

# World Economy Crisis and the Possible Impacts It Might Have on Bosnia and Herzegovina

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***ABSTRACT** – At the end of 20<sup>th</sup> and the beginning of 21<sup>st</sup> century, the international community, through various forms of action plans and ambitious steps, has engaged itself to solve problems of the birth and wide increase of instability of global economy, that many countries stages of development and transitional economy have faced. Nevertheless, the results of this have not been very impressive. The concern still exists that the new and even worse global recessions will take place as well as the wide spread of global instabilities on the international markets. As far as it looks, situation is more serious than the governments are ready to admit. The economists and world leaders are greatly presenting pessimism because of those issues. The uncertainties on the markets, globally looked at, are staying very great. In conditions like those, discussions will be focused on what steps should be taken to soften the risks at the financial markets and how the instability, that describe the world economy in the 21st century, could decrease. Hence the first part of this paper is discussed the current situation as well as the modern problems that the global economy faces, where the combinations are made from available information about modern discussions about international economic relations, global economy and crisis, so that all the actors of the global financial system are ready to asses the global future options and their possible impact on their lives. Special focus in this research, as the second part of the paper, is put on Bosnia and Herzegovina, a transitional country in development stage, that lies in very poor economic state and which is threatened by a big blow of world instabilities and crisis.*

## Introduction

The modern international economic relations are presenting the fact that things aren't looking great on the international financial markets. The overwhelming and accelerated liberalization of international movement of capital, frequent speculative blows on the international monetary system and national financial systems, the birth and development of financial abnormalities and global financial crisis, inadequate determined regimes of foreign currencies are just some of the global prevalent financial problems that came with the last decade. The characteristics mentioned above are intensifying parallel with the problems of increased scope of international financial transactions and intense transfer of financial instruments, the integration of international financial markets (especially the euro currency market, the international bonds market and the foreign currency market), the inconsistencies in the foreign currency politics with macroeconomic performances, the problems in creating a stable currency configuration, increased system risks as well as the problems in keeping up the international liquidity.



Despite the fact that current coordination of macroeconomic politics is on the global level, the biggest monetary problems that the world economies are facing, especially the economies of the countries in developing phases, have made the impression the global economy is more unstable today, than it was in the past decades. The inadequate, decelerated, and unsatisfactory activities of international financial institutions, especially IMF, in the solving of international financial crisis (before in the case of Mexico, Brazil, Russia and Eastern Asia, and now in the case of USA and the whole Europe), and supporting development of developing countries are presenting more serious problems inside the global economy. This is all generally usurping the world financial scene and greatly impacts the deepening of unbalances and financial crises in the global economic arrangement up to several years. Unfulfilling the criteria of efficiency in the world financial systems is causing the appearance of great fluctuations that are quickly dispersing throughout the whole world. The instabilities and economic unbalances have become global and systematic, and the attempts of certain countries to come over this excessive and crisis are simply not enough. Concerning with that, question is what kind are those global problems that are facing the industrially developed countries and developing countries, that have consequently caused the need, or *raison d'être* for timely action and reform of global economic arrangement, global economy, and the need to redefine the direction of activities of international financial institutions in the context of solving of all the mentioned financial instabilities, (economic and financial) crisis, and recessions?

According to, and regarding to our determined aforesaid topic in this paper, we set up next *hypothesis*: instabilities on the international financial markets, and amending on the international monetary market, inflation movements and global riots in the global financial system, essential affect on the new economic system which lead global economy to the serious crisis state. Respecting the beforehand fitted topic and hypothesis, we will set up *objectives* of the research: identification global and actual problems of global economy and identification and analyzed rate of concern from global economic recession, and in finally implications of these world instability trends on the weak, insufficiently developed, transition economy of Bosnia and Herzegovina.

Before we look at the factual state in which the world economy is in, we will make few references: since this is a very complex and extensive theme, we will give our best to present the most important trends and describe them abbreviated and sublimation, everyone is slightly interested to spot trends as well as the impact on the personal state in the countries, but everything is based on predictions. Economic situation in the world today can be presented in four key determinants:

- New global economic system: In the past 30 years or so, dramatic changes had occur as: affirmation and appearance of EU, strong of Japan, Asia and phenomena that are Chine and India;
- (Predicted) economic indexes of the situation and growth (GDP, interest rate, inflation, foreign currencies, deficit of the balance of payment);
- Energy-generating product (crude oil, gas, coil), food (wheat, rice, corn, soy) and minerals (iron, aluminum, copper, colored metals), bio energy-generating product—one billion people are living with less than a \$1 daily, 400 million people are living with less that \$2 daily, or 1,5 billion people are living on \$1-2



daily. There is famine, and in over 90 countries, the threats of protests because of food prices are inevitable. The price increase in the past (2008.) year is one of the greatest in history;

- The credit crisis—huge losses for the banks because of the wrong full investments in bonds, based on mortgages, increase in the real estate values have made the markets too hot, the transformation of credits into stock products like derivatives, bonds. Because of this transformation of credits into stocks, the risks have been fogged and the market has been brought to delusion. Certain banks have lost up to \$100 billions, and the total losses are about \$1 trillion. The effects of this crises are expanding to EU, Australia and Canada.

### **Current condition and the main problems of world economy**

The question that will start the discussion is an obvious one, a question if the continuance of the modern global economy is anticipated, the economy that was typical by huge increase and change during the 90's of the 20<sup>th</sup> century? The fact remains that the global unbalance has spread rapidly in the past few years and reached a point for which most are saying that it is a climax, and that it's leading to global concern. In addition to that, the adequate tendencies are not existence yet, the ones that could correct the imbalances. If those kind of indicators are not implemented and if it is proven and assessed that the current situation is unstable (or better said, if the current worrying situation has proven to be true), the result could be the crisis. Which form could be expected from such crisis? Well, the closest form would be the world recession. Because of that, most of the leading world economists are showing great concern of the birth of the potential global world economic recession that would come from the distance between the industrial and developing countries, and as the main problems of world economy would inflation and rapid drop of dollar value comparing to the euro and the pound of sterling. Considering the rebalance on the world monetary market, the crises on the real estate marked (mortgage market), not just in the mostly developed countries such as USA, but in the developed world, this inflation movements are followed by great unemployment, increase in liabilities, the payable balance imbalance, the deficits in the budgets and the mess in the global financial system, all brought to the fact that the global economy is in a very serious state.

The important fact is that the world crises could lose at the financial markets, and as many are saying, this is one of the hardest economic crises since the great depression and the end of the WWII. It is hard to predict how much deeper the real estate prices will drop in the USA and how long the crises at the mortgage loans market is going to last, but it's very important to emphasis that this that's happening in the world economy is the new thing for the economic politics, and that the economy doesn't have great experience in this department. This fact is supported by the research of the two American economists Paul Krugman and ex boss of the FEB Alan Greenspan, who made a statement that this is one of the worst crises yet. Even Martin Wolf has written for the Financial Times that the capital dream of a free market has long been woken up, a the reason why the economists and the financial experts cannot agree on the character of the crisis is explained as follows: "One reason is the complexity of the crises, and the other is the fact that this crises is something brand new...", and then he adds: "This crises is extremely complicated, it involves the



macroeconomic elements that are creating deficit on the world monetary market, and the FEB politics is very questionable. To continue, there are inflation movements and finally, mess in the sole of the global financial system. The news is that the financial system today is different than the one of the past. Real estate price drop in the USA was unheard of. Attachment of this fact to the world economy, is without a president. This is brand new, and we do not have much experience with that.<sup>1</sup> The main reason which effect global economy, Martin Wolf assume the mortgage credits and real estates in USA: "We don't know how many people will have losses, we don't know the proportion of these losses, and also we don't know the government's instrument for resolving this problems. I am assured that global recession is coming into existence, and because of that, global economy, global financial system and USA economy is need to be heal. Off course it could be my guesses, and it could show that I was wrong. Economic, financial crises attack developing countries".<sup>2</sup> Consequently, those countries reach the recession, protectionism, inflation, higher oil prices, interest rates, volatility of exchange rates, etc.

All in all, financial and economic experts think that the basic characteristic of future will be the occur of the international financial crises, the international financial institutions (IMF, World Bank, WTO) are completely unready to deal with them. Because of the number of international financial crises, today developed countries organize numerous World Economic Forums (WEF). Especially, we emphasize the Forum in Davos (January of 28th – February of 02nd 2009) where the basic topic was USA crisis, new global financial system and its possible reform, expanding the crisis in other regions (Europe, Asia, Africa), the reform of the International Monetary Fund (IMF) and the World Bank, and decreasing the protectionism, poverty, investments in energy sector, climates changing, etc. Anyway, today's crises won't be resolved in nearly future. The new era of crisis management and global recession seek for more sophisticated dimensions and political tools. That new era should introduce the new discipline-crisis prevention and crisis resolution, and to put in the first place the role and the power of the international financial institutions (IMF, the World Bank). That institutions should be prepared to manage with global economy. Hence, today is deadline for any other comments and for starting public discussions, we don't have time for promises, we need cooperation between developing and developed countries, we need to solve this chaos in global financial system RIGHT NOW!

### **Destiny of the global economic: world economic crises**

Which was the basic characteristic of the world economy in past year (2008)? Because of finance worldwide ferment which was begin since more of two years, the global economy is confront with big imbalance how between certain countries, that's like inside certain national economy. In the process of economic recovery it is necessary to relief and/or elimination of that imbalance. It is hard to tell with what speed or successful it will happen. The fact that the parts of the global economy are in different level of business circles it can have a two-sided influence on the next trend of economic growth. It can act like dynamic and stability performance for preserving the global growth, which required strong worldwide

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<sup>1</sup>Available: [<http://www.poslovni.hr/32169.aspx>], (3.4. 2008.)

<sup>2</sup>Ibidem.



coordination and cooperation, but also can contribute the consolidation of the worldwide protectionism. Because of that the consolidation of the international integration and the step up of international assets flows for whose bring the economic protocol, it will make a new challenge. Currently, the countries who was affected with global finance crises and recession are gradually recovering, but their recover is not enough for now. Next progression will depend of the future structural reforms in that economy. [Greenspan A., (2007), 8.]

The crises of the global economy and that's issue are present the main discussion. As the awake about changes broad the world, the discussion about international relations and crises are opening the question which gain the new and exhausted discussion. In the beginning of the 21<sup>st</sup> century it is said the most about the features of the new century. Discussion about the possible global changes was got the frenetic extension of field, and it was abetment with the growth hope that's the peace between the people and the growth of prosperity during the 21<sup>st</sup> century years in the future will stay. Many people are kept the breath on that promises of the stabile future of the world. However, our era doesn't have its name or define character. We are living in the period of which passed a few different wars. These etiquette don't talk enough about transition time of world history. We left all behind us, but still we don't believe in the future. The world got into new century. But, how we can think about global future, when currently the global financial system is threaten by financial collapse?.

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From day to day, somehow we had a few ideas that couldn't get off our mind, and all information which we got and read form our thinking, lead us to conclude that destiny of the global economic is world economic crises. Why we think so? Namely, almost the whole world production is based on oil, and as we expect that barrel will amount \$200, surely in future there will be higher prices of foodstuff and (non) foodstuff. Forward, we also emphasize higher prices in energy sector, service sector [Salvatore D., (2006), 794.] ... and for rapid changing of alternative form of energy there is no time, from day to day US dollar is decreasing, even today it achieve the lowest rate with regard to euro, and when US dollar is very low, that means that "something doesn't respond well". There are also, a huge credit crisis, a huge fear from recession, inflation cycle...

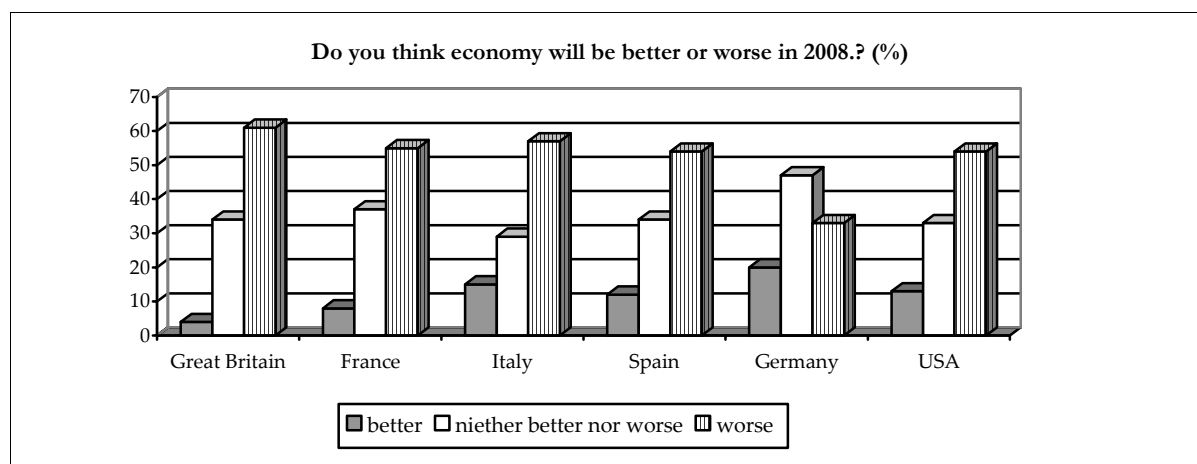
USA is bellwether of the world, and every adventure in State is reflection on the rest of the world. How the land lies, USA has a unlikely future, unfortunately, the same destiny is prescribe for the rest of the world. But, price of oil isn't just a main reason for our panic. One of the basic fears is so called; domino effect, caused by the recognition of Kosovo, where will be tense political situation for short period of time, and where will economic circumstances make worse or more difficult. Also, we emphasize that, global heating will cause less yield in agrarian sector, and hereby the famine of the basic food stuffs. Economic behold, with the increasing the demand, the price will be higher, which means that it could effect global economy. List of the factor that could effect on global economy is appreciable. Take just banal example of the protest against price increasing and oil across the world. Politicians care, but they don't know how to deal with the current situation. Inadequate passed dimensions didn't solve the economic diseases!



## Do we have a reason to get worried...?

Generally speaking, YES! Not paying attention to the measures that are currently being taken, with the goal to avoid financial crisis of greater volume, many countries in Europe and USA believe in the economy worsening in year 2009. Most of the population of the four European countries and USA believed that the economy situation in 2008 was getting worse in comparing to the situation in the past year (2007). This was shown in the Financial Times research that presented that 61% of Great Britain, 55% of France, 54% of Spain, 57% of Italy and 54% of USA population believed in worse economy in the current year. The population poll on this something differs in Germany where 33% of the population believe in the economy to worsen, while 47% think that the situation will pretty much stay the same. Nevertheless, the research was done from January of 10th to 21st of this year through the internet, and it was done on a sample of 6676 adults ranging from 16 to 64 years of age, in France, Germany, Great Britain and USA, as well as the adults ranging from 18 to 64 years of age in Italy. Most pessimism was presented through the economy outlook of every particular country. Having said that, when we are talking about the situation in the personal finances department in 2008, people tend to be more optimistic. Also, 44% of Italy, 43% of Great Britain, 41% of American, 38% of Germany and the same amount of Spain population see their personal finances staying the same in this year. (Diagram 1.)

Diagram 1. Prognosis of global economy situation in 2008<sup>3</sup>



Pessimism is greatly dispersed in the countries of Europe and USA. Global dispersion pessimism is shown in the new research by the Financial Times (2008) that showed that 80% of Italians, 67% of French, 52% of Americans and 41% of Great Britain population seem to think that the situation in their countries are bad. German and Spanish are divided as far as this goes, meaning that 36% think that situation in Germany is going worse, and that opinion has 38% of the Spanish. Also, 28% of Germans and 30% of Spanish believe that the situation is good. The research has also showed that pessimism is not only concerning the current state, but it is present when its talked about the near future. 65% of Italians, 59% of

<sup>3</sup>Available: <http://www.poslovni.hr/32169.aspx>, (3.4. 2008.); <http://www.seebiz.eu/bih/analize/najvece-prijetnje-svijetu-recesija,-nafta-i-nedostatak-hrane,5961.html>, (3.4. 2008.)

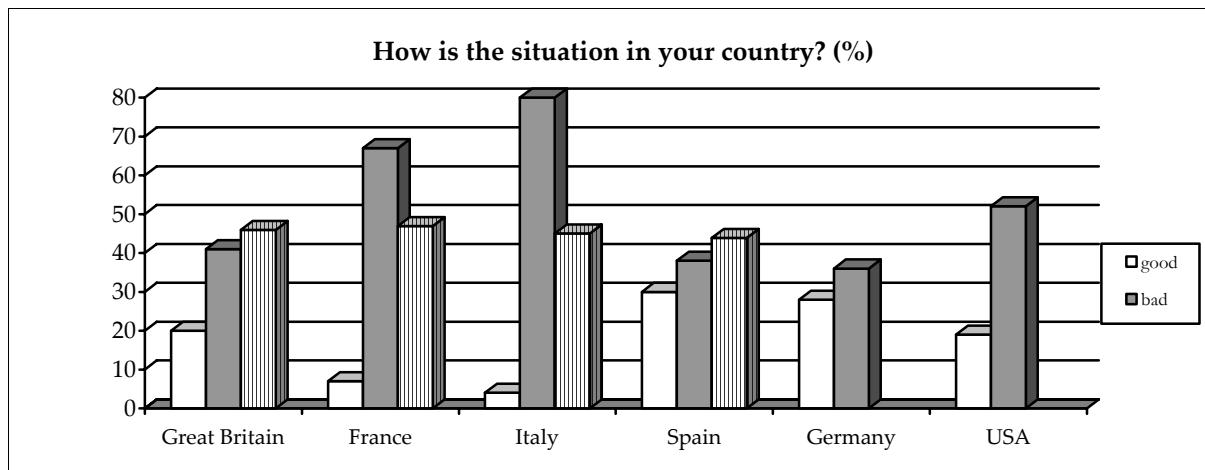




Americans, 56% of French, and only 2% of the British believe in that. 49% of Germans and 48% of the Spanish believe that their country is going in the bad direction. On the other hand, the population of those two countries are showing the greatest optimism, meaning that 39% of Germans and 30% of the Spanish believe that things are going in the right direction.

The negative feelings are mostly connected to the opinion about economic situation in separate countries. So, 75% of Italians, 70% of French, 63% of Americans, 52% of Spanish and 45% of British believe that the situation is dissatisfactory because of the unsatisfactory economic state. The only ones who believe that their country is standing tall regarding this question, are Germans that showed this in 39% of their population. Some of the many reasons for such pessimism are poor state in the justice system and unsatisfactory situation as far as employment goes. When it's talked about education in a certain country, a great part of the population believe that the situation is going for the better. (Diagram 2.)

Diagram 2. Pessimism in Europe and USA in 2008<sup>4</sup>



Besides the intensive world financial magma of the twenty first century, the highest developed countries still believe that the recession could be avoided. Ministers of finances of the G-7 countries concluded that the world economy is pretty solid, but it is being threatened to become unstable. Thus, countries that are the part of the seven mostly developed countries of the world have concluded that basic indicators of the world development and economy are solid and that the recession, especially in USA, as well as anywhere else could be avoided. At the same time we are warned that instability present on the markets is increasing thanks to the weakening of the American economy, dysfunction of the financial sector, as well as the high prices of oil and merchandise. But, the G-7 countries have shown the readiness to take drastic measures individually and together to secure global stability and market growth.

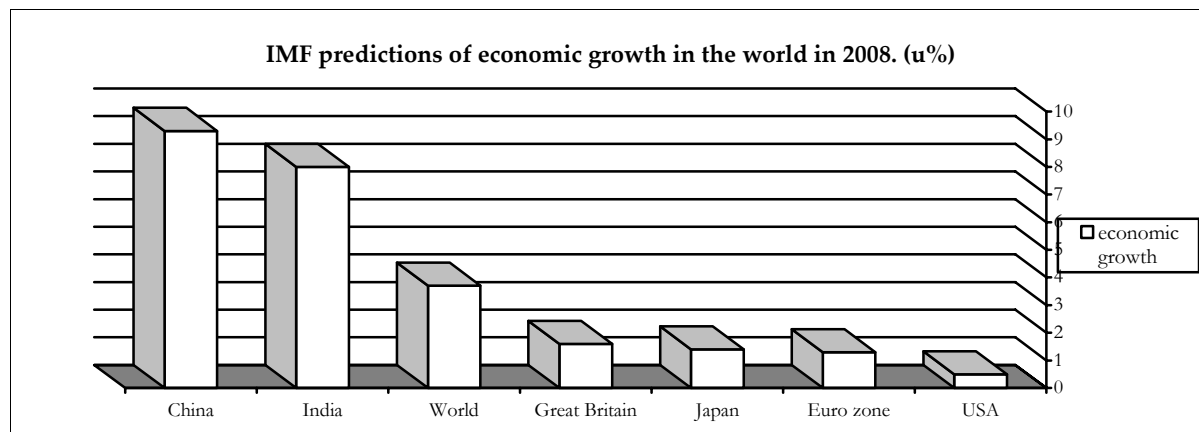
American Minister of Finances Henry Paulson has said that today's financial turmoil is serious and he has added that despite the problems, he is anticipating American economy to continue growing and that it will not come to recession, meaning that the percentage of the

<sup>4</sup>Available: <http://www.suvremena.hr/5995.aspx>, (3.4. 2008.)



increase of economic growth in 2009 will be on the satisfactory level. But, Paulson has mentioned that certain market risks are facing this scenario, but he is predicting strong growth of the rapidly growing economies, but it will weaken in the future (Diagram 3). Very soon, his prediction has been shown as a mistake.

Diagram 3. IMF predictions of economic growth in the world in 2009(%)<sup>5</sup>



The oil prices since the beginning of 2007. have been continuously growing, and their movement presented the threat to the economic growth in 2008 and also will be in 2009. The continued growing changes in the foreign currencies, before all in the currencies between the euros and the dollars, could lead to jolts on the international financial markets, further interest growth on the capital markets and the negative effects on the world economic growth. As we can see in the diagram, analysts believe that the economic growth on the global economy level will decrease. The reasons for this is the volatility in the oil and oil derivative prices due to the growth of demand, decrease of the monetary and fiscal stimulants in most of the countries, growth of interest rates and geopolitical tension. Economists of the IMF are predicting that the growth of the world economy (that has been growing in the rate of 4,9% last two years, in 2008 was 3,7%), is 2,2% in the current year. IMF is cautioning to the risk that decrease of economic growth could be greater, predicting that there is 25% probability of that happening. If the growth of the world economy in the next two years was to be under 3% or less, that would, by the IMF criteria, mean world recession.

Generally speaking through the world regions, after the intermission at the beginning of the 21<sup>st</sup> century, EU came over the stagnation and met greater growth rates of GDP (2-3,5%) in the period from 2005. to 2007. USA had more consistent growth in the period from 2003. to 2007. with over 3% annually. China all those years has GDP growth over 10% and India about 8%, Russia between 6 and 8% and Brazil between 5 and 7%. After the beginning of the credit crisis in 2007. the growth has been revised in EU to 5-2%, in USA 1-2%. The interest rates in USA were about 2-3% in the period from 2002. to 2007., where in the six months the discount rate of the Federal reserves has been brought down to 2%. The interest rate of the ECB has been 5% for almost a year, the interest rate in China is 7-8%. The inflation in EU

<sup>5</sup>Available: <http://www.poslovni.hr/58372.aspx>, (3.4. 2008.)





reaches 3,4% in most of the G-7 countries (the goal is to be under 2%), in USA about 3,5%. China and Russia have inflation close to 10%. [IMF, (2007), 9-12.]

Besides this, the World Bank has in its «World economic predictions for 2008.», predicted also slowing down of the global economy growth down to 3,3% from last year's 3,6%. Considering «World economic predictions for 2008.» global growth will come up to 3,6% in the future. In 2007, global growth has been decreased to 3,6% after it was documented in the year before to be at 3,9%. World Bank is stating that the activity deceleration in 2007. has been due to weaker growth in the countries of high GDP, but the developing countries have softened greater deceleration for the global growth thanks to strong growth of 7,4%, that almost stayed the same comparing the year before. The authors of this report have highlighted increased uncertainty of the current period, as well as few serious risks that have contributed to global growth deceleration. The inter demand for products of the developing countries could significant weaken, and the merchandise prices could drop since the weakened real estate market in the USA and the new jolts to the financial markets will push American economy into recession. In the upcoming years of the Bank, recovery of the global economic activities is anticipated as well as the economic growth of the developing countries. The growth of real GDP is anticipated also with about 7,1 %, while the countries with high GDPs should achieve modest growth of about 2,2%. [World Bank, (2008), 1-2.]

### **The beginning of deeper crises of Bosnia and Herzegovina economy**

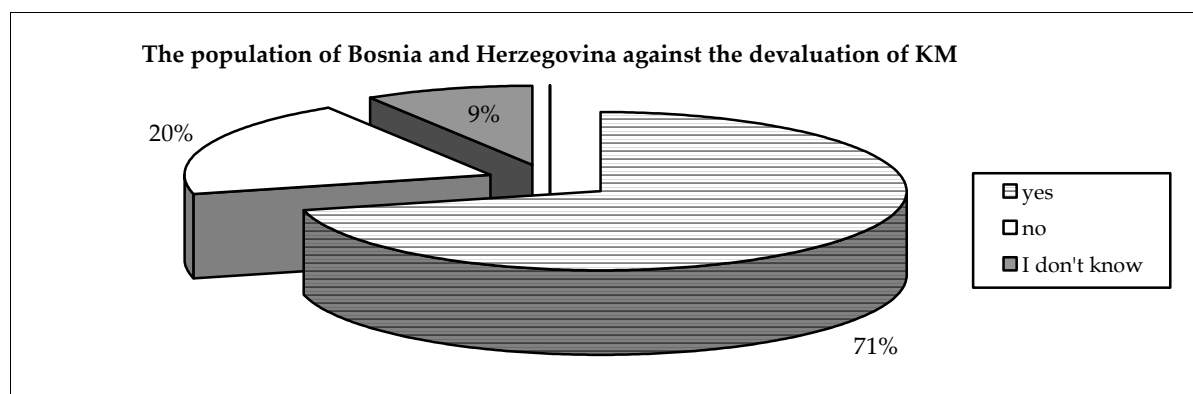
Kemal Kozaric, B&H Central Bank the governor has stated that the only way out of the possible crises in B&H can be seen only in domestic production. IMF is concerned that in this country, due to inflation pressure on the food prices (the predicted inflation rate for 2008 is 2,6%) and energy-generating product prices, and devaluation would considering many experts predictions in this area, be a punishment for all B&H residents. But despite those problems B&H IMF office will be shut down. The cause of this is not the obvious one, that everything in B&H is great and there no need for them anymore, but it is not that the state in B&H is desperate, so they are leaving us (the inner restructuring of IMF is in progress because it was necessary to decrease staff numbers due to decreased budget, and due to the same problem it was necessary to shut down resident offices in the countries that don't have program with the Fund). Well, the Governor Kozaric said that this international organization is leaving due to decreased IMF administration, but it still will be present in B&H through regular discussion and cooperation. With that is important to explain the reason for their living the right way. It is the same case for all the countries in the region that don't have to stand by arrangement, and the stronger relationship with IMF. They have played an important role in the period after war in B&H, have helped in the making of the central bank and have given technical help, but the greatest concern for the fund are three determinants, such as: they are aware of economic growth, there is progress that the inflation is under control, but they are expecting the Fiscal board of B&H to start functioning, and they want to see them in action, and the recently accepted Fiscal Board Code, creating such board and long-term solution to the profit division question and as it is predicted, the payroll code will bring more order in this area in the institutions. But they are still concerned over the inflation pressure prices of food and energy-generating product. This is familiar to the BH public as well, so they are concerned too, especially over the consumption



increase in the Federation of BH. The Fund is satisfied because BH will sign the Agreement about stabilization and joining the EU and it is anticipating positive effects to have on BH.

But, BH authorities are doing next to nothing to soften the price increase blows, or to stop the oil crisis. For example, serious countries are already using own instruments to increase or initiate food production. BH governments should find or create funds to initiate domestic food production. Last year BH spent about a billion KM for import of foods that it already has. Governments must stimulate domestic manufacturers or diminish some of their liabilities in order to help them. There is a lot of untouched agricultural ground, also, this country has a great climate and people who could work. Governments could find some relaxation in the tax department as well, do they need to drop the VAT rate or introduce "swimming axis" to gas, but they are the ones to decide. When oil comes to question, it's too bad that oil refinery in Bosanski Brod still hasn't started working because there aren't any domestic crude oil refineries. No matter what the situation in Bosnia looks like, there will not be currency devaluation, because it would be a punishment for its residents. For example, all credits would devaluate. That would be a shock and such measure that would shake everything BH worked on so far. They will definitely not take that adventure. The world economy crisis will not worsen BH stability. BH currency is stable and it has a 100% coverage, and amount 400 million KM in free reserves as a "security" for domestic currency. BH analysts are conscious of the fact that crises is coming, but world banks, that were exposed on the American mortgage market, are not active in the region, so the first crises wave would avoid BH. We just need to watch what will happen next. According to information of eminent magazine «Dnevni avaz» (June of 17th 2008.) population of Bosnia and Herzegovina have been very interested in this subject. Namely, this magazine asked a question to population of Bosnia and Herzegovina (which were selected with stochastic example): «Do you support the attitude of the Central bank of Bosnia and Herzegovina, to not to devaluate KM (convertible money), because this action (devaluation) would not effect on moderation of inflation in Bosnia and Herzegovina? Here are the results of voting population of this country:

Diagram 4. The population against the devaluation of KM



As you can see from presented diagram, most of the population support the attitudes of the Central bank of Bosnia and Herzegovina, considering that this is adequately instrument for struggle against the currently state (not to use devaluation as a monetary instrument).



We should be prepared for the next crises and that's why financial stability is important, which depends on all the segments of the financial sector. Commercial banks have announced increase in interest rates, but Central bank shouldn't expect a big increase in that department. Interest rate formation is free on BH market, but it's inevitable that commercial banks are selectively choosing clients with good credit history and the ones who can finance their liabilities, so that significant increase of interest rates isn't expected. Interest rates in BH are on the average as in Croatia, somewhat less in Serbia, but somewhat greater in Slovenia, meaning that BH is in the regional frames. It should be highlighted when SAA starts being used, much food will come from EU that will be cheaper and if BH authorities do not react, domestic production would not be compatible again. But, it's obvious that such strategy is not existence, no one takes concern over it. The energy-generating product could be used because there is power shortage in the world, so BH should throw itself into energy production for which we possess the potential to export as well as to compensate for the oil we need to import.

Anyway, we shouldn't be fooled, because significant world crises could shake the groundwork of BH economy. We are reminded that IMF analysts have warned us that BH is in the group of especially threatened countries of the southeast Europe. We highlighted that BH liabilities are high, because with export we are barely covering half of the import, so we should be afraid of foreign investments on the BH markets. The current shakes on the world financial market could disrupt the owing balance consumption and debt repayment in BH. It is explained that banks in every crisis are covering themselves first and their businesses in the mother countries. That's why they are ready to write off daughters abroad, decrease the credits or completely withdraw from some markets. In such case, BH could be left without new loans. It is highlighted that we should watch the happening on the world market as well as the serious warning that are coming out way. The key question is if the current shakes of the world market will impact BH economy and how will they impact. We should find the answer to that as fast as possible so that we could get ready for what's expected in the future.

It is looking like, it is going to be tough for BH where it will depend on outer factors, with huge outer owing, deficit in merchandise trade, dependence of the whole economy on the service sector, credit liabilities or residents with long term housing credits, high ratio between the dependants and the on the employed...In this whole situation "the bright points" could be seen from the perspective that Europe, EU actually, has a chance to become more powerful than USA, where they will not blindly listen to USA commands and where possibly, by entering EU, BH could be better than if it didn't come into EU.

And finally, BH could achieve greater economic growth rates only if it lessens public spending and fiscal deficit, and increases business surrounding. Potential growth of GDP in BH is around 6,2% now. So, for a faster growth economic reforms are necessary, smaller role of the government and smaller fiscal deficit, faster privatization, increase of business surroundings, more efficient bureaucracy, bigger flexibility on the labor market and the judicial reforms. Further limitations of public expenses are still staying as a key question, because they would decrease the deficit of the current account of payment balance and the total liabilities of the country. But the increase in the public spending in BH is making IMF concerned. Before the BH government lies great homework, like stopping the inflation increase and deficit of the current account. General manager of the IMF, Straus Kahn, has



stated that before the BH government lies great homework, the one stated above, but he added in the final solution to the inner liability question, with the goal to keep the fiscal stability and remove possible risks associated to everything mentioned above. Until when will the price growth of the necessary basic articles keep up in BH, and does that mean that it's just the beginning of the deeper crisis of its economy?

### **When and will the crisis end soon...?**

Prognosis of all the financial experts are correct, until they are shown as wrong. The same thing is happening in global crisis predictions that shook the world of finances after the breakdown of mortgage market in the USA and while some, few months ago, were saying that the worst is over, now there are many more who are predicting the end of the crisis. As the time passes by, their prediction are for the longer time period. Many analysts are sure that the crises will last for another year and a half, but majority using their authority is warning us that the worst period still hasn't passed and there still will be market shakes global banks are on the great quest for partners to recapitalize them, while best European banks are calmly observing. The happenings with big groups. The question is, how long will they be able to calmly observe the neighborhood. For the first time we are faced with the fact that crises came from the west, and not the east. For the first time the undeveloped East wasn't too greedy in the race to achieve the greatest profit, growth possible. The banking market in the Eastern Europe is almost untouched, because the old countries of EU are tampon zone towards Eastern Europe since it was them. That were financially attached to USA, where the crises aborted, so the crises actually did come from the west countries and not developing market. The cause of the crisis is found in banks and their refinancing trough complex financial instruments such as derivatives. Simply put the banks where buying bad and breakable assets since we should find something good in everything that's bad, the banks in Eastern Europe will have less available money on the international capital market that will decrease already huge credit owning in the population, but not to make everything so bright, the same thing could happen in the B&H credit economy whose growth depends on foreign investments for now. The end result could be their decrease in growth, which is exactly what is happening. Although B&H is not connected to American economy, B&H still has biggest trade with the countries of EU. That also shore be hit whit this, so we should hope that this crisis will pass by and the great shakes will not happen because the whole world is connected, and so that includes B&H as well.

But, looking of the researches of many analysts, they are saying the financial crisis will continue hitting the world economy for an certain period of time, even until 2012 (average 2-4 years). The fact is the one we can't escape from, that the crises come from the west. Banking market of the Southeastern and Eastern Europe should overcame the crisis but the question pending is how hit will the real economies be. economic declaration in the USA in the future will lead to new credit problems begins in the area of mortgages, the consumer credits auto loans, is still unpredictable. The liquidity shortage in the financial system that was brought up by credit crisis will surely loot for few more years. Financial institutions from the whole world, such a city group on a UBS, have last over \$300 billion in last value and credit trough out the credit crisis that has stored the collapse of the commercial mortgage market, but many are saying that the worst part of the crisis is over ever since in March of 2008 Bear



Sterns was rescued with help of federal reserved. The worst is over but the crises isn't over yet. It is clear that the American economy will decrease grown in the next period, but the recession is not likely unless the hand of price increased of oil and product continues. If the price increase continues with the same speed, recession in the USA will be unavoidable. The dramatic oil price growth on the American market has increased concerns over inflation and the consumer buying power. USA shocks have collapsed after record growth in oil prices and government confession that the unemployment financial crises isn't over yet, and it is safe to expect more market shocks, and we still question if the worst is over yet.

## Conclusion

We came in the 21<sup>st</sup> century with faith that the global unbalance and crises will diminish. We looked at this century as a new epoch with evened out economic growth and balanced working and living conditions. But, unfortunately, every time period brings its own traps. It looks like that the good macroeconomic politics, reliable institutions, real regulatory frame, timely reactions, and a good intentions do not have a alternative. World economy is in the unusual period and Bosnia and Herzegovina can't impact new resource findings or world food prices, but in the frame of its limits it can do more then it is already doing. At the beginning of 21<sup>st</sup> century, significant orderly relations and more balanced economy growth has been anticipated, but food shortages come pong, with the enormous jump of prices of the basic food articles in the world, and the sole existence of great amount of people is in question. Everything that made the groundwork of the world economy is brought to question, and the crises of mortgage is bringing in to question the stability of the financial system. Solution of the world economy crises is in the macroeconomic management, and that EU and USA should start working together as far as the dollar currency goes, payment deficit, and to soften the credit crises but, should be high lighted that B&H is not in the first arrangement of countries that are impacted by the happenings in the world economy, but also that it is not able to stored a good position in the circle in which its economy works. Changes around that country are much faster then in it, and that's the only problem that we can impact, the other things are objection. The only was for bit to smoothen dimmer relations is trough the interests of economy that could be part of the regional story.

The world crises was caused by poor economic management, USA, the country playing the part of the cradle of liberal capitalism, has a hard time in managing economy and regulation of the outer system, but considering its impact on global economy, those problems are sipping through the other countries of the world. In the world today, the biggest problem is the political instability caused by war and crisis that lessen the business optimism, in the USA before all but in the other countries as well. Consequences of financial crisis will be demolishing for USA economy firstly, but will have same impact on the global economy as well. But, it is possible to recover, because is a great deal of free capital so the investments should be focused on manufacturing. Although, the feeling of the possible recession should be eliminated, USA and EU have totally different goals. If we continue with friends like, oil price growth, increase of imbalance of food, decrease in dollar value or increase in inflation, recession is unavoidable.



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