

ADNAN EFENDIC

## **Politikat makro per uljen e varferise - BOSNJA dhe HERCEGOVINA -**

### **HYRJE**

*Eshte nje fakt I mirenjohur per te gjithë se cdo ekonomi kombetare perpiqet te kenaqe objektivat makroekonomike:*

- *Nivel te larte prodhimi vendas*
- *Nivel te kenaqshem punesimi*
- *Stabilitet te pergjithshem te cmimeve*
- *Parametra te balancuar ne shkembimet ekonomike dhe ato me jashte*

*Ajo qe ndodh random ne praktike eshte se arrihen vetem disa nga objektivat e siperpermendur, megjithese edhe ato jo teresisht. Keshtu, disa ekonomi kane probleme me inflacionin, inflacionin, pjesa dermuese e tyre me papunesine, te tjera me bilancin e pagesave. Jane shume te rralla rastet pozitive qe bejne te mundur aritjne e te gjitha parametrave makroekonomike ne nivel te kenaqshem. Nga te gjithë objektivat e permendur, Bosnja dhe Hercegovina kane arritur vetem stabilitetin e pergjithshem te cmimeve ne vend.*

*Zhvillimi ekonomik ka qene I larte ne terma sasiore, ndersa cilesia e zhvillimit nuk ka qene e kenaqshme. Rezultatet e arritura ne lidhje me ngritjen e nje ekonomie qe mbahet ne kembet e veta jane te dobta. Burimi kryesor I zhvillimit ekonomik mbetet shume I varur ne ndihmat e huaja. Perqindja e papunesise eshte ulur, megjithese ende eshte shume e larte ne rreth 40%. Aftesite eksportuese jane te dobta, ndersa deficitit I bilancit te pagesave eshte vazhdimisht I larte, nga njeri vit vit tek tejtri. Sektori privat merr pjese ne GDP me rreth 35%, qe eshte nje perqindje shume e ulet ne krahasim me vendet e tjera ne tranzicion.*

### **GJENDJA AKTUALE**

Megjithese Bosnja dhe Hercegovina jane gati ne perfundim te fazes se rindertimit, ekonomia eshte ende ne faze te nje tranzicioni te paperfunduar drejt nje ekonomie tregu. Niveli I ulet I prodhimit, nivele te ulta arketimi te ardhurash, nivel I ulet I eksporteve dhe investimeve e bejne kete vend te varet nga ndihma zyrtare nderkombetare. Ne kushtet e angazhimit te Bordit te Monedhes<sup>[1]</sup> kjo eshte e vetmja rruge per te mbuluar mungesen e balances fiskale dhe te jashtme me te cilat po perballlet Bosnja dhe Hercegovina.

Vendi e ka arritur vetem pjeserisht stabilizimin makroekonomik. Megjithate, ka disa tregues qe flasin per nje ringjallje te ekonomise dhe ka patur progres qe eshte shoqeruar gjithesesi me rikun e berjes se te ardhurave kombetare dependente nga qarkullimi I **pecuniary assistance**. Nivelet e larta te rritjes ekonomike gjate viteve te kaluara jane mbeshtetur pjeserisht nga asitenca nga jashte – donacione, transferta unilaterale dhe jo investime private – nga e ashtuquajtura **aid driven GDP**. Nderlidhja e rritjes se GDP-se dhe ndihmes se huaj me BiH-ne shpjegohet ne grafikun nr.1.

**Grafiku 1: Rritja e GDP-se dhe qarkullimi I ndihmes financiare****Table 1: GDP and unemployment in BiH**

<b>DATA</b>	<b>YEAR - 2000</b>
GDP (million \$)	4.372
GDP per capita in US\$	1.093
UNEMPLOYMENT in %	40,1

Source: official data, the World Bank and IMF report

A statistical analysis of the data show that GDP per capita was in 2000 at the level of 50% of GDP from 1989. Unemployment is also very high, although it is much reduced in comparison to the situation immediately after the war when it was around 80%. As of today, it is practically lower by one half.

The official data indicate that GDP per capita is far below the pre-war level. Also, the projections for the next mid-term period are not very optimistic. We primarily think of the global network of economic strategy for the development of BiH 2000-2004. «Entrepreneurial society» - the projections of the Council of Ministers about the BiH economy in the next mid-term period. Table 2 shows us the projections presented in the «Entrepreneurial Society».

**Table 2: Projection of the key economic indicators in BiH, 2000-2004**  
(in US\$ million)

	2000	2001	2002	2003	2004
GDP	5.333	6.262	7.090	7.731	8.386
GDP, %	14	14	10	6	5
GDP p/c	1.274	1.448	1.678	1.762	1.833
GDP p/c, %	13	13	9	5	4
....	...	...	...	...	...

Source: Based on World Bank. 2000. Bosnja and Hercegovina: Country Assistance Strategy; World Bank. 2000. Report No. P.- 7257-BH.

On the basis of the data contained in the above table, GDP per capita in 2004 should be around 1800 \$ per capita. If we link the dynamics of growth of GDP with a potential reduction of the unemployment rate – Okun's Law <sup>[2]</sup> – – we may come to a rough datum that unemployment in 2004 could be around 27% (reduction of unemployment by around 13%). This will be the case if the BH economy moves at the pace envisaged in the «Entrepreneurial Society». Even then the results would no be quite optimistic. After a 15-year period, in optimal projections we can have 90% of GDP per capital in comparison to the pre-war GDP and 27% of unemployed labour force.

The problem of inflation is solved through the Currency Board. The opportune expense of the stability of the general level of prices are the frozen instruments of the macroeconomic policy.

The state of the balance of payments is very bad. Imports exceed exports by far. Imports are mainly funded by transfers and donations outside Bosnja and Hercegovina, primarily through international assistance and incurring debts abroad.

### MACRO POLICY FOR POVERTY REDUCTION

GDP calculation in Bosnja and Hercegovina is made difficult due to insufficiently developed statistics. However, even bigger problem is the inability to include the activities of grey economy in the official records of GDP calculation. Grey economy represents all those activities in the national economy which lead to the growth of national income, although they are hidden and are not included in the official data.

The projections which may be heard publicly clearly indicate that grey economy's share in comparison to the official data in BiH is much bigger in comparison to other countries in transition. It is suggested that the percentage of grey economy share reach even the level of +40% in comparison to the percentage of official GDP in the country. This datum, if correct, would change many activities in the country, especially when it comes to the macroeconomic strategy for the future period.

The recordation of grey economy and its placement under the legal system as well as the calculation of the part of the social product which is not included for the time being are inevitable facts. To eliminate grey economy fully is not possible, although it is possible to reduce the illegal activities of the population to the minimal or acceptable level which would result in the well-being of the community as a whole.

The inclusion of grey economy and its placement under the legal system would not only solve the considerations about the percentage of GDP but we would get a real picture of those people who are not employed and seek employment. The projections concerning a real number of unemployed workers under ILO indicate that the number of really unemployed people could be below 20%. Although this may be just guessing, for the sake of reality of all future projections, there is a need for a real recordation of the national product and the number unemployed people in the country. The inclusion of grey economy would allow a clearer picture about GDP and unemployment in BiH, as the first condition for macroeconomic strategies which would yield desired results.

Let us remind ourselves also of the projections of GDP growth and the appropriate reduction of unemployment on the basis of Okun's Law from the projections of the Entrepreneurial Society. In case of inclusion of grey economy (+40%) we would get to the result that unemployment in 2004 could be even below 10%. This really sounds optimistic, although the first step which may help produce real projections in any sense is finding a solution to the problem of inclusion of grey economy in the legal system and its inclusion in the calculation of official GDP and additional value on that basis.

**Table 3: Balance of payment BiH (US\$ million)**

		<b>2000</b>	<b>2001</b>
<b>1.</b>	Exports	903	1.002
<b>2.</b>	Imports	-2.558	-2.670
<b>3.</b>	Current account	-918	-1.006
<b>4.</b>	Reconstruction aid	582	517
<b>5.</b>	Net FDI	150	130
<b>6.</b>	Current account balance (in percent GDP)	-20,4 %	-22,2 %

Source: BiH: Request for Stand-by Arrangement – Staff Report, IMF, 2002

The state of the current account of the balance of payment is very bad. Deficit is at the level of over 20% of the overall GDP level in the country. Imports, which is higher in the balance of payment in terms of quantity, must be paid by a reserve currency which supports convertible mark, as the BiH currency – KM – has only an internal convertibility, although not an external one. Exports practically withdraw convertible marks from circulation. The existing ratio between exports and imports may only reduce a monetary base and the amount of money in circulation. True, this gap is filled by international donations, transfers, loans. Bosnja and Hercegovina is trying to reach a self-sustaining development which will not be based on international unilateral transfers, which means that it will become ever more difficult to fill the gap which arises from the state of the balance of payments in a manner in which it has been filled so far.

The maintenance of the deficit of the current account at the sustainable level should be implemented through an export effect. The increase of exports along with the same or smaller imports would change the existing state of the balance of payment towards a positive direction. The reduction of imports arising from the reconstruction project for BiH should be replaced to a certain extent by imports related to the production activities. With the rate of growth of exports of goods and services by 9% a year, the balance of the current account could be brought from 18% of GDP in 2001 to 5% in 2010.<sup>[3]</sup>

A potentially high financial deficit shows a need for harmonisation and mobilisation of the donor support, bearing in mind that BiH is not prepared to borrowings under commercial conditions. A more vigorous and

more organised private export sector will be conducive to the reduction of deficit of the current account and will promote the growth of direct foreign investments.

Besides, the export of products from Bosnja and Hercegovina should bring about many positive effects in the country. First of all, the flow of reserve currency means also an increase of domestic currency in circulation, lower interest rates which stimulate investments, production, employment. The effect of multiple indicators will lead to the manifold increase of the gross national product, income, and to the overall growth of the living standard of the population.

Exports are possible on the basis of domestic entrepreneurship or through direct foreign investments in BiH. Direct foreign investments are of course very welcome to improve the situation in the balance of payments in the country.

In comparison to other countries in transition, BiH has weak results in attracting direct foreign investments. Potential investors, both domestic and foreign ones, consider the risk of business operations in BiH to be too high. Among the factors which continually represent an obstacle to the development of the private sector are the lack of a single economic space, a high interference of the state in economy, a poor implementation of laws, absence of sound and modern financial sector and a fragile public funding.

Direct foreign investments mean the flow of foreign moneys, technologies, knowledge, encouragement of production, employment and overall economic activity in the country. Direct foreign investments can hardly be envisaged in precise terms since they are determined through the influence of numerous variables and the unknowns, including the subjective elements of potential investors.

It happens sometimes that foreign investors have ideas, get domestic labour force and support through laws, but they want to secure the investment funds in the host country. This leads us to the conclusion that direct foreign investments do not always mean a flow of fresh capital, as it is believed by many.

A long-term effect of foreign investments is also very uncertain. In the beginning of the process of investments, the community will get many advantages, and the state of the balance of payment will improve. But there will also be time when huge profits earned in the country will be taken outside the national economy. The labour force in the country will be employed, the state will collect the taxes, although a huge piece of cake will be taken out of the country. Also, the issue of the effect of external economies will become ever more topical especially in making optimal economic decisions for the society and environment, which is not taken into consideration for the time being.

Direct investments have positive effects on the development of one country and this is something that many know very well. However, the other side of the coin should not be lost from sight, for the above mentioned facts represent an opportune expenditure of foreign investments.

Domestic investors who start domestic business understand the environment in which they operate, but financially they are not strong enough to take more important investment undertakings. Economic knowledge, technology, staff are also something that domestic investors lack in most cases. This is why we can freely say that domestic investors need a strong and continued encouragement to entrepreneurship, especially production for export which is of interest to the whole community, as we have seen. Of all problems that domestic investors may face, especially when it comes to exports, a stable currency is an alleviating circumstance at least in a small part related to the projections of the foreign exchange rate and the related

risk.

The flow of the funds and capital through exports implies more funds for all, a better situation concerning the balance of payments and multiple effects realised in the domestic ground. Even the profit which comes in the end remains in the country and is re-invested and speeds up the business activity. The result is increased employment in the country, reduction of property, increase of income, further investments as a result of the flow of money into the country and reduced interest rates – the already explained economic impetus.

A huge problem of domestic investments in the past years in addition to general determinators of the investment risk is the lack of domestic savings as a basis for investments. In that sense, there is a pressing need to continue to encourage domestic savings and thereby reduce the reliance of foreign sources of savings. This is a proper way of supporting an increased level of private investments. The current level of domestic savings is 1,6% of GDP, which is significantly below the level which would be necessary for the funding and maintaining long-term growth of BiH economy. Favourable borrowing and foreign assistance will be decreasing. The only way to cover the differences is the domestic savings. One should keep in mind that the existing arrangement of the Currency Board helps maintain the monetary stability in the country and also limits the possibility for the funding of deficit.

Without the climate of real security of each human being, everywhere in the country, i.e. the security of both domestic and foreign people, it would not be logical to expect some more important results to be achieved through investment activities. The entrepreneurship requires a legal framework which will protect the investor at least to the extent at which the investor is protected in other normal countries of the world. We have to admit that people of different nationalities do not feel safe at various places. The interventions which do not only imply economic issues, but also political, security and other issues, must be taken with a view to achieving more important results.

The indebtedness of Bosnja and Hercegovina in the past years is a regular phenomenon which led to accumulated debt measured in billions of US dollars. The payment of the public debt of Bosnja and Hercegovina must be included in the future projections of the national expenditures. The trend of external debt is shown in Table 4.

**Table 4: Total pending external debt in millions US\$**

	1997	1998	1999	2000
<b>Total outstanding external debt</b>	3.867	3.041	3.160	2.927
<b>External debt as GDP percentage</b>	111,0	73,0	69,6	66,6

Source: Global financial indicators of the World Bank and official data

Concerning the foreign debt of Bosnja and Hercegovina, it is around 3 billion US\$. Although this is indeed a huge amount for a small country such as BiH, we have to stress that the debt is not so huge if compared to the GDP and the indebtedness of other countries in transition. In the last year according to the data available to us, the debt is lightly higher than 60%, which means that it should be considered although it does not mean that that the country is in crisis yet.<sup>[4]</sup>

The structure of debt is very important. Since BiH is in a post-war transition period, numerous funds were granted under quite favourable conditions (IDA), which further alleviates the position of the country. However, in order for the debts not to bring the state of BiH in a bad position, we should take care of the

proper management and servicing of foreign debt with the help of international financial organisations.

Although the major infrastructure in the country is largely reconstructed with the immeasurable contribution of the international community, it is still below the level of the developed countries in Europe. Infrastructure requires continued investments in the creation of the climate which would be accessible to all people and would satisfy at least the minimal standards. A well-built infrastructure will make this country more attractive for foreign investors, help domestic investors and improve the living standards of all citizens. Investments in infrastructure will remain an important priority of this country.

The encouragement of the domestic entrepreneurship in case of Bosnja and Hercegovina requires the activities towards development of the awareness of a man about a “new” economy in transition, keeping in mind the circumstances in which most of the people lived and worked. Transition of the mind of every man is something that we will have to work continually in order for the state to have a critical mass of the population which understands economic processes which are happening and will continue to happen in the country.

Domestic entrepreneurship implies domestic people who have ideas, motives and energies to produce results first for themselves and indirect effects will be beneficial for the community. Bosnja and Hercegovina has been burdened with huge dynamics, changes which have made very man very cautious. The development of domestic ideas, domestic entrepreneurship and views on the future should be sought in the education of the people in modern methods of learning and integration with the developed countries of the world. The improvements of the balance of payment via export sector requires automatically the entrepreneurs who can understand foreign markets, who follow trends and who are prepared to respond to high requirements and standards which are present in the developed countries. This may be achieved solely by continued learning, following the latest achievements, additional training, professional co-operation and exchange of experience with the partners outside the country.

Bosnja and Hercegovina is certainly orientated towards Europe and European integration. Its membership in the Council of Europe, the Road Map and other activities bring BiH closer to Europe, the European Union, the European Monetary Union and highly developed countries. This is a good sign to foreign investors, for domestic investors and for all people in the region. The integration with the region will bring about multiple advantages for BiH, and not only economic ones.

### **KEY POLICY ISSUES**

The first part of the work which is related to the analysis of the existing state of BiH economy has proven the generally known fact that the BiH economy is in a very bad position. It is an indisputable fact that certain macroeconomic policies and instruments need to be pursued with a view to overcoming the situation and launching more expansive trends, which is discussed in the other part of the paper. In the end, the summary of this macroeconomic analysis may be reduced to a number of key considerations as a basis for the debate:

- Inclusion of the grey economy activities in the legal system and its adequate statistical inclusion may help resolve dilemmas concerning a real GDP percentage and unemployment rate in the country. This is one of the possible important preconditions for macroeconomic strategy which should lead to the desired goals in the Bosnja and Hercegovina’s economy and poverty reduction.
- Increase of national income may be stimulated through domestic private investments and entrepreneurship, with a special emphasis on export sector. Domestic savings should be increased and encouraged as a basis for domestic investments in the country. Increased investments would result in multiple effects of increased GDP, employment and income. Exports may result in an increased mass

of money in circulation in the form of a Currency Board arrangement.

- The climate of a “real” security of all people in any part of Bosnja and Hercegovina, legal protection and elimination of grey economy may be taken as an important precondition for increased direct foreign investments.
- The state of the balance of payment is bad and should be improved towards balance. The corrections may be implemented, among other things, through increased exports and changes to imports – less import of goods of wide consumption and more imports of production goods.
- Further improvement of infrastructure in BiH may be seen as an indirect way of providing assistance to attracting foreign investments, increased efficiency of domestic investments and integration in the region.
- Without transition of the minds of the population of Bosnja and Hercegovina and an adequate education, all reforms would not yield desired results.
- Integration into Europe may bring about multiple advantages for the BiH economy – not only economic.

## 2 Literature

- EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT. [2002]: *Transition report 2001*. London.
- FEDERATION STATISTICS INSTITUTE. [2000]: *Statistical annual book of FBiH 2000*. Sarajevo
- IMF COUNTRY REPORT NO. 02/191. [2002]: *Bosnja and Hercegovina: Request for Stand-By Arrangement – Staff Report; Staff Statement; and the Press Release on the Executive Board Discussion*
- INGRAM, JOSEPH K. [2001]: *A report on implementation of the World Bank’s country assistance strategy*. Brussels. (statement).
- EUROPEAN REGIONS AND CENTRAL ASIA POVERTY REDUCTION AND ECONOMIC MANAGEMENT. [2001]: *Towards financial sustainability and credit worthiness*. BiH
- REPUBLIC STATISTICS INSTITUTE. [1991]: *Statistical annual book of SR BiH*. Sarajevo
- BIH COUNCIL OF MINISTERS [1999]: *Entrepreneurial Society – global framework for economic development strategy for BiH 2000-2004*. Sarajevo.

---

[1] Bordini Monedhes perfaqeson menyren sipas te ciles Banka Qendrore BiH funksionin deri ne vitin 2003

[2] Each increase of real GDP by 3 % in comparison to the potential one leads to increased unemployment by 1 %

[3] Towards financial sustainability and credit worthiness of BiH

[4] According to EBRD, the public debt of up to 60 % of GDP is not a problem for national economy, although it should be considered carefully