitiveness. . In times of intense integration and integration of the global market, this responsibility is shared by monetary policy, above all by fiscal policy, and then with structural policies such as revenue policy and other policies that create competitiveness in the economic environment. Ultimately, economic growth depends on the stability created by the institutional framework, but the level and dynamics of growth are determined by the level of competitiveness of the economy and products of that nation.

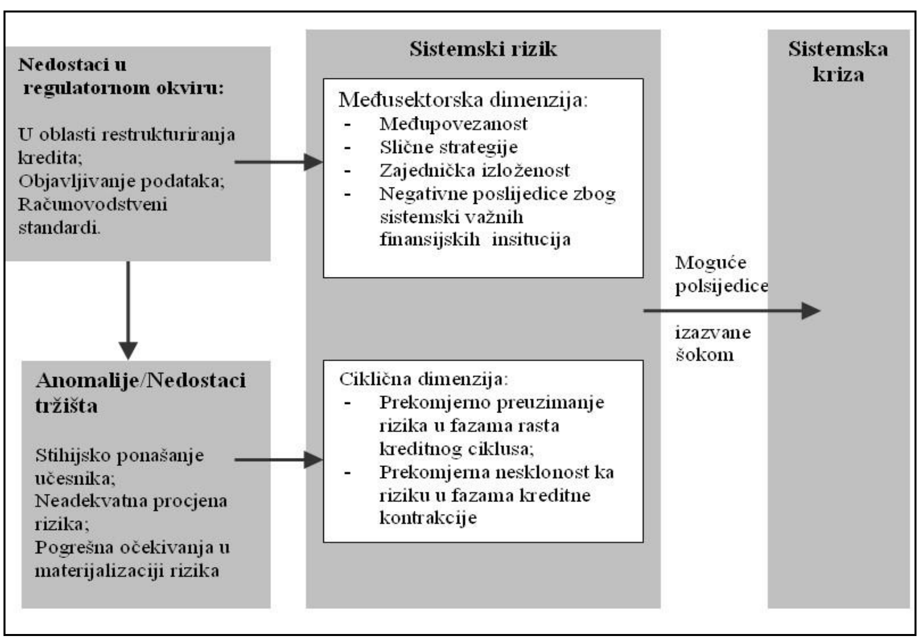
The analysis of financial stability in Kosovo through the prism of the impact of the current global economic crisis suggests that the impact of the negative shock is stronger when the economy is preceded by a phase of economic expansion based on consumption. In Kosovo, it has also been shown that when there is a large inflow of foreign capital in a country where monetary and exchange rate policy options are limited, it is necessary to consider the long-term impact that this inflow has on the system and stability of the system. It turned out that there should be greater transparency of information, greater incentive to apply strict budget constraints to market participants to qualitatively assess risks, enable resource allocation and appropriate risk diversification. Otherwise, anomalies are revealed in business risk management, both in the financial and real sectors. These anomalies in the contraction phase of economic activity can be associated with high costs of remediation. The regulatory framework should not contribute to the creation of anomalies or selective interests. It should be a function of market efficiency and the proper allocation of resources. In this way, the application of the principles of market competition, the development of entrepreneurship and productivity in the long term is encouraged, rather than a short-term orientation towards "speculative" profit. The regulatory framework should not contribute to the creation of anomalies or selective interests. It should be a function of market efficiency and the proper allocation of resources. Thus, the application of the principles of market competition, the development of entrepreneurship and productivity in the long term is encouraged, rather than a short-term orientation towards "speculative" profit. The regulatory framework should not contribute to the creation of anomalies or selective interests. It should be a function of market efficiency and the proper allocation of resources. In this way, the application of the principles of market competition, the development of entrepreneurship and productivity in the long term is encouraged, rather than a short-term orientation towards "speculative" profit. The regulatory framework should not contribute to the creation of anomalies or selective interests. It should be a function of market efficiency and the proper allocation of resources. In this way, the application of the principles of market competition, the development of entrepreneurship and productivity in the long term is encouraged, rather than a short-term orientation towards "speculative" profit. The regulatory framework should not contribute to the creation of anomalies or selective interests. It should be a function of market efficiency and the proper allocation of resources. In this way, the application of the principles of market competition, the development of entrepreneurship and productivity in the long term is encouraged, rather than a short-term orientation towards "speculative" profit. The regulatory framework should not contribute to the creation of anomalies or selective interests. It should be a function of market efficiency and the proper allocation of resources. In this way, the application of the principles of market competition, the development of entrepreneurship and productivity in the long term is encouraged, rather than a short-term orientation towards "speculative" profit. The regulatory framework should not contribute to the creation of anomalies or selective interests. It should be a function of market efficiency and the proper allocation of resources. In this way, the application of the principles of market competition, the development of entrepreneurship and productivity in the long term is encouraged, rather than a short-term orientation towards "speculative" profit.

The impact of the global economic crisis on the Kosovo economy suggests that when there are systemic constraints on the use of foreign exchange and monetary policy to adjust for shocks, the burden of stabilization in the event of a market disturbance shifts to fiscal policy. However, in countries that lack stable income accumulation and stable sources of financing, fiscal options are limited in time and money. Fiscal adjustments and countercyclical actions are only possible up to the level and threshold set by a sustainable public debt policy that will not jeopardize the post-crisis recovery. Thus, in the long run, adjustment to economic changes in open economies will depend on the ability to adjust, i.e. from the competitiveness of the real sector. The flexibility of the economy is then reflected in the possibilities of regulating labor prices and the mobility of production factors. In this way, it can be intuitively concluded that the level of competitiveness of individual economic systems will indirectly create the capacity to absorb shocks. More competitive economic systems will have more room for adjustment. In such systems, there will be automatic stabilizers installed through the competitive policy of the system, which will increase the elasticity and amortize the negative consequences of the shock. More competitive economic systems will have more room for adjustment. Such systems will have automatic stabilizers installed through the system's competitive policy,

Functions of the financial system. An appropriate financial system developed in its functions of providing basic services to the market agents of a country is one of the key factors in determining the scope and dynamics of growth and development of that economy. Analyzing the cause-and-effect relationship of these two events, it can be concluded that there is interdependence in the factors that stimulate and limit development. A sound, stable and efficient financial sector is essential to the growth of economic activity and the reduction of poverty. Leuven (2011) point out that the financial system and the role of intermediation, which is crucial in a market economy, provide five main services to the market: mobilize savings; distributes the savings so collected; monitors the use of these funds; provides mechanisms for the accumulation and diversification of risks, in particular liquidity risks, and facilitates the exchange of goods and services.

A stable financial market provides an opportunity for rational decision-makinginvestors, Mishkin (2007) points out. Investors' utility functions and their investment priorities are identified and verified through the market under such conditions. In the absence of efficiency and certainty in this market, it is not possible to discern which investment is better than the other and the allocation of resources is inefficient in such situations. Obstfeld and Rogof (1996) explain that the financial marketenables interim consumption, i.e. provides an opportunity for consumption over time. The allocation of resources depends on creditors' and debtors' preferences, risk appetite, and their marginal propensity to spend today or tomorrow. The role of the market is to ensure the smooth functioning of intermediation activities between debtors and creditors. It is stable if this function of the market is safe and effective, i.e. with the existing financial infrastructure, there is an allocation of funds over time, which contributes to market perfection and completeness of information.

Picture 1: Systemic risk



Source: Deutsche Bundesbank, Financial Stability Review (2011, p. 76)

Systemic risk. Systemic risk is a general market risk and reflects the state of financial stability. It consists of all relevant risks that exist in the economic system: risks in the banking, financial system, fiscal sphere, real economy and their interaction. Systemic risk can arise from two sources of deficiencies. The central bank of Germany, Deutche Bundesbank (2011, p. 76) states that these are: (1) a shortcoming or gap in the regulatory framework and (2) a shortcoming, i.e. anomalies in the market itself. When we talk about deficiencies or the emergence of a legal gap in the regulatory framework, we mean the mechanisms that regulate business risks, achieve appropriate assessment and protection against risk materialization, reduce information asymmetry in order to more effectively manage and spread risks. Institutional and regulatory gaps or inconsistencies in regulatory enforcement may arise in areas such as: (1) asset classification criteria and subsequent allocation of loss reserves; (2) in the requirements for restructuring the economic activity; (3) requirements for transparent disclosure of data and information. Also, deficiencies or inadequate application of accounting standards can degrade the quality of risk assessment.

Market anomalies are another source of systemic risk. In this area, the most serious disturbances in the state of financial stability can arise from the spontaneous behavior of market participants, inadequate valuations and risk pricing as a result of reduced business transparency and data availability. Also, market rationality is reduced by gambling behavior and participants' expectations that the risk will not be realized due to "overvaluation" of certain types of security such as direct government guarantees or various forms of government or other forms of guarantee schemes.

What is important to note in the analysis of systemic risk is that there are two dimensions to the impact of events: cyclical and systemic, as noted in the Financial Stability Review of Douche Bundesbank (2011, p. 76). The first dimension depends on the interconnectedness of market participants with similar business strategies or joint exposure to potential adverse events. When there is greater and stronger linkage of market entities, the spread of negative impacts will be greater and stronger. In this sense, in small and open economies, where there is a large intertwining of business activity and ownership of market entities, this effect can lead to a "domino" effect. This effect implies that the instability of one entity can threaten the stability of other entities in the chain. This phenomenon is extremely important for identifying systemically important financial institutions, especially nowadays large multinational financial conglomerates, which can significantly "shake" not only the stability of the market, but also lead to a wider domino effect. The latest example of the severity of the impact on systemically important financial institutions is the bankruptcy of Lehman Brothers in 2008, which deepened and transferred the financial crisis from the US market to the rest of the world. The second dimension that can highlight and deepen the impact of individual market events is the cyclical component. If there is a cyclical behavior of market players in the market, this can reduce rationality and efficiency, i.e. during expansion leads to excessive risk taking, and during contraction to a reduction or even suspension of credit activity. Both phenomena create problems in the real sector. Monitoring and analysis of both channels of influence, as well as anomalies that may arise as a result of regulatory or market failures, provides a framework for implementing a systemic risk-oriented policy. This policy aims to prevent the accumulation of inefficiencies that could lead to a crisis. It is this framework that becomes the domain of political action with a broader macro approach that shifts the focus from the level of supervision and control of a single actor or a single target to the whole system. Today, this policy is increasingly used under the name - macroprudential policy. Monitoring and analysis of both channels of influence, as well as anomalies, that may arise as a result of regulatory or market failures, provides a framework for implementing systemic risk-oriented policy. This policy aims to prevent the accumulation of inefficiencies that could lead to a crisis. 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PARAGRAPH 3. FINANCIAL STABILITY THROUGH THE PRISM OF FINANCIAL INSTABILITY

Financial insecurity.Financial uncertainty arises from market imperfections and affects the stability of first the financial and then the economic system of the country. The transaction risk rating is a measure of uncertainty and determines the return on investment. The occurrence of high market uncertainty may indicate that certain market functions are not working well and that there is no adequate regulation governing the operation of this segment of the business. As a result of this situation, there may be inadequate risk assessment and market results less than potentially possible. Economic inefficiency manifests itself in both the volume and the quality of the allocation of resources that can materialize in the market under existing constraints.

One of the main growth-generating functions of the financial market is to channel international capital mobility and fill the savings gap in economies where there is no domestic accumulation. And in the opposite situation, when it comes to the exporting capital of the country, the financial system allows for excess placement.assets of this economy. Mishin (1999) points out that mutual influence andthe interconnectedness of financial markets makes them efficient and sets priorities for national and international markets, allows diversification of risk and creates prerequisites for the growth of the world economy. In theory, countries that inject capital through the financial market mechanism attract free capital to finance productive investment projects and stimulate economic growth, while international investors diversify risk and achieve higher levels of return than they would have in the domestic market.

On the other hand, these same trends can change and destabilize in a very short period of time, first financially, and then on the market economy as a whole. The lack of timely reaction of the competent authorities in recognizing and directing these changes, transparency in the creation of the financial system and non-market behavior of economic entities can introduce uncertainty into the system and create additional risk in the placements. The potential system vulnerabilities that arise in these situations can further cause profound crises. Seen from this perspective, financial openness and networking are not always a component of development. Recent practice shows that the liberalization and integration of financial flows can go in the opposite direction, bringing the system into a financial crisis with serious consequences for the national economy. The history of financial crises is not like thatphenomenon of today - Schiller (2000. p. 177). He points out that this type of crisishave been recognized in various forms since the 17th century (1637) and speculation in the "tulip" market, i.e. the crisis in the Netherlands, known as the "tulip crisis". This was followed by the collapse of the US stock market, the 1980s crisis in South America, the 1992 ERM (Exchange Rate Mechanism) crisis in Europe. This was followed by a series of crises in developing countries in the 1990s: Mexico in 1994; Asian Crisis of 1997; Russia at the same time; Argentina in 2001 and at the time of writing the current global financial and economic crisis.

The emergence of vulnerabilities and uncertainties, which are created and increased in financial systems as a result of global trends, focuses the study not only on the importance of financial stability, but also on the problem of uncertainty and instability of the financial system. Financial analysisvolatility, Padoa-Shiopa (2002) examines market opportunities and efficiencyof the regulatory framework to absorb the changes and reduce the development of deeper anomalies in the system. The study of the problem of instability and the consequences of this situation in the economic system contributes to the creation of conditions for a realistic assessment of the risk-return ratio and preservation of financial stability. The legacy of the financial system crises of the last 30 years has shown that there is a close relationship between financial instability, the stability of the system and the quality of the real economy. Changes in the financial market have highlighted the problem of uncertainty in the management of financial flows. The development of new financial instruments and the increase in trading volume, the complexity of risk assessment, as well as the lag of regulation in directing these flows, influenced the research orientation towards financial instability and the creation of solutions to reduce it. The importance of the study of the level of financial instability and, accordingly, the inadequate assessment of risk, is the possibility of spillover of anomalies of the financial market into the real sector, as pointed out by Ferguson (2003). This economist defines financial instability, which can threaten the real economy, as a market situation characterized by: (1) an inadequate pricing mechanism, i.e. a situation where certain real estate prices do not reflect value. (2) market functioning and credit availability are significantly “distorted”. These two characteristics have the effect that (3) aggregate consumption deviates (or is likely to deviate) significantly above or below economic potential.

The financial sector, as long as it functions on a stable basis, is not a factor that can negatively affect economic flows. Working on a market basis of healthy competition and rational market expectations contributes to the creation of balanced prices that do not lead to market anomalies.

Defects and anomalies of the market economy.Mishin and Eakins (2005, p. 24) argue that information asymmetry in quantity andquality between debtors and creditors, reduces the role of market mechanisms in the allocation of resources and leads to two types of problems in the financial system. The first problem is the problem of adverse selection, which occurs before the actual financial transaction takes place. Another problem, moral hazard, arises after a transaction is made. Adverse selection means choosing a riskier debtor. Such borrowers are willing to take on a risk greater than that valued in the deal. Also, assumed and uncontrolled risk is not properly addressed in the bank's risk management processes. The classification of investments and the distribution of provisions on the basis of losses do not correspond to the real risk profile of the debtor. This problem occurs in cases where when the debtor intentionally or accidentally does not provide the creditor with a complete picture of his financial situation and the possibilities of servicing obligations in the future. Realizing the great risk of his business, he very persistently and with all means of persuasion entered into negotiations with the bank. The bank may decide to lend to these borrowers at a higher interest rate to charge them for taking on the increased risk. However, choosing such a borrower significantly increases the credit risk in the banks' balance sheet, which is not adequately covered by collateral for the risk associated with the undervalued part. At the next stage, the debtor is in even greater trouble. Burdened with new and more expensive debt, such a debtor is often more likely to fail in business, ultimately leading to the liquidation of his business. The total loss from the debtor's adverse election is a loss, which the debtor himself had, but also the bank due to inadequate allocation of funds. Two results flow from this relationship. One is that the bank additionally accumulates credit risk and, regardless of its size, grants loans to less profitable customers for greater profit or stops credit altogether, because there is no mechanism for distinguishing good from bad receivables. Both decisions have negative consequences for economic growth and financial stability. but also the bank due to inadequate allocation of funds. Two results flow from this relationship. One is that the bank additionally accumulates credit risk and, regardless of its size, grants loans to less profitable customers for greater profit or stops credit altogether, because there is no mechanism for distinguishing good from bad receivables. 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Another type of materialization of information asymmetry, according to the same authors, is the emergence of moral hazard among debtors. Moral hazard occurs after the transaction has been completed and entails the risk that the debtor will be involved in transactions that are not economically justified. The debtor does not invest money with the attention of a "good businessman", but bets in a higher risk zone, which can jeopardize his estimated potential for servicing the obligations to the bank.

The problems created by adverse selection and moral hazard have a negative impact on the role of intermediation in the financial market. These problems reduce efficiency and stability, i.e. market security. Moreover, asymmetric information is not only characteristic of the money market, but is also recognizable in the capital market. Issuers of shares and bonds, due to the possibility of obtaining additional profit in this situation, intend to deceive investors who invest in the purchase of these instruments. By creating wrong signals in the market, security owners influence the prices of instruments and create wrong incentives for investors.

The legal obligation of financial reporting reduces this asymmetry. The removal of the obligation for accurate accounting and publication of financial statements of entities increases transparency in the activities of debtors, increases the volume and quality of information available to investors and reduces the space for inefficient investments.

The emergence of asymmetric information has less impact on market efficiency if it occurs in years of economic prosperity. At this stage of the economic cycle, only the market can increase the debtor's chances and reduce the probability of "falling" due to the positive opportunities to accumulate extraordinary income. In the stages of economic growth, the debtor also generates a higher income with which he can compensate the losses resulting from the assumption of increased risk. On the other hand, the bank has more opportunities to amortize potential losses in the growth phases, since its liquidity is not burdened by the pressure of reduced market liquidity or deteriorating conditions of the funding source. In this way, the bank has the opportunity to more easily compensate missed credits and income based on them.

In the long run, however, asymmetric information leads to an accumulation of business risks for both economic and financial intermediaries. As a consequence of uncontrolled risk-taking, there is great instability in the first place in the financial system, and then a spiral of problems opens in the economy, which leads the whole system into crisis - financial, and then economic. A financial panic that occurs if information gets out of control and there is "noise" in the market as a signal, through panic, leads to a crisis and a domino effect on financial intermediaries and intermediation. The final outcome of a financial panic is a large loss, often at the level of the entire economy. Such disruption of economic activity seriously threatens financial stability.

PARAGRAPH 4. DEVELOPMENT OF THE FINANCIAL SYSTEM AND FINANCIAL STABILITY IN KOSOVO AND THE COUNTRIES OF THE WESTERN BALKANS

The degree of development and stability of the financial system depends on the synergy of the factors that influence the economic, but also the geopolitical region to which the national economy belongs. The characteristics of the national market determine its potential for development and its ability to adapt to the challenges constantly faced by market participants. Regional influence can often be one of the drivers of development, but also in the case of an unstable environment, a factor that slows down the development of certain market segments or the overall economy of the country. The quality and level of economic development, seen from this angle, is determined by the quality of institutional reforms, the choice of economic policies, the capacity to absorb and accumulate capital, human capital, innovations and technical-technological progress that a country can use in offering to the international market. Also, the level of economic development is significantly influenced by the integration processes in which the economy is included, the administrative efficiency of the business environment and other factors that determine the level of institutional and market development of the national economy, i.e. to their neighbors.

Financial system of the Western Balkans. The disintegration of the SFRY and the integration of Slovenia and Croatia as one of the newly formed EU states geographically limited what the term "Western Balkans" is increasingly used for today: states created by the breakup of Yugoslavia (with the exception of Slovenia and Croatia) with the inclusion of Albania. These countries also belong to the countries of the South East Europe (SEE) region, regardless of whether they are members of the EU or not. The analysis will focus on the countries of the Western Balkans, but a European perspective will often be noted. This comparison contributes to the analysis of the impact of the integration process and the impact of the so-called Halo effect, as the IMF (2006, p. 331) calls it, an accelerated process of bringing the progress of all developing European countries closer to the level of the EU. All Western Balkan countries went through a phase of extreme economic and political instability in the 1990s and entered the process of transforming economic and political systems into a market economy in the 2000s. The financial system follows these trends. The beginning of the transition begins with the creation of an institutional framework for the creation of new market institutions. In some countries in the region, such as Kosovo and the creation of the Central Bank of Kosovo in 2004, entirely new institutions were established, while in other countries the legacy of the previous system was transformed. Financial systems are built on the legacy of hyperinflation, which completely destroyed trust in intermediation and the security of savings. The long-term backwardness of the countries of this region, caused by the impact of political instability, sanctions and transition, led to a deepening of the differences in the degree of development and application of the previously created technical and technological achievements in the world market. As a result of these developments, all countries had an underdeveloped economic system and began reforms through intensive privatization of the banking sector. The priority of this market has been given in order to direct the reforms and to realize the transfer of the technical and technological development of this sector as quickly as possible. In this way, the appropriate level of connectivity needed to transform the rest of the economy will be achieved. In this way, the financial systems, above all the banking system, acquired the role of driving force for reforms, while the institutional framework of this market was the basis for bringing about other changes. Financial reform and the creation of financial stability were the first steps in the comprehensive systemic reforms these countries have undertaken over the past decade. Exchange rate policy choices in monetary policy largely guide other economic policies. The coordination of the objectives within the created policies influenced the definition of foreign trade policies and the choice of fiscal policy priorities. Also, the implementation of new business market policies required labor market reform to increase wage flexibility and labor mobility, all with the goal of creating macroeconomic stability and then financial stability. The aim of this reform, based on these policies, was to open the growth potential of these economies and their integration into international trends. However, not all countries have fully implemented the necessary solutions. The most difficult was the implementation of the structural reform and the issue of transformation in the management of state property. This segment lags behind in implementing the requirements. Legacy institutions have been very slow to change the existing way of working and managing. This segment lags behind in implementing the requirements. Legacy institutions have been very slow to change the existing way of working and managing. This segment lags behind in implementing the requirements. Legacy institutions have been very slow to change the existing way of working and managing. was to open up the growth potential of these economies and their integration into international trends. However, not all countries have fully implemented the necessary solutions. The most difficult was the implementation of the structural reform and the issue of transformation in the management of state property. This segment lags behind in implementing the requirements. Legacy institutions have been very slow to change the existing way of working and managing. This segment lags behind in implementing the requirements. 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Development and development components of the Western Balkans region.The specificity of the economic development of the countries of the Western Balkans is closely related to the process of transition and the choice of economic, especially monetary reforms, as stated at the beginning. The reform of the financial system, under the influence of European integration, strongly influenced the creation of an institutional environment that goes hand in hand with this commitment. European developing countries are fully integrated into the EU (Montenegro, Serbia, Albania and Macedonia are candidate countries and BiH are potential candidates), as Gligorov (2007) points out, can becharacterized as countries that chose a similar growth model at the end of the last century.

After the collapse of the ideas of a planned economy and finally with the signing of the Stabilization and Association Agreement (SAA), all countries in the region began to liberalize current and capital transactions. In this way, the borders were opened for investment and foreign capital, which was in short supplyin all developing countries. Gligorov (2007) points out that this is a feature of the regionthat the marginal return to capital in these countries is greater than what capital-exporting countries can achieve in their markets.

The Stabilization and Association Agreement consists of three complementary objectives: the first is to promote regional cooperation, the second is to promote economic stabilization and the rapid transition to a market economy, and the third is to meet the requirements for eventual EU accession. This document followed the path and scope of reforms in developing European countries, explicitly defining the provisions and requirements for compliance with the EU acquis for future members to join the EU. One of the main elements contained in this process was financial liberalization. The orientation of these countries towards EU integration led all countries in the region to liberalize capital flows in the 2000s. Despite the general demand for liberalization of financial flows created by the transition process, all countries were independent in determining the dynamics of liberalization. Kosovo liberalized current and capital transactions with the adoption of a single legal act: the Law on Current and Capital Transactions (2006) – while other countries in the region were gradual in this process to protect their own interests through segmented liberalization. The data do not provide a sufficient argument in favor of either of these two approaches. Candidate countries must have liberalized the flow of capital at the latest by the time of accession to the community, as this segment of cooperation is considered one of the leading principles in compliance with the EU. All countries liberalized flows in the pre-crisis period and increased capital inflows. Kosovo liberalized current and capital transactions with the adoption of a single legal act: the Law on Current and Capital Transactions (2006) – while other countries in the region were gradual in this process to protect their own interests through segmented liberalization. The data do not provide a sufficient argument in favor of either of these two approaches. Candidate countries must have liberalized the flow of capital at the latest by the time of accession to the community, as this segment of cooperation is considered one of the leading principles in compliance with the EU. All countries liberalized flows in the pre-crisis period and increased capital inflows. Kosovo liberalized current and capital transactions with the adoption of a single legal act: the Law on Current and Capital Transactions (2006).) – while other countries in the region were gradual in this process to protect their own interests through segmented liberalization. The data do not provide a sufficient argument in favor of either of these two approaches. Candidate countries must have liberalized the flow of capital at the latest by the time of accession to the community, as this segment of cooperation is considered one of the leading principles in compliance with the EU. All countries liberalized flows in the pre-crisis period and increased capital inflows. to protect their own interests through segmented liberalization. The data do not provide a sufficient argument in favor of either of these two approaches. Candidate countries must have liberalized the flow of capital by the time of accession to the community at the latest, as this segment of cooperation is considered one of the leading principles in compliance with the EU. All countries liberalized flows in the pre-crisis period and increased capital inflows. to protect their own interests through segmented liberalization. The data do not provide a sufficient argument in favor of either of these two approaches. Candidate countries must have liberalized the flow of capital at the latest by the time of accession to the community, as this segment of cooperation is considered one of the leading principles in compliance with the EU. All countries liberalized flows in the pre-crisis period and increased capital inflows. to protect their own interests through segmented liberalization. The data do not provide a sufficient argument in favor of either of these two approaches. Candidate countries must have liberalized the flow of capital at the latest by the time of accession to the community, as this segment of cooperation is considered one of the leading principles in compliance with the EU. All countries liberalized flows in the pre-crisis period and increased capital inflows. to protect their own interests through segmented liberalization. The data do not provide a sufficient argument in favor of either of these two approaches. Candidate countries must have liberalized the flow of capital at the latest by the time of accession to the community, as this segment of cooperation is considered one of the leading principles in compliance with the EU. All countries liberalized flows in the pre-crisis period and increased capital inflows.

Discovery of capital flows and free access to the international market, as shown by the financial account indicators in Fig. 4.1, led to an increased inflow of capital to the Western Balkans. Capital inflows in the region are realized on the basis of debt and equity and are characterized by a larger volume of inflows in the pre-crisis period, while the financial crisis and the behavior of international investors in the post-crisis period led to contractions of these flows. There is also no transfer of funds in the form of money orders. This shows that some Western Balkan countries, first Bosnia and Herzegovina, then Albania, continue to use this type of accumulation to finance domestic needs. Reliance on the income of residents abroad reflects the lower standard of living of the local economy.

The movement of financial market indicators in the countries of the region shows that the stages of development resulting from liberalization and reversibility in terms of returns can be recognized in all transition economies in Europe. Bekart I Harvi (2000) points out that this development trend exists for the most part in most developing countries in the capital account opening phase. Using the analysis of indicator movements in developing countries that opened up to financial flows in the 1990s, these authors systematize the impacts and conclude that there are three stages in the development of market responses. At the beginning of the process, the market stops. This phase is characterized by reduced trading activity as investors in this period are still studying the market and legal solutions, which will allow free transactions. In the next phase, expectations are exaggerated and there is an exponential increase in expected growth and creation of market pressure. If the market is ready to accept this inflow of capital and absorb it deeply enough, and when the banking sector has enough skills, information and knowledge to manage the potential risks that arise, then the next stage can be expected to be stable and realistic. return on investment. If these elements are missing in the local economy, there is an accumulation of risk, opening up imbalances and creating systemic vulnerabilities caused by the inflow of foreign capital. At this stage of integration, the financial market shows resilience to shocks in the event of a positive capital inflow shock or also a negative capital withdrawal shock, which may follow. In the third phase, the state of the financial market shows a balance between the efficiency and stability of the created environment. Instability in each of the last two stages can lead to the development of negative trends that reinforce the detected anomalies and can lead to a crisis. Differences in the quality of regulation, the achieved level of development and reform of the rest of the economy, the behavior of all market participants will determine the ability of the financial market to adapt to the effects of change and the extent to which vulnerabilities are manifested. which reinforce the detected anomalies and can lead to a crisis. Differences in the quality of regulation, the achieved level of development and reform of the rest of the economy, the behavior of all market participants will determine the ability of the financial market to adapt to the effects of change and the extent to which vulnerabilities are manifested. which reinforce the detected anomalies and can lead to a crisis. Differences in the quality of regulation, the achieved level of development and reform of the rest of the economy, the behavior of all market participants will determine the ability of the financial market to adapt to the effects of change and the extent to which vulnerabilities are manifested.

The next similarity that existed in the region at the beginning of the reforms was the similarity in the reform of the banking sector. The banking sector was the first segment of the reforms in all Western Balkan countries. Given the heritage, but also the proximity to the European model of organization, all countries in the region have become bank-centric. This means that the central role of financial intermediation and catalyst for the development of the financial market is assumed by the banking system. The banking system of this region is characterized by high concentration and predominant foreign ownership of foreign banks, as shown by Dumishic (2008):

Table 2: Index of concentration of foreign capital in selected Western countries Balkans (June 2018)

The Earth	C2	C3	C4	C5	C10	Number of banks
Montenegro	0.50200	0.64518	0.78182	0.84251	-	11
Federation of BiH	0.50311	0.66869	0.73590	0.78792	0.92271	21
Kosovo	0.41240	0.53331	0.64613	0.71927	0.91842	34
Republic of Serbia	0.23058	0.32523	0.40036	0.46174	0.68765	33

Source: Dumičić et al. (2018, p. 49)

The situation in 2019 is very little different from the situation presented in the table. 4.1. and shows that the share of foreign capital at all levels of concentration is high. The foreign capital introduced in this way was expected to lead to a positive transfer of knowledge and technology, first in banking and then to the rest of the economy, and to contribute to the equalization of interest rates in the various markets. Also, the implementation of international standards, such as Basel II and international accounting standards, should have contributed to the quality of the regulatory framework. But despite the positive results of the implementation of this regulation in the field of risk management and increasing the transparency of business activity, the cyclical component in this implementation was also shown. The decisions of this international regulation contributed to the cyclical distribution of reserves and the creation of regulatory capital, the level of which did not have the capacity to absorb realized losses in a later period. The methodology for assessing the quality of assets and the subsequent allocation of reserves for potential losses also operates cyclically, emphasizing the difference between the allocated reserves and the assessment of the risk profile of the enterprise.

The emergence of the global financial crisis and the reduction of capital inflows showed that, despite the great expectations from the opening of capital flows in the countries of the Western Balkans, there is not a full distribution of capital. There is an overheating of demand, which, due to the limited and outdated production capacity of the local economy, has led to a strong increase in imports and a widening of the external imbalance of these countries.

Table 3: Current account deficit of the countries of the Western Balkans, in % of GDP

The Earth	2009	2010	2011	2012	2013	2014	2015	2016
Albania	-3,989	-6 100	-5,644	-10,371	-15 117	-13,544	-11,614	-13,250
Bosnia and Herzegovina	-16,195	-17 125	-7,958	-10,707	-14,082	-6,277	-6 130	-8 343
Montenegro	-7 173	-8 487	-31,342	-39,497	-50,579	-29,564	-24,622	-19,443
Kosovo	-4 123	-5,270	-6,676	-7 261	-8,914	-5,020	-1028	0.879
Macedonia	-8 145	-2 544	-0.447	-7,060	-12,830	-6,819	-2 177	-2751
Serbia	-12 139	-8,694	-10 181	-16 138	-21,600	-7 122	-7 237	-9 140

Source: IMF, WEO (2017, p. 210)

What it can conclude is that there is a departure from the expectation that the isolated application of the private capital principle will lead to efficient allocation. High expectations were placed on profitability, while profitability and investment efficiency were neglected in the evaluation. Krugman and Obstfeld (2008) point out that efficient capital mobility means that the gap between investment and savings in the national economy is closed by international excess liquidity, in the short term, through foreign institutions, but under certain assumptions. The free flow of capital between countries should in theory lead to "parity", an equalization of interest rates ($i = i^*$), which should stimulate competition and act as a market mechanism to balance economic flows. In practice, however, this equalization did not occur, which leads to the conclusion that it is not enough only to open channels and free access to the international market, but there are other structural factors and systemic deficiencies that affect the price and lead to deviations of bank interest rates. . in related economies. This shows that despite the institutional opening of the market to foreign capital, price arbitrage does not exist to a sufficient extent if the market is not institutionally "ready" for such an inflow and if there are no incentives for "healthy" market competition. but there were other structural factors and systemic flaws that affected the price and led to deviations in bank interest rates. . in related economies. This shows that despite the institutional opening of the market for foreign capital, price arbitrage does not sufficiently exist if the market is not institutionally "ready" for such an influx and if there are no incentives for "healthy" market competition. but there were other structural factors and systemic flaws that affected the price and led to deviations in bank interest rates. . in related economies. This shows that despite the institutional opening of the market to foreign capital, price arbitrage does not exist to a sufficient extent if the market is not institutionally "ready" for such an inflow and if there are no incentives for "healthy" market competition.

PARAGRAPH 5. MANAGEMENT OF THE FINANCIAL STABILITY OF AGRICULTURAL ENTERPRISES IN THE REPUBLIC OF KOSOVO

Specificity of agriculture. Agriculture has its own specificity, which stems from its direct dependence on nature. These specifics must be observed if you want to get maximum benefits in international exchange, but also satisfy a country's own needs. All natural disasters have a direct impact on agriculture, as depending on the types of agricultural products in question, certain disasters can have an adverse impact, such as floods, hail, drought, strong winds, etc. unlike industry, where production takes place indoors and the process itself is protected from external influences.

The specifics of agriculture are:

- limitation of available agricultural land;
- the organic nature of production;
- capital turnover;
- use of solar energy and
- market of agricultural products.

In agriculture, land is a basic condition for production, whether it is vegetable or livestock. The limitation of the available agricultural land has a great influence on the realized production. Even in cases where land reclamation is done, there is still a limit in which country the same can be done. Unlike industry, when it is possible to move from one place to another, the means of work in the case of agriculture is not possible to move the land to another place. In addition, the quality of the soil has a great influence on the crops that will be grown on it, which on the other hand is related to the climatic conditions, which is a limiting factor, especially in crop production. The size and quality of available agricultural land directly affects the amount of yields and productivity. Agriculture has an organic nature of production, i.e. whether it is plant or animal production, there are production cycles. The time of production is longer than the time of labor, i.e. it takes some time for the products to ripen or for the livestock to grow, so that at certain periods the labor force employed in agricultural holdings is free and can be engaged in other branches of production, for example in industry. For these reasons, the professional literature often concludes that agricultural production is seasonal. The seasonal nature of agricultural production affects the reduction of productivity through uneven use of available production factors (land, labor and capital).

The turnover of capital in agriculture is very slow, because for example in animal husbandry it takes longer depending on the type of livestock to grow one head or in fruit growing it takes several years to grow certain crops and be able to be included in the production process. There is an interdependence between animal husbandry and crop production, as plant products are a necessary raw material in animal husbandry. The limited life of agricultural products has a direct impact on income, as it is necessary to store the products in appropriate conditions, as at the state level, to form commodity reserves for the needs in periods when there is a shortage of these products in the market. Agricultural products are at the same time means of self-reproduction, because they are created and reproduced by the production process itself. Slow capital turnover leads to a longer payback period, which of course makes the agricultural sector unattractive for business. Agriculture uses solar energy to a greater extent than other sectors. The inexhaustible source of solar energy is of great importance for the development of organic production, which is increasingly preferred as a healthy food. Given the high prices on the organic food market, more and more young entrepreneurs are starting their own business in this area in combination with rural agribusiness. In the market of agricultural products there are mismatches in demand and supply of products, territorial and temporal mismatch between production and consumption. Market surpluses are a big problem and their solution requires investment in terms of product storage, organized transport and marketing development. Through this market, the population is supplied with products for personal consumption, the processing industry and exports are supplied with the necessary raw materials. Market specificity is perceived through the demand, supply and prices of agricultural products. Through this market, the population is supplied with products for personal consumption, the processing industry and exports are supplied with the necessary raw materials. Market specificity is perceived through the demand, supply and prices of agricultural products. Through this market, the population is supplied with products for personal consumption, the processing industry and exports are supplied with the necessary raw materials.

Demand depends on many factors, but the most important are prices and incomes. In terms of prices, demand is usually inversely proportional, i.e. demand decreases in the face of rising prices. The demand for products is usually directly proportional to the amount of income, i.e. it increases when there is an increase in income among the population and decreases when income decreases. A very important factor that affects the demand is the number of the population, in conditions of population growth, the demand for products increases, for example, in underdeveloped countries where the birth rate is high and the demand for food is high. There are the following three types of elasticity of demand: price, income, and cross elasticity. Price elasticity is the relationship between the relative change in the quantity of products demanded and the relative change in the prices of those products. Basic food products (bread, basic vegetables, fruits, milk, meat, etc.) have low price elasticity. For higher and better quality food products, price and income elasticities are higher. The search for cigarettes, coffee, alcoholic beverages, tea, medicines, etc. is very inelastic because it depends on user habits. Luxury and exclusive products such as rare and expensive beverages have relatively high persistence because they are consumed by a small group of consumers. the quantity of output and the change in relative income. This resilience varies from country to country and is a result of their economic development. Cross elasticity of demand is an expression of the relationship between the relative change in the quantity of one product and the price of another product. These are mostly different types of substitutes and complementary cheaper products. Supply means the total quantity of products, goods and services in a particular market at a particular time. The offer differs from the realized output as a result of several factors, among which the use of the output to meet the own needs of the agricultural holdings, the use of part of the output as reproductive material, storage of stock, storage and processing. of the products etc. The amount of products marketed is affected by many factors, including the interdependence of the production of various agricultural products such as meat, leather and milk, the organization of trade and movement, the possibility of replacing the product, the price, etc. Prices are a monetary expression of the value of products in the conditions of free market action. Demand and supply, measures of agrarian policy, foreign trade, etc., influence the price level. Price parity is the ratio of the prices received by the farmer to the prices paid. In agriculture there are internal and external parities. Internal parities are within the agricultural sector and refer to price parities between agricultural products and reproductive material, between crops and livestock, between different regions of the same country, etc. products and services. between crop production and livestock production, between separate regions of the same country, etc. External parities refer to the ratio of prices of agricultural and non-agricultural products and services. between crop production and animal production, between separate regions of the same country, etc. External parities refer to the ratio of prices of agricultural and non-agricultural products and services.

Agroindustry as a natural system. To give back to nature what has been taken away by care, to give even more, are the basic principles of honesty and ecological principles. In accordance with the above philosophy, crop production and animal production are considered integrally. The relationship of animal husbandry with crop production ensures the smooth movement and transformation of organic matter or the circulation of organic matter and its return to the country of origin. the health of all living organisms, from the smallest on earth to humans, is connected. All living beings, though separate, together constitute one great whole, and the state of one being affects the others. Agribusiness, as a natural system, must not only maintain it, but also with its methods contribute to improving the condition of the land, plants, animals and people. Improving health at the level of production, processing, distribution and consumption of food is one of the main roles of agro-industry as a natural system. The management of the agro-industry must be adapted to the climate, the soil, the native species, as in this way the greatest harmony with the environment will be achieved. Respecting the ecological principle, the agribusiness system must be based on ecological systems and cycles, cooperate with them, support them and help them in their maintenance. This includes the use of natural raw materials to enable the recycling of used materials and energy. The processing, distribution and consumption of food is one of the main roles of agro-industry as a natural system. Agro-industry management must be adapted to climate, soil, local species, since in this way the greatest harmony with the environment will be achieved. Respecting the ecological principle, the agribusiness system must be based on ecological systems and cycles, cooperate with them, support them and help them in their maintenance. This includes the use of natural raw materials to enable the recycling of used materials and energy. The processing, distribution and consumption of food is one of the main roles of agro-industry as a natural system. The management of the agro-industry must be adapted to the climate, the soil, the native species, as in this way the greatest harmony with the environment will be achieved. Adhering to the ecological principle, the agribusiness system must be based on ecological systems and cycles, cooperate with them, to support them and help them in their maintenance. This includes the use of natural raw materials to enable the recycling of used materials and energy. Respecting the ecological principle, the agribusiness system must be based on ecological systems and cycles, cooperate with them, support them and help them in their maintenance. This includes the use of natural raw materials to enable the recycling of used materials and energy. Respecting the ecological principle, the agribusiness system must be based on ecological systems and cycles, cooperate with them, support them and help them in their maintenance. This includes the use of natural raw materials to enable the recycling of used materials and energy. the agribusiness system must be based on ecological systems and cycles, cooperate with them, support them and help them maintain them. This includes the use of natural raw materials to enable the recycling of used materials and energy. the agribusiness system must be based on ecological systems and cycles, cooperate with them, support them and help them maintain them. This includes the use of natural raw materials to enable the recycling of used materials and energy. to cooperate with them, support them and help them in their maintenance. This includes the use of natural raw materials to enable the recycling of used materials and energy. to cooperate with them, support them and help them in their maintenance. This includes the use of natural raw materials to enable the recycling of used materials and energy.

Production should not focus on intensive exploitation. It should be managed according to cycles and processes that are cheaper in nature. The overall development of science and technology in agro-industry is mainly based on the biological process. The growth and development of agriculture relies on nature. In the long term, the sustainable development of the agro-industry is a development that respects the laws of nature and biological processes and does not endanger them.

The initiative for sustainable agricultural development comes from small producers, conservation organizations and certain agricultural experts. The idea and emphasis of the concept of agriculture as a natural system is related to the problem of the global economy, such as the production of food for a large number of inhabitants. The task set by the sustainable farming system is to eliminate the effects caused by conventional ways of production. Basic factors of production, such as water and soil, have been used irrationally in the past. The agro-industry as a balanced natural system should enable us based on previous experience, adopting a new production concept that will have high production will return profits by conserving natural resources.

The development of consumer awareness about the conservation of resources and the environment will be the goal of the strategy that can be practiced in the future. Creating a production system consisting of land, water, plants, animals, air and people, the goal of sustainable agriculture. The result of a synchronized system of sustainable agriculture is to meet people's needs for food, improve the quality of the environment and conserve natural resources, allowing a continuous flow of natural resources and regeneration to maintain the efficiency and effectiveness of production. Some of the measures contributing to the achievement of the highest goals, such as improving the quality of life of farmers and society in general, is the protection of certain habitats and species.

Concept, essence and functions of management. Management is a widely used term today. It is used by specialists in different specialties, which is reason enough to understand the same term in different ways, both in practice and in theory.

Qualitative and quantitative changes within the company with corresponding changes in the environment gave rise to the need for a kind of organization and, in this context, the potential for rinsing, activating and integrating people - management.

Management is a new scientific discipline, the universal, generally accepted and standard definition of which does not yet exist. Management is a complex process that can have different meanings.

Management is a process that directs, plans, motivates, organizes, coordinates and controls economic or other activity.

Entrepreneurs, leaders and managers are the bearers of the process of starting and running a business.

The primary management resource is people, not technology, equipment or finance. The concept of management is defined in four ways:

- As a process;
- As science;
- As a profession;
- As a career and occupation

Management is also a science that has its own subject, purpose and method of research, study and generalization. It is a multidisciplinary science that solves many problems, the dominant ones being: technological, organizational and developmental. Management is a universal science and its rules are the same in all systems, regardless of their socio-political and economic nature.

It follows that management is both a profession and a science. Management is a special scientific discipline of a multidisciplinary nature that deals with research problems related to the management of certain workplaces, investments and social systems. This discipline studies management as a complex process with a series of sub-processes and as a group of people who manage processes and systems.

The essence of management is the achievement of organizational goals with the help of people. Because managers working with and through people have to make decisions. However, the essence of management is not in decision-making. The point is to take actions based on these decisions that "will direct the system to the desired goal."

To define the essence of management, we begin by defining what and how managers do.

Management means coordinating work activities so that they are done efficiently and effectively by people and with the help of other people.

Efficiency refers to getting the most out of the least investment; determines how the implementation works in the right way.

There are three specific areas that describe what managers do: functions, roles and skills:
Managers perform various functions (planning, organizing, commanding, coordinating and controlling) to effectively and successfully coordinate the work of other people.

There are a number of interrelated managerial roles that relate to specific categories of managerial behaviour. These very different roles are clustered around interpersonal relationships, information transfer processes, and decision making.

Managers also need certain skills to perform their duties: technical skills (knowledge of a specific field, branch), human skills (ability to work with other people, individually and in groups) and conceptual skills (ability to create concepts for abstract and complex situations[1].

The role of management in the development of agriculture. Agriculture is in many ways a special economic activity. In most countries this is considered an activity of particular interest as it provides many primary products needed to meet the needs of processing or the end user. Regardless of the type of agrarian organization and where it is located, it is also characterized by a management function. In this sense, the farm manager plans to organize, manage, manage human resources and supervise the operation of the agricultural economy. Several definitions of farm management can be found, but we will compile two definitions: "Farm management can be defined as the study of ways and means of organizing land, labor and capital, using technical knowledge and skills,[2]"Farm management is an activity that deals with decisions that affect the profitability of a farm.[3]"Agribusiness management research agrees that the way a farmer manages the structure of their operation is one of the most prominent and important elements of their productivity.[4]Rougoor et al. Define "management capacity" as personal characteristics and skills to deal with real problems and opportunities, at the right time and at the right time

[1]Mirić, S Obelžjje i razvoj manadžmenta u našnoj avrištvo Beograd 1993. str 21
[2]Forster, GW (1953): "Farm Organization and Management", Third Edition, Prentice-Hall Inc., New York, p.7
[3]Castel, EN, Becker, MH, Nelson AG, (1987) 'Agribusiness Management - The Decision Making Process', Third Edition, Macmillan Publishing Company, New York, p. 16
[4]Westermarck N (1951) The human factor and success in agriculture. Acta Agriculturae Scandinavia 3: 122-153.

way[5]. ". Davis also defined agribusiness management as the sum of all operations involved in agribusiness[6]. McConnell and Dillon noted that these are four modes of management structure: analysts and descriptors, identification and response, diagnosis and monitoring, operational and control[7]. Goldsmith points out that farmers need to pay attention to how they manage their land[8]. Thus, Doberman and Nelson point out that management, i.e. the way agriculture is managed will have a significant impact on the country.[9]. Stanton also argued that a good agrarian governance structure would increase the country's income[10].

The individualization of farm management is a consequence of the specificity of agriculture as an activity. If we ignore these features, it may cause us difficulty in doing business, if not out of business. The following characteristics of agricultural production are most often mentioned:

- The relationship between the household and the economy. A household is a social community in which people live together. An economy, on the other hand, is a unit of agricultural production. Their relevance leads to many problems related to the allocation of costs, labor, calculation of income, etc.
- The business is partially self-sustaining. Most economic households consume part of their output as their own raw materials or as consumables for family members. This again creates problems with costing, labor costs, revenue and production organization.
- Management and ownership are linked. Very often the manager (captain) is the business owner, which is not the case in larger business organizations. Therefore, in business there may be a problem or an advantage due to the coordination of calling functions of a person.
- Agrarian economies are mostly small production units. This feature poses the problem of the use of specialization and economies of scale, as well as the problem of capital concentration and total dependence on the market.
- It is difficult to standardize the products of the economy. Because they are natural, biological factors are of primary importance in agriculture and often cannot be controlled, the result of the production process is not completely uniform in the different cycles.
- Demand and supply of agricultural products are mostly inelastic. Due to limited production resources (land) and special food needs, atypical, perverse responses to demand or supply are common in the agricultural market.
- Agricultural business is very risky. Due to many natural and other unpredictable factors, the high risk in production deters entrepreneurs from this production. In line with this specificity, farm management tools and techniques are being developed that seek to mitigate the impact of risk on the business.
- It is difficult to constantly finance economies. Due to the seasonality and low volume of production, farms usually have problems with ensuring constant liquidity.
- People with low education are also engaged in business in agriculture. Agrarian economies are often passed down from generation to generation and the craftsman acquires his knowledge in practice and outside professional and educational institutions. This makes it difficult to introduce new technologies, achieve optimal production indicators, etc.
- Fixed costs usually make up a large part of total costs. This is because the organizations are mostly small and the technology is expensive.

The management of the agrarian economy or economic management develops the application of management knowledge in the field of agrarian activity, taking into account all its organizational and socio-economic specifics. The discipline of farm management is said to contain elements of art, science and business skills. First, farm managers are required to have innate skills and abilities, both physical and mental, which makes managing a farm an art in a way.

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[5]Rougoor CW, Trip G, Hurine R, Renkema A (1998) How to define and study farmers' managerial capacity: theory and application in agricultural economics. Agricultural Economics 18: 261-272.
[6]Davis JH, Ray AG (1957) Concept of Agribusiness, Harvard University, Boston, USA, pp: 1042-1045.
[7]McConnell JD and Dillon JD (1997) Farm management for Asia: A systems approach. University of New England 61: 98-105.
[8]. Goldsmith P (2016) International Review of Food and Agribusiness Management, Special Issue, University of Illinois, USA 19: 135-160.
[9]Doberman A and Nelson R (2013) Solutions for Sustainable Agriculture and Food Systems - Technical Report for the Post-2015 Development Agenda Prepared by the Theme Group on Sustainable Agriculture and Food Systems
of the Sustainable Development Solutions Network pp: 5-17.
[10]Stanton JV (2000) The role of agribusiness in development: Replacing the diminished role of government in raising rural incomes. Journal of Agribusiness 18: 173-187.

Then a good manager must follow the latest advances in the field of management, which also includes an element of science.

From a scientific point of view, the farm manager must be familiar with the tools and techniques of record keeping, production planning and programming, information analysis and, if necessary, technology and work techniques. Finally, since the agricultural economy aims to make money for its members, the third idea of a farm manager as a businessman is understandable.

The situation with enterprises in agriculture. Based on KAS data, we see that from 2014 to 2015, the average share of agricultural activities recorded the business register compared to other activities was 8.3%. Since 2016, we have a share increase of 10.4%, followed by a share decline to 8.9% in 2017. While in 2018, this share is 6.4%.

Table 4: Number of registered enterprises by economic activities

year	**Companies registered in agriculture, forestry and fisheries**	**Total registered enterprises by parts of economic activities.**	**Part (%)**
2014	674	9404	7.1
2015	945	9833	9.6
2016	1090	10424	10.4
2017	822	9233	8.9
2018	626	9805	6.4
Average	831.4	9,738	8.5

Source: Kosovo Green Report 2019. Ministry of Environment, Forestry and Rural Development, Pristina 2019.

In terms of the increase in the number of agricultural activities, the fastest growth occurred in 2015, with 945 agricultural activities or 40.2% more than in 2014, continuing in 2016 to 1090 activities or 15.3% more than 2015 years. While in 2018 there were 196 fewer companies compared to 2017, or a drop of 23.8%. activities is 9,805. Registered agricultural activities accounted for 6.4% of the total number of other economic activities registered this year, with 93.6% being other economic activities.

The following table shows data on registered companies in agribusiness for the period 2014-2018 years: annual turnover, number of employees and number of operating companies.

Table 5: Registered companies in agribusiness for the period 2014-2018

year	**Turnover (€000)**	**Number of Employees**	**Number of active enterprises**
2014	312 188	8004	2055
2015	323 370	8790	2130
2016	360 536	10024	2314
2017	432 301	10449	2398
2018	461,626	13156	2942
Average	378 004	10085	2368

Source: Kosovo Green Report 2019. Ministry of Environment, Forestry and Rural Development, Pristina 2019.

According to data from the Kosovo Statistics Agency, agribusiness is growing every year. In the period 2014-2017, the average total turnover during these years was €357 million and in 2018 compared to 2017 they increased by 6.7% or €29.3 million. € total turnover. The average number of employed persons in agricultural enterprises for the period 2014-2018 is 10,085 people. In 2018, there was a growth of 25.9% compared to 2017. Among the active enterprises, those that carry out agricultural activity or have agricultural and forest products as raw material are gradually increasing. The average number of these active companies for the period 2014-2018 was 2,368.

Within the activity of agricultural companies or the agro-industry in 2018, the largest turnover was in the processing of food products with a turnover of 231 million. Of the other branches of the agro-industry indicated in the table, the production of beverages realized a turnover of 108.1 million. €, followed by crop and animal husbandry, hunting and other related services with a turnover of 44.9 million. € The industry for wood and its products with an annual turnover of 39.8 million. €

Table 6: Number of agricultural enterprises by activities

activities	**Turnover (€000)**	**Number of Employees**	**Number of active enterprises**
Crop and animal husbandry, hunting and related services	44978	2335	942
Forestry and logging	4888	94	43
Fishing and aquaculture	1318	52	13
Food processing	231002	6470	1271
Production of beverages	108106	1847	91
Production of tobacco products	450	25	1
Production of leather and leather goods	6889	429	37
Manufacture of timber and products of wood and cork, excluding furniture	39878	1473	445
Production of paper and paper products	24118	431	99
Total	461627	13156	2942

Source: Kosovo Green Report 2019. Ministry of Environment, Forestry and Rural Development, Pristina 2019.

The production of paper and paper products is characterized by a lower turnover with 24.1 mill. €; production of hides and leather goods with 6.8 mil. €, while forestry and logging are €4.8 million. € It should be noted that a lower turnover is observed in the following activities: fishing and aquaculture 1.3 mil. €, as well as production of tobacco products 450 thousand euros. The largest number of employees is in the food industry sector, with 6,470 workers, followed by the plant and animal products, hunting and related services sector, with 2,335 employees, in the beverage industry, with 1,847 employees. logging and logging products with 1,473 employees, while the production of tobacco products was registered with only 25 employees.

When we talk about the data on the number of active enterprises, we can note that the most active enterprises are in the woodworking and wood products sector, about 1271 or 43% of the enterprises engaged in agricultural activity; the food industry counts 942 companies and 445 fishing and aquaculture companies, as well as other activities with a smaller number of companies

Agricultural land use in Kosovo.

Agricultural land use is the total area of arable land - fields, meadows and pastures, perennial crops and gardens - used by the agricultural holding, regardless of the type of property. Data on forest land, unused agricultural land and non-agricultural land are not included.

Table 7: Used area of agricultural land 2016-2018, in ha

Agricultural land area used	**2017**	**2018**	**Difference 2018/2017**	**Share (%) 2018**
Cultivable land - fields	186,954	188,359	1405	45
Of which with outdoor vegetables (first harvests)	8033	7818	-215	1.87
Of them with vegetables in greenhouses (first harvests)	467	468	1.21	0.11
Fields	1199	1003	-196	0.24
Orchards	6247	7687	1440	1.84
Plantations with vineyards	3199	3272	73	0.78
Nursery	159	109	-50	0.03
Meadows and pastures (including common land)	218314	218152	-162	52.12
Total used area of agricultural land	416072	418582	2296	100

Source: Kosovo Green Report 2019. Ministry of Environment, Forestry and Rural Development, Pristina 2019.

According to the survey of agricultural holdings for 2018, the total used area of agricultural land is 419 thousand ha, of which the most are meadows and pastures (including common land) with 218,152 ha or 52.1%, and arable land - fields 188 thousand ha or 45%, including vegetables and outdoor vegetables.

In 2018, the arable land - fields (without vegetables) with an area of 180,073 ha increased compared to 2017 by 1,619 ha. Outdoor vegetables as a first crop occupy an area of 7.8 thousand hectares, which is a decrease of 215 ha, which is a decrease of 2.7% in 2018 compared to the previous year. Vegetables grown in greenhouses as a first crop saw an increase in area of 1.21 ha or an increase of 0.3%.

The garden category from a total of 1199 ha in 2017 was 1003 ha in 2018, which means that this category decreased by 196 ha or 16.4%.

The fruit area is 7.6 thousand ha, which compared to 2017 has increased by 1440 ha, which is an increase of 23.1%.

Vineyards make up about 1% of the total agricultural land used. Also, the area with vineyards in 2018 increased by 73 ha or a growth of 2.3% compared to 2017.

The areas sown with seedlings in 2018 were 109 ha, which compared to 2017, when 156 ha were grown, decreased by 31.7%.

The category of land used as meadows and pastures (including common lands) has a share of 52%. In 2018, there was a decrease in the area by 162 ha of land compared to 2017.

The farm management structure as an important element for the development of agribusiness in Kosovo. Arabiun defines management capacity as important and concludes that management is one of the important elements for the development of agribusiness.[11] Additionally, Makinen states that various management accounting tools help the manager make decisions and evaluate farm performance[12] The National Center for Appropriate Technology - NCAT states that choosing a farm structure is an important decision for beginning farmers[13]. The business structure of the farm will affect the legal and tax obligations of the farm. While the International Institute for Environment and Development IIED IIED also points out that farm structure management is very important, it is an important factor that makes the people on the farm work better and achieve the purpose of the farm.

In addition, farms must pay close attention to the structure of their farms, which will significantly affect the development of agribusiness.[14]. Wolz et al. points out that employees are important to agribusiness, the best way to make employees productive at work is to know how to manage and make them feel comfortable in their jobs.[15] According to Gunderson, farms need to anticipate several future indicators in order to have something that can influence their operations.[16] In addition, Mustafa points out that a challenge for all user units to effectively manage the budget remains the deep connection between planning and spending[17], and according to Balzas et al. The farm is vital to the management and use of sustainable land management systems, structures and sectors that are suitable for environmental conditions, adapting to the environment, expressing the potential of the environment to the greatest extent possible[18]. Business planning and management is a relatively simple procedure provided certain basic steps are followed. However, reliable information is the key to any agribusiness planning activity.

Bearing in mind the above, within this point we will analyze certain indicators to see what is the situation with farms in Kosovo, their size, how many people work, for the use of agricultural land: area (ha), percentage share and number of farms , their share in percent. The farm structure results are obtained from the Kosovo Statistics Agency (KAS), which conducts the Annual Farm Survey (APG).

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[11] Arabiun AG (2014) The Importance of Governance for SME Growth and Development in Agribusiness: Designing a Conceptual Framework. International Review 25-50.

[12] Makinen H (2013) Farmer's management mindset and management process effectiveness as factors for financial continuity in Finnish dairy farms pp: 2-5.

[13] The National Center for Appropriate Technology (2013) Tips for Farm Business Structures, pp. 1-2.

[14] International Institute for Environment and Development (2011) Participatory research and management of agricultural biodiversity in Europe, pp. 100-102

[15] Wolz A, Fritzsch J and Reinsberg K (2005) The impact of social capital on farm income and household income: Results from a survey of individual farmers in Poland.

[16] Gunderson MA, Boehlje MD, Neves MF, Sonka ST (2014) Agribusiness Organization and Management. Encyclopedia of Agriculture and Food Systems 1: 55-60.

[17] Mustafa I (2003) Budgetary System of Kosovo - Policies and Sustainability. Reinvest, page 23.

[18] Balzas K, Podmaniczky L, Szvetlana (2002) Developing farm management plans for agro-ecological schemes pp: 1-13.

Thus, in 2018, there were 187,007 ha of arable land in Kosovo. This year, the agricultural land used by farms in our country has a share of 45% in the total area of agricultural land, including outdoor vegetables (first crops) and vegetables in greenhouses (first crops).

Based on the size of cultivated land, the structure of farms in our country is classified into four main categories:

I. Very small farms of less than 1 ha represent 9.9% of farms and have an area of 18,519 ha.

II. Farms with a size of 1 to less than 5 ha have a share of 50.9%, which is about 95,138 ha.

III. Farms from 5 to under 20 ha have a share of 29.7% of the area of 55,432 ha and

IV. Farms of 20 hectares and more have a share of 9.5% on an area of 17,918 ha.

The following table presents data on the size of agricultural holdings in 2018, according to the area of cultivated land, the number of agricultural holdings and their share in %.

Table 8 The size of agricultural holdings in 2018

Farm size	**Area (ha)**	**Part (%)**	**No. Agricultural farms**	**Part (%)**
0 to less than 0.5	5801	3.10	31648	30.28
0.5 with less than 1	12718	6.8	19508	18.66
1 to less than 2	32096	17.16	24522	23.46
2 to less than 5	63042	33.71	21359	20.43
5 to less than 10	38085	20.37	5719	5.47
10 to less than 20	17347	9.28	1342	1.28
20 to less than 30	5717	3.06	240	0.23
30 and more	12201	6.52	194	0.19
Total	187007	100	104532	100

Source: Kosovo Green Report 2019. Ministry of Environment, Forestry and Rural Development, Pristina 2019.

Based on the table above, it appears that about 60.8% of all farms in Kosovo had less than 5 ha of used agricultural land, and together these small farms account for about 113,658 ha of used agricultural land.

Farms from 5 to under 10 ha have a 20.4% share in 38,085 ha of used land. In the case of large farms with a size of 10 to less than 20, they constitute 17,347 ha of agricultural land with a share of 9.3%.

While the category of holdings of 20 ha and more, they cover an area of 17,918 and have a share in the cultivated agricultural land of 9.6%.

Regarding the number of agricultural holdings, about 31,648 of them, which is 30.3% of the total number of agricultural holdings, have holdings ranging from 0 to less than 0.5 ha of arable land. The next largest group of farms are farms with a size of 0.5 to under 1 and 1 to under 2, which make up 44,030 farms or 42.1% of the total number of farms. Farm sizes of 2 to less than 5 accounted for 21,359 farms or 20.4%.

From the analyzed data, we can see that in terms of agricultural holdings in Kosovo in 2018, they can be presented in three main categories of holdings size:

Farms of less than 0.5 to less than 5 ha make up approximately 92.8% of agricultural holdings, or 97,037.

While in terms of farms with larger cultivated land, we conclude that farms with a size of 5 to less than 10 ha have only 5.5%, which is part of 5719 agricultural farms. While only 1.7%, which means that 1776 farms had farms of 10 hectares or more.

In conclusion at this stage, we can say that farms in the Republic of Kosovo should be able to build coordinated types of management regimes of their structure, as they are of great importance in terms of the economic development of the country, as they can significantly contribute to the general employment and growth. of gross domestic product. According to a study conducted by Sylejman, in order for farms, ie. for all agribusinesses in Kosovo to have a greater impact, it is essential to make a more coordinated way of managing farm structure, given that their impact varies depending on the regimes used to manage the structure[19].

In addition, to improve the agrarian economy, it should also use appropriate policy options, for example by provoking government commitment through appropriate legislative allocation and budget commitments, ensuring that adequate logistics of credit are provided and that land is available.

Access to finance as one of the future challenges in the agricultural sector of Kosovo. Given its economic potential, Kosovo's agriculture and rural development sector benefits from a comprehensive sector strategy. Agriculture and Rural Development Program (ADP - Strategy based on Common Agriculture) EU Policy - CAP), originally established in 2007 by the Ministry of Agriculture, Forestry and Rural Development (MAFRD). takes into account the ongoing and changing nature of the EU's Common Agricultural Policy, in particular direct support such as CAP Pillar I measures, as well as measures and axes of the EU Rural Development Strategy; which are the EU's Instrument for Pre-Accession Assistance (IPA); and the European Partnership Furthermore,

The general strategic objectives for the development of agriculture and rural areas in Kosovo are defined as:

● Development of the food industry sector, which is based on competitiveness and innovation, with increased production and productivity, capable of producing high quality products and meeting the requirements of the EU market, contributing to the security and security of food supplies, and by carrying out economic, social and environmental activities, by promoting employment and the development of human and physical capital;

● Conserving natural resources and the environment of rural areas, by addressing the challenges of climate change, which will achieve more sustainable and more efficient land use and forest management and the introduction of agricultural production methods to protect the environment ; and

. Improving the quality of life and diversifying employment opportunities in rural areas by promoting employment, social inclusion and balanced territorial development in rural areas.

However, Kosovo's current growth pattern is unsustainable in the long term. Increased private sector activity and investment will become increasingly critical as engines to generate growth and, in turn, improve operations and revenue prospects should there be ongoing support activities that are not met[20](World Bank, 2016). Agriculture is the largest employment sector in Kosovo, providing opportunities for investment not only in primary production, but also in modern post-harvest processing facilities, refrigerated distribution centers and logistics centers. Kosovo also offers exceptional and cheap labor. Modern and efficient science processing facilities can be brought closer to the production centers to provide economies of scale and higher value added products that can effectively compete with the products that Kosovo currently imports (especially dairy products) , fruits and vegetables, meat products, production of wine and other beverages).

In recent years, several important investments have been made – many with EU support but also with state funding – as a result of which some processors have made visible progress in their production capacity and product quality, and hence in their competitiveness.

However, the food sector faces serious challenges in complying with EU standards – particularly in relation to milk and meat processing (including abattoirs), which limits its export capacity, while fruit and vegetable storage remains a key issue. these and related products post-harvest. The further development of the local food industry must be closely linked to increased product quality and food safety standards, therefore adhering to an integrated trade perspective "by promoting regional trade and investment links and non-discriminatory policies. transparent and predictable" - as indicated in the Strategy for South Eastern Europe (SEE).

Kosovo is now a market economy, quite open to international trade. However, despite the gradual recovery of its supply chains, the country is still dependent on food imports, as the renewal and expansion of the primary

[19]Sylejman B (2018) The Governance Impact of Agribusiness Structure on Economic Development: Evidence from the Republic of Kosovo International Journal of Economics and Management Sciences

[20]World Bank (2016). Country Snapshot: An Overview of the World Bank's Work in Kosovo. Pristina, World Bank.

production and processing base remains hampered by a number of competitive challenges, mainly related to standards and productivity. labor. Such factors include unfavorable farm structures, high dispersion of land ownership, outdated agricultural technology and equipment, and farm management practices that have resulted in low productivity and quality, high seasonal concentration (requiring investment in storage facilities), and insufficient developed infrastructure. rudimentary advice system in rural areas and limited access to credit and investment capital. Cumulatively, these factors reduce the quantity and quality of agricultural production and implicitly its competitiveness in the local and foreign markets. To implement market standards in line with EU requirements, especially for fruit and vegetables, the agricultural sector will need more institutional capacity to introduce standards into legislation, establish inspection bodies, support the creation of producer groups (which can for example have common fruits hourly sorting using the same equipment), training in consulting services. these factors reduce the quantity and quality of agricultural production and implicitly its competitiveness in the local and foreign markets. To implement market standards in line with EU requirements, especially for fruit and vegetables, the agricultural sector will need more institutional capacity to introduce standards into legislation, establish inspection bodies, support the creation of producer groups (which can for example have common fruits hourly sorting using the same equipment), training in consulting services. these factors reduce the quantity and quality of agricultural production and implicitly its competitiveness in the local and foreign markets. To implement market standards in line with EU requirements, especially for fruit and vegetables, the agricultural sector will need more institutional capacity to introduce standards into legislation, establish inspection bodies, support the creation of producer groups (which can for example have common fruits hourly sorting using the same equipment), training in consulting services.

Despite its significant contribution to the country's GDP and employment, Kosovo's agricultural sector remains underserved by financial institutions for a number of reasons. The European Development Fund for South East Europe (EFSE DF) aims to shed light on the specific needs of the agricultural sector in Kosovo, particularly in terms of financing and the challenges faced by financial institutions, both in providing and targeting services to the agricultural sector to promote positive awareness of agricultural finance in general and its potential for the country.

Access to finance is one of the main problems of the agricultural sector in Kosovo. Namely, it is a function of three factors: availability, cost, and capabilities. Availability is determined by the range of industries and product range. The price is mainly determined by the level of interest rates. It is also affected by the loan maturity, payment schedule, collateral requirements and other product features. Finally, other factors (such as the general level of financial literacy and technical skills, for example) determine the ability of potential customers to use the finance they receive properly.

Kosovo's financial institutions are interested in lending to the agricultural sector, but face a number of challenges. Banks generally consider lending to the agricultural sector very risky because they either do not understand or cannot manage the specific risks of farmers' production and market. This leads not only to high interest rates and excessive collateral requirements (limited availability), but also to a less sophisticated menu of specialty agricultural products (limited availability). In addition, insufficient technical skills, business administration and financial literacy of agricultural clients make it difficult for financial institutions to finance them (capacity constraint).

Since the competitiveness of agriculture is also affected by the unfavorable structure of agricultural holdings, there is a need for a targeted application of grant schemes: establishing a target group at the level of commercial holdings. However, this cannot be determined in a simpler way (e.g. based only on geographical factors, such as a minimum of 2 ha), because in agriculture the Economic Size Unit (ESU) is important, the size of which is determined based on the standard exit.

Rural development and agricultural competitiveness also depend on adequate infrastructure related to sustainable water and electricity supply, waste management and adequate roads to reach even remote areas. It is also worth mentioning that the share of irrigated agricultural land in Kosovo is still not sufficient for efficient agricultural production; therefore, investments in new or maintenance of existing irrigation systems should be considered based on the benefits of t-cost analysis. In this regard, farmers should be supported to create structures that improve the environment, for example to collect, store, produce and dispose of manure as fertilizer.

Comparative analysis of the agricultural sector in the Western Balkans.In the Western Balkans, land and agriculture are still very important economic factors. Unfortunately, however, one of the first visible elements in data analysis when it comes to statistical sources is the lack of an updated, homogeneous and comparable database. From what is available to us, we will further try to analyze certain indicators. The ratio of agricultural to total land varies from 18% in Montenegro (this is usable agricultural area) to 50% in Macedonia. In the European Union, the usable area is about 40%.

Migration to urban centers and the division of land after the process of decollectivization are some of the reasons for leaving the country. The Balkan countries where this process was most pronounced, albeit for different reasons, are Albania and Bosnia and Herzegovina. Land redistribution in Albania is a very complex process, as in most cases the real owner is not known. Such a situation led to limited development of the market and pushed away potential investors. In Bosnia and Kosovo, forced evictions led to the illegal seizure of land that has not yet been fully restored, particularly in border areas. Such a situation requires dealing with a rather controversial problem

During the transition period, the agricultural sector in the Western Balkans suffered a huge decline. In those years, he did not fulfill his main responsibilities because he was forced to fulfill a public function, which even twenty years after the breakup of Yugoslavia and the fall of the regime in Albania, he still fulfills.

There are still many farms that are barely surviving. In parallel with such small family units, companies with modern economic systems are formed. This situation is directly reflected in the average size of agricultural holdings: less than 2 ha in Albania, Kosovo and Macedonia, 3 ha.

Looking at the EU - two aspects should be taken into account: firstly, the number of holdings reaching a size of 10 hectares or more. This percentage in the EU countries is about 20%, in contrast to Serbia, where it is 6%, Montenegro, where it is about 5%, Kosovo, about 2%. The total size of agricultural holdings is smaller than in the Mediterranean countries in the 1970s (Greece, Italy, Portugal, Spain)[21].

However, serious structural problems do not prevent the agricultural sector from maintaining an important position in the economy and employment. While in the EU the primary sector accounts for 1.8% of gross domestic product (GDP) and less than 6% of total employment, the situation in the Balkans shows significant differences: in Albania the primary sector accounts for 18.5% of gross domestic product and employment with 57%, in Bosnia and Herzegovina the ratio is 9.1% and 20.6% and 13.2%, in Macedonia 10.8% and 18.2%, in Montenegro 7.5% and 28% 1, in Serbia 12% and 21.4% (data from Agripolicy.net) 2 and in Kosovo 19% and 15%. Kosovo institutions officially register 40% of the unemployed, a figure that needs to be verified given the large share of the shadow economy in the agricultural sector.

The situation in industry and services has improved significantly in recent years, but agriculture still occupies an important position, especially in rural areas, where it still plays the role of a shock absorber for social shocks.

Despite the significant differences between the countries of the Western Balkans, the transition from a planned to a market economy is characterized by many contradictions and inefficiencies, both structurally and politically. This situation did not help development and modernization. Farmers are not encouraged to innovate, specialize and increase the competitiveness of the production system, so the sector has not been able to attract significant investment for many years.

In terms of volume and quantity, production began to increase after the processes of transition and conflicts that covered part of the Western Balkans. Cereals are the main crop and occupy a significant area of cultivated land: about 40% in Albania, almost 50% in Kosovo, over 50% in Bosnia and Herzegovina, and more than 60% in Macedonia and Serbia. Only in Montenegro, where potatoes cover 30% and vegetables 20% of cultivated land, cereals occupy a less important position (about 20% of the total cultivated area). Besides cereals, important crops are vegetables with an area of more than 10% in Macedonia and Bosnia, technical crops (rapeseed and sugar beet), which are planted with more than 10% in Serbia and fruits, where plantings in Albania are 19%, in Serbia 12 % and in Macedonia 12%[22].

Although it has not reached the level of the EU, in the last ten years the situation has improved significantly and shows changes in the commercial part of the sector, especially in terms of efficiency and production techniques.

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[21]Lampietti, JA and DG Lugg (2009), The Changing Face of Rural Space, World Bank, Washington, DC

[22]Volk, T., 2010. Agriculture in the Western Balkans. Studies of the agricultural and food sector in Central and Eastern Europe, no. 57 Halle (Saale): Leibniz Institute for Agrarian Development in Mittel and Eastern Europe

The story itself is the livestock sector, which, although showing progress in almost all countries, is still not at EU level in terms of legislation, hygiene standards (with particular attention to the EU framework when it comes to control) and identification of livestock and Registration.

Beef and milk production is dominant, although there are significant differences in traditions, terrain features and dietary rules. Therefore, pork production is very important in Serbia (36%) and Macedonia (16%), while Albania, partly Bosnia, Kosovo and Montenegro are characterized by sheep and goat production. In addition, there are further differences in Bosnia regarding the 1995 Dayton Agreement[23].

Important elements in the analysis of the development of the agrarian sector come from the economic balance. The general condition of a country can be measured by the amount of imports and exports of raw materials and processed products. If the import of processed products is higher than the export of raw materials, we can say that the sector is not stable. Conversely, if the import of raw materials is less than the export of processed products, the sector is healthier and can valorize the process of product transformation. From this point of view, almost all the countries of the Western Balkans show structural weaknesses.

Although increasing, both regionally and internationally, the import-export of the food sector is still far from the necessary achievements. The only country that in recent years managed to achieve a positive balance in this direction is Serbia. The agricultural sector covers less than 10% of imports in Serbia alone, while in other countries it approaches or even exceeds 15%. As for exports, except in the case of Serbia, in other countries the percentage is incomparably lower and varies from 6.6% in Albania to 6.3% in Bosnia.

There are many reasons for leaving rural settlements. In addition to high poverty, there are also serious problems in terms of infrastructure, public institutions (health care and education), as well as the impossibility of finding a job. Population outflow, especially when it comes to young people, can lead to irreversible decline and depopulation not only in rural and peripheral areas, but also in small towns, which often play an important role in providing essential services. The consequences of all this can be the loss of tradition, history and natural resources, which are already partially damaged by the implementation of the socialist planning program, as well as by the conflicts that led to the forced migration of the population. The economy is largely based on the primary sector,

However, the rural population remains large compared to the Mediterranean EU member states (Greece, Italy, Portugal, Spain). In the Western Balkans the total rural population is about 46%, while in the Mediterranean countries it is about 36%[24].

CONCLUSION

The role of the financial market is to ensure the smooth functioning of intermediation activities between debtors and creditors in the economic system of a country. It is stable if this function of the market is safe and effective, i.e. with a secure financial infrastructure, there is an efficient distribution of funds over time, which contributes to the perfection of the market and the completeness of information.

The financial market should provide an opportunity for rational decision-making by investors. Investors' utility functions and their investment priorities are identified and verified in such conditions through this mechanism. In the absence of basic financial market functions, it is not possible to recognize which investment is better than another and the allocation of resources is inefficient in such situations.

Monetary policy, both in the area of price policy and macroprudential policy of effective supervision in the area of stability and security policy of the financial system, must ensure a competitive and productive business environment in which the allocation of resources will be efficient. Policies aimed at these goals, institutionally and regulatoryly, should contribute to increasing stability, not create additional uncertainty. In all economic policy decisions, especially in the case of systems where monetary policy has limited impact, such as systems with a high degree of formal or informal Euroization, high transparency of all market participants should be emphasized, to reduce

[23]Volk, T., 2010. Agriculture in the Western Balkans. Studies of the agricultural and food sector in Central and Eastern Europe, no. 57 Halle (Saale): Leibniz Institute for Agrarian Development in Mittel and Eastern Europe

[24]Volk, T., 2010. Agriculture in the Western Balkans. Studies of the agricultural and food sector in Central and Eastern Europe, no. 57 Halle (Saale): Leibniz Institute for Agrarian Development in Mittel and Eastern Europe

information asymmetry Also priority should be given to the protection of property rights and the consistent implementation of agreements. Institutional gaps or inadequate regulatory solutions must be addressed in a timely manner so as not to create risks and additional leasing claims in transactions. Inefficiency in this sense reduces the efficiency of the financial market and leads to instability. The costs/loss of weight and the subsequent materialization of losses on this basis weakens the firm application of market principles, especially the application of budget constraints to both debtors and creditors, creating additional risk in investments. Thus, the mechanism for assessing the level of risk and its relationship with the return on investment is "unclear". The pricing mechanism is broken and in this situation the prices of goods, services and properties are no longer appropriate. Therefore, it can be concluded that compliance with budget constraints,

Price and financial stability should be two complementary goals, both for the monetary authorities in the conduct of monetary policy and for other policies that support the fulfillment of these goals. These two goals are complementary in the long run, although deviations may occur in the short run. Price stability should not be threatened, while financial stability as a result of the emergence of economic trends caused by internal or external factors may move to a higher or lower level of stability in the short term. The risk-return ratio should accompany this movement. Only in such an environment will risk be properly addressed. Increases in return should be seen as increases in risk, and increases in risk should be adequately priced and hedged. Based on such signals, it is possible to make sound investment decisions that create value and contribute to economic growth in the long term. The promotion of short-term and high-yield investments is often associated with the creation of an investment "illusion" and price "bubbles" in a market whose "bursting" is associated with high recovery costs.

In the long run, these two goals must be synchronized. In the event that the institutional choice of economic policies reduces the effectiveness of monetary policy, then other economic policies are needed to act towards this goal. Maintaining a state of financial stability is a public good and is in the interest of all market participants. Therefore, this situation in the long term increases the symmetry in information, allows efficiency in the allocation of resources, which further enables the sustainability of business entities. Thus, the stable state of the financial system creates a stimulating business environment.

In order to maintain the state of financial stability, preventive actions are extremely effective. Then, market anomalies that occur in the financial system are identified in time and included in the available set of information when making investment decisions. In this way, decision-making becomes an adequate and effective investment. With risk assessment mechanisms in place and information available, then the increased risk must be properly addressed and recognized so that the risk assessment does not over- or under-estimate the risk. When the risk-return ratio is well balanced, then the efficiency of the allocation will not be impaired. However, if this regulatory or institutional vacuum or the lack of enforcement of adopted regulations leads to an increase in information asymmetry between market participants, a weakening of severe budgetary constraints on decisions, further leading to increased risk-taking that is usually not adequately covered by provisions for such losses. Undisclosed costs will lead to losses in the financial system. This market situation is characterized by a reduced level of stability, which materializes in the medium term. Trust is compromised due to the high asymmetry and subsequent contractions of the mediation function. The disruption of the intermediation function affects the distribution of funds, which overflows from the financial to the real sector, i.e. leads to growth retardation. This market situation is characterized by a reduced level of stability, which materializes in the medium term. Trust is compromised due to the high asymmetry and subsequent contractions of the mediation function. The disruption of the intermediation function affects the distribution of funds, which overflows from the financial to the real sector, i.e. leads to growth retardation. This market situation is characterized by a reduced level of stability, which materializes in the medium term. Trust is compromised due to the high asymmetry and subsequent contractions of the mediation function. The disruption of the intermediation function affects the distribution of funds, which overflows from the financial to the real sector, i.e. leads to growth retardation. Trust is compromised due to the high asymmetry and subsequent contractions of the mediation function. The disruption of the intermediation function affects the distribution of funds, which overflows from the financial to the real sector, i.e. leads to growth retardation. This market situation is characterized by a reduced level of stability, which materializes in the medium term. Trust is compromised due to the high asymmetry and subsequent contractions of the mediation function. The disruption of the intermediation function affects the distribution of funds, which overflows from the financial to the real sector, i.e. leads to growth retardation. Trust is compromised due to the high asymmetry and subsequent contractions of the mediation function. The disruption of the intermediation function affects the distribution of funds, which overflows from the financial to the real sector, i.e. leads to growth retardation. This market situation is characterized by a reduced level of stability, which materializes in the medium term. Trust is compromised due to the high asymmetry and subsequent contractions of the mediation function. The disruption of the intermediation function affects the distribution of funds, which overflows from the financial to the real sector, i.e. leads to growth retardation. which flows from the financial to the real sector, i.e. leads to growth retardation. This market situation is characterized by a reduced level of stability, which materializes in the medium term. Trust is compromised due to the high asymmetry and subsequent contractions of the mediation function. The disruption of the intermediation function affects the distribution of funds, which overflows from the financial to the real sector, i.e. leads to growth retardation. which flows from the financial to the real sector, i.e. leads to growth retardation. This market situation is characterized by a reduced level of stability, which materializes in the medium term. Trust is compromised due to the high asymmetry and subsequent contractions of the mediation function. The disruption of the intermediation function affects the distribution of funds, which overflows from the financial to the real sector, i.e. leads to growth retardation. which flows from the financial to the real sector, i.e. leads to growth retardation. which flows from the financial to the real sector, i.e. leads to growth retardation.

The last stage of deepening the instability and inefficiency of the financial system is the emergence of the financial crisis. The crisis is the product of anomalies in the market economy, which sooner or later reveal themselves, if there are any. Systems in which money is "sound", property rights are protected, information is cheaply available and the principles of free competition are less susceptible to imbalances and subsequent crises.

What is important to note in the analysis of potential instabilities in the economic system is the level of effective budget constraint of all sectors of the economy. The existence of an effective budget restriction aims at achieving costs commensurate with the capabilities of the subject, both at the micro level of enterprises and households, and at the level of the banking sector and the country. These constraints often loosen during investment booms, pushing the system into a state of overheated demand. In banking systems where sound banking practices are in place, financial intermediation continues to ensure efficient allocation of funds and demand is not a problem. However, if asset management does not match the risk profile of the transaction.

The timeline of economic development in Southeast Europe, in the Western Balkans region before the crisis, clearly shows an accumulation of vulnerabilities that will deepen and accentuate the impact of the global economic crisis in the second half of the 2000s. The study of the chronology of these events makes it possible to identify the factors, successes and failures that have appeared in the transition economies of this region under the influence of the current financial and economic crisis in the 21st century.

During this period, these countries went through a process of liberalization of capital flows and transition to a market economy. The countries of the region were exposed to large inflows abroad, debt and asset flows, privatization first in banking and then in other sectors of the economy. Despite the development of a stimulating business environment, institutional and regulatory developments did not fully follow the economic "boom" and suddenly deepened and enabled the strong impact of the spread of the financial crisis. What was not recognized as inefficient in the initial stages was the strong consumption-driven growth of the public product. High consumption led to a disproportionate increase in wages in both the economic and service sectors, which was significantly higher than productivity growth. The level of well-being of the economy and the population increases with the inflow of capital from abroad. The build-up of fiscal revenues, especially taxes generated by large volumes of imports, had a pro-cyclical effect on fiscal spending, which at the time was not used for a higher level of structural adjustment. Although public debt was initially reduced in the pre-crisis period, what was missing in the expansion period was structural spending reform that would have put more emphasis on reducing wages and consumption bills, while having to set higher funding levels. on the capital account. and contingency reserves and crisis planning. In the countries of the region, the high current account was not a problem, what opened up major vulnerabilities was the capital account of the balance of payments and strong capital inflows that created overheating demand. Bank money only exacerbated these trends. The management of bank placements did not contribute to increasing the efficiency of the allocation of resources to investment consumption, but more strongly to final consumption.

It turned out that there is a spillover of inefficiencies between entities in the system. Because of these connections, there was an accumulation of risk in the balance sheets of companies, then banks and the state. What was overlooked in the transition process was systemic risk.

The risk premium created in such an environment, the high supply of capital and the inadequate treatment of risk management created in the transactions affected the high indebtedness of all sectors and the accumulation of systemic risk. This high risk taking was not recognized in the prevention phase to generate signals for monetary and economic policy makers to change course. There was a lack of timely reaction and in a short period of time inefficiencies in the activity of business entities, risks in the balance sheets of banks and companies, which turned into losses with the opening of the crisis, accumulated. The credit expansion created an asset market bubble, opened up vulnerabilities in debt management and led to financial uncertainty. Financial stability turned out to be much more vulnerable than expected at all levels, from the micro level of individual companies that did not bear the burden of high debt, to the aggregate level and the emergence of a continuous public spending deficit. The inefficiencies that first opened up in the financial market and then spread to the real sector of the economy indicated the need to review regulatory policies to reduce negative incentives and market anomalies. Inadequate treatment and assessment of risk, both by the lenders who financed these activities and by the borrowers who undertook them, showed a significant weakening of budget constraints, which reduced the efficiency of resource allocation. which did not bear the burden of the high debt, to an aggregate level and the emergence of a continuous deficit of public expenditure. The inefficiencies that emerged, first, in the financial market and then transferred to the real sector of the economy, indicated the need to review regulatory policies to reduce negative incentives and market anomalies. Inadequate treatment and assessment of risk, both by the lenders who financed these activities and the borrowers who undertook them, showed a significant weakening of budget constraints, which reduced the efficiency of resource allocation. which did not bear the burden of the high debt, to an aggregate level and the emergence of a continuous deficit of public expenditure. The inefficiencies that first opened up in the financial market and then spread to the real sector of the economy indicated the need to review regulatory policies to reduce negative incentives and market anomalies. Inadequate treatment and assessment of risk, both by the lenders who financed these activities and the borrowers who undertook them, showed a significant weakening of budget constraints, which reduced the efficiency of resource allocation. and then transferred to the real sector of the economy, pointing to the need to review regulatory policies to reduce negative incentives and market anomalies. Inadequate treatment and assessment of risk, both by the lenders who financed these activities and by the borrowers who undertook them, showed a significant weakening of budget constraints, which reduced the efficiency of resource allocation. and then transferred to the real sector of the economy, pointing to the need to review regulatory policies to reduce negative incentives and market anomalies. Inadequate treatment and risk assessment,

The orientation of the economic policy towards financial stability means applying the postulates of the "sound money" policy. This orientation requires a stable and productive economy, able to service its obligations, open and able to cooperate with abroad. At the heart of this problem is the issue of competitiveness. A competitive economy and competitive companies have a higher degree of resistance to negative influences. Structural problems, high fiscal consumption and labor market rigidity do not go hand in hand with the use of hard currency, unilaterally in both Montenegro and Kosovo, but also in situations where exchange rate policy is aimed at a stronger degree of attachment to such currency. such as the currency board in Bosnia and Herzegovina. strong connection in both Croatia and Macedonia. Also, Despite the independent and active monetary policy, as is the case with the monetary policy in Serbia and Albania, with a high degree of unofficial euroization, application of currency clauses in the assets and liabilities of the balance sheets, they require the same decisions as in other countries. The exchange rate channel in these countries is extremely fast and affects prices, so it leaves little room for monetary authorities to use this policy to adjust to shocks.

Irrational borrowing, especially when it comes to costs below inflation and a volume greater than the growth required by GDP growth, raises the question of the quality of the variance and the assessment of risk. Overestimating or underestimating risk builds up inefficiencies in the system and reduces the productivity of the economy. Moreover, the issue of risk assessment is closely related to the credit activity of the banking sector and the impact that this activity has on the economic sector. High consumption-oriented credit activity creates an environment in which wages grow more than productivity. Quick and easy borrowing invested in consumption leads to short-term economic growth, which leads to a rise in fiscal revenues and an irrational increase in wages in this sector.

Making healthy money requires creating a safe and sound financial system, protecting property rights, honoring contracts, accurate information. Open markets require application of market principles, free competition and competitive functioning of economic entities. In the context of connected markets, there is synchronization of economic cycles, spillovers and wider competition. A sound institutional environment, especially in the financial and fiscal sector, will determine the balance between efficiency and environmental stability, which will largely determine the state of competitiveness of market participants. A stimulating business environment is a necessary prerequisite for sustainable growth, especially for small and open economies dependent on imports from the international environment. Otherwise, Market Failures, which may result from costly or incomplete regulation, can reverse capital flows and create uncertainty, threaten stability and ultimately lead to crisis. The financial crises of the last thirty years were not the product of a single factor. They arise as a result of the materialization of a regulatory gap, market anomalies that create imbalances and reveal inefficiencies. For this reason, today there is more and more talk about redefining the goals of certain economic policies. The mandate of macroeconomic stability becomes the backbone of all policies, especially those in the area of financial sector creation. Here, competent institutions are mandated to maintain financial stability, directly or indirectly, in their objectives.

It follows from this that the orientation of the policies aimed at preserving the state of financial stability is the acceptance of its treatment as a public good. Also, in countries where monetary policy is limited by the choice of exchange rate policy, and fiscal policy according to the level of public debt, the main pillars of the overall economic policy become: constant orientation to fiscal discipline, business transparency and competitiveness in the business environment

II. PUBLICATIONS

III. CONTRIBUTIONS

The following contributions of a scientific and applied nature can be highlighted in the dissertation:

- The essence of financial stability as a key factor for the economic development of the economy and the agrarian sector has been clarified;
- The main defects and anomalies of the market economy have been identified, which have an impact on the process of making managerial decisions in the management of the financial stability of economic systems;
- A comparative analysis of the financial systems of the countries of the Western Balkans region was carried out and their influence on the development of the economy and in particular the agrarian sector was studied;
- An analysis and assessment of the management of the financial stability of the agrarian sector of the Republic of Kosovo was carried out at both the micro and macro levels;
- Specific conclusions and recommendations have been formulated to improve the management of financial stability in the agrarian sector of the Republic of Kosovo.