
Political, Economic and Social Crisis in BiH 2012/2013

Towards New Policies

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Global context – Three introductions into the crisis

In the period since the war, Bosnia and Herzegovina has received enormous international donor financial support, largest per capita in history. It is estimated (in the lack of consolidated information on the size of foreign donor support) to 60-70 billion USD from 1996 to 2002. Although this support allowed life to be normalized in BiH, it was not used in an efficient way to support economic development.

In parallel, the process of privatisation theft based on corruption was taking place which was, by its social consequences, was than the „initial accumulation“ from the beginning of capitalism. The other side of that process was the destruction of the real sector in BiH. These two factors, underutilized international support and destruction of the real sector through privatisation theft, disabled the economy of BiH for development and essentially changed the social structure, destroying the middle class and increasing poverty at the expense of a thin layer of the new, tycoon elite. In the period of relative stability, 2002-2008, with the average annual GDP growth rate of 6% for transitional countries, BiH was on the verge of permanent recession. This is the basis on which the first wave of the world globalisation crisis in 2008 was added. BiH was in a serious economic and social crisis even before the emergence of the global crisis. This could be seen particularly well in the absence of any sort of reaction from the economic policy, political leaders persuaded us that the crisis was not going to hit BiH (we are too small, etc.). In later years, especially in 2012, this lie was replaced by another – the global crisis was blamed for all economic and social deterioration in BiH.

The main causes of the catastrophic economic and social situation in BiH in 2012/2013 are internal by nature: underutilized international support, privatisation theft supported by corruption and complete incompetence of the ruling elites, political parties, to resolve any problem.

Not to be forgotten – Chronology of the political and institutional crises since the 2010 general elections

The results of the 2010 general elections brought about certain changes because a large portion of the voters (17% in BiH) gave their trust to SDP (which was in opposition until then). Out of 42 seats in the House of Representatives of the BiH Parliamentary Assembly, SDP and SNSD each won 8 mandates, SDA won 7, SBB and SDS each won 4, HDZ won 3, and the remaining six parties won one to two mandates each. These parties won a similar ration of votes in the entity parliaments. Željko Komšić (SDP) was elected to be the Croatian member of the BiH presidency, by a large majority of Bosniac votes.

The process of constituting the government went very slowly. Not even the biggest sceptics predicted such a long process which led to a standstill and paralysis in the functioning of institutions in BiH and Federation of BiH. After the election results were announced, activities of three bipartisan blocks regarding the arrangement of the parliamentary majority could start. SDP offered the programme-oriented Platform, which was accepted by SDA, NSRZB and HSP. Two marginal “Croatian parties” were expected to eliminate two HDZs from the race, while the leading SDP did not worry about the fact that the first of the two (NSRZB) was a typical tycoon party, while the other (HSP) failed to renounce its fascist heritage from the era of NDH.

This fortified the convergence of Croatian (HDZ and HDZ 1990) and Serbian parties (SNSD and SDS). Along with that, the leaders of SNSD, SDS and the two HDZs rejected SDP's Platform as unacceptable and labelled it as a list of wishes which are impossible to fulfil, insisting on the concept of „legitimate representatives of constitutional peoples“ according to which only national parties are the exclusive bearers of that legitimacy, considering the election of Komšić into the BiH Presidency and future appointment of the Council of Ministers and the Government of the Federation of BiH. Čović's (HDZ) partner Dodik (SNSD) took on himself the role of the caretaker for the Bosnian Croats. This instigated Ljubić (HDZ 1990) and Čović to make a strong ethnical alliance, and the political crisis in FBiH suited Dodik very well.

Formation of the entity authorities in RS was completed 88 days after the elections by the appointment of a new Government. After that, a problem rose during the selection of the management of the RS Council of Peoples because SDP's candidate was unacceptable for SNSD. The SDP and SDA responded that the issue of ethnic legitimacy is, in principle, discussed only in the Federation, unlike RS where 5 Bosniacs who are ministers in the RS Government are from SNSD, and the Vice-president of RS of the Croats is close to SNSD.

Problems with the standstill in the formation of FBiH are a result of the lack of arrangement between the leaders of SDP and HDZs regarding the number and division of functions in the executive power in BiH, FBiH and cantons. There

was an intensification of relations between parties and cantons with a Croatian majority refused to honour constitutional and legal deadlines to form and appoint delegates into the FBiH House of Peoples.

As the final deadline for determining the FBiH budget approached, the High Representative, instead of the unformed House of Peoples, reached a decision on temporary funding of the Federation in late January 2011. A few days after that, 25 delegates (out of the 58 constituting the House of Peoples) which were, until then, appointed in cantonal assemblies convened with a symbolic start at 5 to 12h.

After more than five months, the House of Peoples selected the management of the House of Peoples, president and two vice-presidents of FBiH. Both HDZs estimated that the formation of government in FBiH without new representatives will cause a political crisis and threatened with new elections. Krišto and Bevanda immediately asked for an estimate of the constitutionality of these decisions by the FBiH Constitutional Court, which they immediately withdrew, forfeiting their mandates to the High Representative, emphasizing that "the rule of law was made absurd, and the democratic public is still in the state of disbelief."

The BiH Central Election Commission established that the elections for the House of Peoples were realised in five out of ten cantons and that the legal prerequisites for its formation were not fulfilled, thus nullifying its decisions. The High Representative „temporarily“ suspended this decision of the CEC, which caused a sharp reaction from the public and parties outside the Platform, especially from both HDZs.

Instead of forcing those who are responsible - both HDZs and the remaining cantons to complete their obligations, or establishing efficient mechanisms for respecting the constitutional and legal deadline for forming the government, the High Representative made decisions instead of the responsible bodies. Consequences of these wrongful activities are today the main causes of the legislative and executive powers in BiH, FBiH and at the local level not being formed and not functioning. He also did not intervene or make the Parliament of BiH or key stakeholders in Mostar to harmonise the Statute of the City of Mostar with the BiH Constitution in accordance with the decision of the BiH Constitutional Court. Through his intervention, for which he had no legal basis, the City Council of Mostar was unable to convene after the local elections in 2012, which were realised everywhere except in this city. This decision will have far-reaching consequences in the future, because its adequate application in similar situations could lead to a blockage of the work of institutions in higher levels of government, too.

Formation of cantonal assemblies and governments went very slowly. The Assembly of Canton 10 (Livno) did not, by the end of 2012, officially name the management of the Assembly. It took almost 22 months for HDZ BiH, HDZ 1990, SDA and SNSD to reach an agreement on the establishment of a coalition which does not function together anywhere else and to appoint the Government (July 2012). Also, since the Government of the HNC was not formed until the deadline determined by the High Representative, penalties ensued for SDA and SBiH. Only after 326 days was a mandatory appointed, who needed 75 days to propose a new constituency, so the Government was finally formed 401 days after the elections, thus beating the previous record of the HNC when the Government was formed 10 months after the elections in 2000. The Government of the Middle-Bosnia Canton was also formed 7 months after the election and after two and a half months of being operational, it was revoked by the decision of the High Representative, returning into power the old Government which worked in incomplete composition and in a "technical mandate".

The House of Representatives of the Parliament of the Federation of BiH confirmed the appointment of the FBiH Government 167 days after the elections.

The standstill in the formation of the House of Peoples of FBiH lead to the blockage in the formation of the state-level House of Peoples which was formed after eight months through the selection of the head of the House, and the delay in the formation of the House of Representatives of the BiH Parliament completely blocked the functioning of the country.

The state government was finally formed after 16 months through appointment of a new Council of Ministers. After long and exhausting negotiations and lobbying, SDP gave in to HDZ's demands. Finally, Čović was the winner: after a year and four months, he got what he requested immediately after the elections. The announced increased activity rate in catching up with the delayed work never happened, which is confirmed by the data that the BiH Parliamentary Assembly adopted only 36 laws over the past two years (of which 29 were amendments), and dismissed as many as 34 legislative projects.

Constrained by the lack of political communication and willingness to compromise, as well as high demands at the political flea market, politicians failed to show even the slightest amount of responsibility in finding functional, stable

and permanent solutions. The delay was accompanied by dramatic political conflicts and created catastrophic results which will multiply in the future and paralyse the functioning of institutions, without any sort of a framework agreement of parties regarding the plan and objectives of their work. The ease and frivolity with which leaders, on whose decisions the fate of the country and its citizens depend, tackle serious mutual accusations and stand-offs without a clear plan for resolving them, is a major cause for concern. Displacement of decision-making from legislative bodies, 'leaderocracy,' personal vanities, nationalistic intolerance and distrust have come to the forefront of the BiH political scene.

After the painstaking process of forming the government, there have been different changes in coalition partners, which caused additional ineffectiveness and delays in the functioning of all legislative and executive governmental organs in BiH, except partially in RS. In May 2012, after the adoption of the state budget for 2012, a new gap opened between the parties of the leading coalition of SDP and SDA, which was replaced by Radončić's profiteering SBB. This started the process of reconstructing the governments at the state and federal levels and level of several cantons, the result of which is still unpredictable and uncertain. Blockades were also performed in the BiH Council of Ministers and in most cantons, and the President of the Federation, whose replacement or resignation has been requested for a long time, refused the FBiH Prime Minister's request to dismiss eight ministers (from SDA, HSP and NSRZB) in late 2012.

Formally speaking, a coalition was formed at the BiH level (parliamentary majority, „the six-pack:“ SDP, SBB, HDZ, HDZ 1990, SNSD and SDS), and a new parliamentary majority is trying to be formalized in FBiH, „the four:“ SDP, SBB, HDZ and HDZ 1990.

It should be emphasized that SDP's uncompromising, inconsistent and adventurous policy pushed BiH into the most severe political crisis since Dayton. It instigated separatist tendencies of largest Croatian parties, and fortified Serbian parties in their pursuit of independence. Unprincipled coalitions, pragmatic moves, use of all flaws and ambiguities of the legal system and violations of the principles of legality and lack of respect for procedures, showed that it was not an ideological battle, but a bitter struggle and plunder for functions and resources. With this, the principle of the ruling national exclusivities in the formation of power and division of functions fortified itself as exclusive and undefeatable. The real problem is the inability to overpower particularisms and define joint policies and vision of the country's future. If, before and after the elections, SDP created, supported and fortified the electoral civic coalition even at the cost of not gaining power, it would have enabled a change in the existing political matrix which generates nationalism and divisions. This would have instigated and unified the sleeping potential of democratic forces and the civil society to put an end to the lack of perspective and to shift the existing political Rashomon to a higher universal level in the next elections.

Tensions related to the establishment and reconstruction of power did not inherently benefit the resolution of serious economic and social issues, progress of reforms on the way to Euro-Atlantic integrations, implementation of verdicts in the cases of Sejdić-Finci and the Statute of the City of Mostar, or a series of other issues relevant to the development and survival of the country's future.

Consequences of this sort of political behaviour and social situation were punished by the voters at the October 2012 local elections. First and foremost, SNSD, SBiH, followed by SDP, suffered an election debacle in comparison to the previous local elections. SNSD won 19 municipal mayors (in the previous election 39) and 12% in municipal councils/municipal assemblies (MC/MA) (previously 16%); SDA won 37 mayors (previously 36%); and 17% in MC/MA (equal as in the last elections); SDS won 26 mayors (previously 16) and 10% in MC/MA (equal as in the last elections); HDZ won 13 mayors and 8% in MC/MA; SDP 10 mayors (previously 9) and 10% in MC/MA; DNS won 2 mayors and 4% in MC/MA; HDZ-1990 3 mayors and 3% in MC/MA; SBB 2 mayors and 5% in MC/MA and SBiH won no mayors (previously 4) and 4% in MC/MA.

The SDP/SNSD Agreement followed soon after, which states four key points: “realization of the Roadmap for EU, accelerated economic development, more efficient and rational work of public administration and enhancement of mutual cooperation”, without offering any improvements in the stated areas. By analysing the third objective of the Agreement through drafts of amendments to three laws from this area (out of eight laws in total) which were addressed to the Council of Ministers by urgent procedure, without a previous public debate, we can generally ascertain that these projects are retrograde and harmful for the development of the society and country, with the main objective of strengthening totalitarian relations within political parties and their control over the main resources.

Changes of the Civil Service Law, which ties the mandates of managing servants with the mandate of elected and appointed officials and predict numerous shortcuts to replace civil servants by those who are eligible for parties, can be estimated as politisation of public service by introducing political control. The aim is for civil servants not to be professional, independent and freelance, which was the goal of the ongoing administrative reform, but to be persons convenient for the parties.

It is expected that prosecutors at all levels will be named by legislative bodies based on proposals from governments, from the list determined by the High Judicial and Prosecutorial Council, which places independent judiciary and the fight against corruption and organise crime under the control of the ruling political parties, thus nullifying the progress made during past reforms. When these proposals are placed in the current political context and motivation behind it, especially the role played by the prosecutor's office in the investigative and judicial procedure, things become increasingly clear.

By changing the anti-corruption Law on Conflict of Interests, jurisdiction of CEC is shifted to a special parliamentary body consisting of two ministers each (!) of the position and opposition and three from the category of „reputable public servants“, which is an expansion of the old Bosnian-Herzegovinian proverb: “The kadi (judge) sues you, the kadi tries you, so appeal to the kadi”. Instead of strengthening public accountability and intensifying sanctions, the sanction of ineligibility to candidate is removed by keeping the symbolic monetary fine of up to 10,000 BAM which can be avoided if the conflict of interests is removed within a determined deadline. The same concept will be followed by the entities and Brčko District.

By changing the Election law, closed lists are introduced, which enables heads of parties to elect submissive candidates, instead of the voters deciding which of the candidates they will trust. Members of Municipal Election Commissions (MEC) would, in the future, without previous approval of the CEC, appoint and replace the ruling parties, which would allow for the opportunity to replace the „unsuitable“ with the „suitable“. Reducing mandates from seven to five years opens the opportunity to replace several hundred members of MECs until the next elections. Apart from that, MECs will run and control the elections and election boards instead of the CEC, allowing for uncontrolled electoral engineering. CEC and the Main Centre for Counting, the most powerful instruments in revealing electoral fraud, will be denied the right to control the overall electoral process. Over 100 such attempts were revealed in the latest elections, and around 200 members of electoral boards were sanctioned in the previous elections. Instead of democratisation and elimination of weak points in the electoral process, which are pointed out by experts, the opposite process was chosen.

With this, SDP and SNSD are paying a high cost to stay in power with the support of their partners, ensuring political and economic power and material wealth for themselves and their partisan elites, confirming the partycratic system which is making the country and entire society hostages of political leaders. The offered package causes suspicions regarding the honest intentions in the fight against corruption and is reminiscent of a well designed preparation for the race in the upcoming general elections in 2014. Finally, the offered solutions distance BiH farther from fulfilling the conditions necessary for submitting a credible application for membership in the European Union and, in relation to the current situation, represent a large step backwards.

The saga on the constitution of government, political crisis and institutional crisis of Bosnia and Herzegovina continues in early 2013. In short, the FBiH Government is not functioning because the failure to elect judges of the Constitutional Court disables the decision on protecting vital national interests (requested by SDA in regard to their „expulsion“ from the Government), cantonal governments are falling or completely unstable in cantons of FBiH, no parts of coalition agreements are realised (which is, paradoxically, very good, especially in regard to the laws described above).

In March, 2013, there was a government reconstruction crisis in Republika Srpska with the announcement of „new impulses and energy“. Along with delayed replacements of directors of public companies which operate at a loss, there are no signs of changes in the economic policy.

The standstill in the implementation of the Sejdić-Finci verdict is complete and followed by the inability to agree on the changes to the Electoral Law which would disable majorization of Croats and ensure their equality at the FBiH and BiH level.

Two new parties were formed in April, 2013: the Democratic Front headed by Željko Komšić who left SDP, and the Party of Justice and Trust headed by Živko Budimir who left HSP. This is a good sign of internal tensions and possible

dissolution of SDP and HSP, for which the general crisis is a good reason. Therefore, internal relations within parties are also facing a crisis.

On the other hand, it is interesting that both parties are formed by high-ranking state officials, a member of the BiH Presidency and the President of FBiH, which points to abandoning (deservingly) sinking ships in order to remain in power, if only in some future form.

In early April, 2013 it is clear that it is impossible to resolve the crisis in FBiH and continue European integration of BiH with these political leaders. It is also clear that there is, de facto, no parliamentary majority, neither the „six-pack“ or „the four“, except in distributing functions and appointing head leaders of public companies. The best proof of this is the signed „Brussels Agreement“ under the patronage of the EC on the implementation of the Sejdić-Finci verdict and changing the Electoral law, which was „sunk“ as soon as the leaders returned to their „playground“. This closed the possibility of BiH submitting a credible application for candidate status with the EU.

In general terms, one can hypothesise that EU integrations do not suit this political elite at all, not only because here there would be "100 Sanaders", but also because systematic corruption is connected to party totalitarianism and control of public finances and resources. These are the only "coalitions" that operate on the "cartel" basis and are now stronger than any real political options, from the national to the civic.

Part of that story is also the absence of any serious reaction to the EU's stance that without implementing the Sejdić-Finci verdict, the results of the municipal elections in October 2014 will not be recognized. We are afraid that the scenario of our political leaders is to postpone the general elections by two years because of that and connect them with local elections in 2016. Until then, whatever is left will be stolen and plundered, and the governments and large national, democratic and civic issues will become irrelevant.

Thus, the main cause of the economic and social crisis in BiH is in the paralysis of institutions and complete incompetence and lack of interest of the political elite to seek a way out of the crisis and expresses the interests of citizens.

Economic crisis – The BiH scenario of deterioration

The macroeconomic situation in BiH is characterized by two key, negative processes:

- The decline in GDP in the period since 2008 to 2012 (2009/2008 -2.82%, 2010/2009 +0.5%, 2011/2010 +1%, 2012/2011 -0.5% / assessments, and we estimate that GDP will be in the negative zone in 2013). Real GDP was lower in 2012 than in 2008.
- Increase of external and internal debt: The external debt in 2008 was 3.5 billion BAM and in 2012 it doubled and amounted to about 7 billion. Internal debt in 2012 was 3 billion BAM, which together amounts to 10 billion BAM - around 40% of GDP. Indebtedness alone is not a big concern, but the process of accelerated dynamics of borrowing with a parallel decline in GDP is very dangerous.

It is easy to conclude that public spending in BiH is financed by borrowing from all levels of government ("general government") and that the process will have disastrous consequences. As the saying goes, "all happy families are alike, while all unhappy families are different." It can equally be claimed that all countries decay economically in different ways. We are not threatened either by the Greek or Icelandic or Cyprian scenario, instead of that a BiH scenario complete of economic and social collapse is starting to be carried out in our country.

More details about what makes this „scenario“:

After a period of improvement between 2004 and 2006, the management of public finances deteriorated sharply in 2007-2008. During the reconstruction period (1996 to 2002), public spending ranged around 50 percent of GDP, and between 2004 and 2006, the share of public spending dropped to about 46 percent. After the introduction of value added tax in 2006, governments in BiH increased public spending, especially public sector salaries and cash transfers, which resulted in a fiscally unsustainable situation, which, in turn, led to a fall in GDP in 2009, and public spending again exceeded 50 percent of GDP. To make the picture of the fiscal situation even clearer, it is necessary to consolidate 43 extra-budgetary funds with major budgets.

Current expenditure rose sharply to 42 percent of GDP in 2011 (from 38 percent in 2005). This represents 86 percent of total consumption. It was considered politically acceptable to cut capital spending, rather than cutting current spending. Current spending displaces investments required to sustain long-term growth and is not sustainable. The largest portion of this spending goes to three categories: (i) salaries in the public sector (13 percent of GDP in 2011, increase from 11.4 percent in 2005); (ii) transfers and subsidies (16.5 percent of GDP in 2011, increase from 13.2 in

2005); and (iii) the procurement of goods and services (10.2 percent of GDP in 2011, slight increase from 9.7 percent in 2005). The size of the government (administrative authorities) contributes to the fact that allocations for salaries reach nearly 13 percent of GDP, which is among the largest not only in the Western Balkans, but also Europe and Central Asia. During most of the 2006-2011 period, the growth of spending on salaries was higher than revenue growth which occurred mainly due to the increase in wages, but also increase of the number of employees. Public-sector employees (excluding state-owned enterprises, and healthcare workers) comprise a relatively large proportion of the labour force (11 percent) and total employment (19 percent). The cantons in FBiH have most employees in the public sector in the Federation, followed by the RS and the state.

The existing tax structure relies significantly on the taxation of labour. Social contribution rates are much higher than all other taxes in BiH, and also large in comparison with other countries. The overall rate of social contributions in FBiH amounted to 41.5 percent of gross wages. This is higher than in RS (33 percent) or the OECD average (29.5 percent) or the EU average (38.1 percent). In BiH, the rate of consumption tax (VAT) is 17 percent, while the rate of income tax (individuals and companies) is 10 percent.

New loans, together with a drop of real GDP, increase of the average real interest rate on public debt, as well as the depreciation of the value of the convertible mark against the U.S. dollar, have led to an increase in public indebtedness of BiH in 2009. In 2010, the upward trend of public debt continued, so the share of public debt to GDP ratio stood at 38.6%. In 2011, the main factor that has led to minor growth of borrowing by only 0.5 percent compared to the previous year is the deficit of 0.6 percent of GDP, a negative average real interest rate on public debt, as well as the appreciation of the value of the convertible mark against the U.S. dollar.

Structure of the public debt of BiH and the annual rate of change

	2009	2010	2011
Internal debt	3.038	3.202	3.314
% of growth	-3.9	5,4	3,5
External debt	5.234	6.289	6.660
% of growth	23,4	20,2	5,9
Total public debt	8.272	9.491	9.974
% of growth	11,8	14,7	5,1

Source: BiH Ministry of Finance and Treasury

External debt of BiH at the end of the third quarter of 2012 (latest available data) was 6.9 billion BAM and in relation to end of 2011, it has grown to 300 million, according to data from the Central Bank.

Observed by purpose loans since 1996 and ending with 2011, the ratio of loan funds to be spent on infrastructure, the public sector and the economy is most indicative. A very modest amount of funding that is aimed at the economy has resulted in just the fact that BiH is in an increasingly more difficult economic situation. For example, in 2011 and 2010, only 14 percent of loaned funds were allocated to economic activities, and given everything that falls under economic activities (loans to support the following projects: local initiatives, demobilization, farms, industry, forestry, export support to enterprises, support for privatization of banks, trade and transport deductions, projects for employment, local initiatives, technical assistance in privatization, customizing business environment, loans to the private sector, the development of small-scale agriculture, development and protection of forests, etc.), the data is even more disturbing.

Also, of the total contracted loans, 1,794,593,486 is disengaged, to which 3,678,835 BAM of commitment fee or interest on the agreed and undrawn credit facilities was paid only in 2011.

As for the debt of the Federation of BiH on the basis of issued guarantees for debts of cantons, municipalities and public companies ending with 31st December, 2011, the amount for cantons is 78,404,245.67, for municipalities 38,205,624.69, and for public companies the guarantee amount is 65,350,050 Euros, while the balance of debt in BAM is 30 percent of the amount of guarantees - 38,344,076.78 BAM.

In Republika Srpska, total government guarantees for loan funds as on 31st December, 2011 amounted to 25,911,550.00.

Internal debt of BiH on 31st December, 2011 amounted to 3314.47 million BAM with the fact that it does not include liabilities for restitution, consisting of: direct and indirect internal public debt, internal debt of entities and District, internal debt of municipalities, cities and cantons - 1568.33 million in FBiH, RS 1696.61 million and BD 49.53 million.

It is indicative to observe the claims of commercial banks, comparing 2007 with 2012:

Year	BiH Institutions	Entities	Cantons	Municipalities	Soc. Protection Funds	Non-financial public companies
2007	0.7	15.6	3.4	92.6	15.6	624.2
11-2012	0.0	416.9	70.4	311.7	35.3	782.6

Claims of commercial banks in the Federation of BiH:

Year	Claims from the general government (entity, cantons, municipalities, soc. protection funds)	Claims from non-financial public companies
2007	34.8	577.2
11-2012	385.1	665.5

Claims of commercial banks in Republika Srpska:

Year	Claims from the general government (entity, cantons, municipalities, soc. protection funds)	Claims from non-financial public companies
2007	93.3	49.4
11-2012	827.5	120.8

In October 2008, the Central Bank of Bosnia and Herzegovina decided to reduce the reserve requirements from 18% to 14%, and as a result of the reduction rates, banks will have an additional 727 million at their disposal. Then, on 4th January, 2011, the Governing Board of the Central Bank of Bosnia and Herzegovina makes a decision on the reduction of reserve requirements on deposits included in the basis for calculation of reserves, with the maturity of one year, from 14 to 10 percent, while the reserve requirement rate on term deposits for a period longer than one year remained 7 percent. With this decision, additional liquid assets for commercial banks would amount to around 300 million BAM, which should have an indirect effect on the liquidity of the real sector.

So, from October 2008 until January 2011, banks had around one billion additional funds available, with the expectation that this will indirectly help the real sector.

However!

Just by simple math of increasing claims of commercial banks from the entities, cantons, municipalities, social security funds and public companies, just in this period we arrive at the amount of one billion and ninety million or 1,090,600,000.00! These claims include loans, interest rates, treasury bills, bonds.

According to data from the Central Bank of BiH, it is evident that the general government sector loans are experiencing a double digit growth rate, indicating a lack of public revenues over expenditures.

While the volume of loans granted to households increased in 2011 by 1.6%, and in 2012 by 6%, those to non-financial enterprises increased in 2011 by 7.3%, and in 2012 by 1.5%, **loans to general government in 2011 increased by 32.2%, and in 2012, or until now, by 49.1%.** Frightening dynamics of growth in lending to "the general

Commercial banks exhausted their reserves in 2011, and reduced operating costs by 320 million (Secretary of the Banks Association of BiH Mijo Mišić, November 2012). From the Banks Association of BiH they indicate that the share of bad loans in the loan portfolio of BiH increased from 3.3 to 12.6 percent in just the last four years.

Unemployment and decline in investments

According to the data of the Labour and Employment Agency of BiH, the unemployment rate (ILO methodology) in August, 2012 amounted to 28 percent, while the number of unemployed persons registered with the Agency and employment services totalled 545,881. The rate of registered unemployment for October, 2012 amounted to 44.3% and it was higher by 0.1 percent in relation to September, 2012. Unemployment increased in the Federation by 1,060 persons (0.28%), in Republika Srpska by 642 (0.42%) and in Brčko District by 157 persons (1.30%).

The average number of unemployed persons in 2011 amounted to 529,690 and, compared to the average in 2010, increased by 11,850 or 2.3 percent. There were 266,429 or 50.3 percent of women out of the total number of persons who seek employment in 2011. As for the professional qualifications structure, the largest share of total unemployment in 2011 consisted of people with „third degree education“ - skilled workers - 35.2 percent, followed by 30.6 percent of low-skilled workers, and workers with a secondary education degree - 24.6 percent.

In November 2012, the number of employed in legal entities in BiH amounted to 686,681, of which 280,659 were women. Compared to October 2012, the number of employed in legal entities decreased by 0.1%, while the number of women was not changed.

The largest number of employees work in manufacturing (132,989), wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods (129,554), public administration and defence (72,071), education (59,7978) and health care and social security (47,334), while agriculture, hunting and forestry employ 16,260.

The number of pensioners (December, 2012) is 381,704 in FBiH and 238,576 in RS, making a total of 620,280. In relation to the total number of employees, the ratio equals one pensioner to 1.11 employed! Thus, the number of employees and pensioners is equal, which threatens to collapse the pension system, something that has so far been postponed by low pensions (for the functioning of the existing pension system, to everyone pensioner there should be 4 employed persons).

One of the consequences of high taxation of employment is the large number of employees in the informal sector. Income taxes on income and social contributions increase differences between the cost of labour and what the worker receives "hands-on", which is defined as the tax burden. In other words, the tax burden is the share of taxes in total labour costs. Increasing the tax burden, therefore, increases the incentives for informality.

According to revised data from the Ministry of Foreign Trade and Economic Relations, foreign direct investment in three quarters of 2012 amounted to 376.42 million BAM, which represents an increase of approximately 25.3% in comparison with investments over the same period, 2011, when FDI stood at around 300.4 million.

In million BAM	Q1	Q2	Q3	Q4
2010	470.4	149.5	32.1	29.6
2011	93.1	99.5	107.8	128
2012	-4.99	308.41	73	

For example, according to data from courts, in the period from 1st January, 2011 until 31st March 2011, 267 companies with foreign capital were registered in the court register of competent registration courts in Bosnia and Herzegovina, of which the legal basis for registration of 192 firms (72%) were changes or recapitalization, and 75 (18%) relate to the establishment of new firms. If we take into account that, out of 75 newly enrolled companies, 59 have the minimum required capital for registration (2,000 BAM), it is evident that the development feature of the registered SDU is at a low level.

Stress on the economy

The burden per employee in FBiH is 71 percent, and in RS it is 60.3 percent. The fact that the employers get very little returns from what they paid to the state is problematic. About five percent of operating costs refer to para-fiscal levies and the other 15 percent to taxes and contributions. Furthermore, according to the Stress Analysis of the Economy in BiH (FBiH Association of Employers in cooperation with the Association of Employers of BiH and with the financial support of the International Labour Organization, December 2011), 20 percent of self-financing employees pay their own contributions.

In order for a company to engage in any activity unhindered, it has to comply with over 20 laws relating to the payment of various fiscal and para-fiscal duties and about 30 laws which, if they are not complied with, foresee penal provisions. Also, the company is obliged to submit more than 150 various applications and forms during the course of one year. Employers warn that the competitiveness of BiH companies is affected by the fact that interest rates on loans are more than double the size of EU interest, taxes and contributions on personal income are equal to or greater than those in the region, conditions for obtaining loans are rigorous, while tariffs of utilities (electricity, water, heating) are 50 percent more expensive than for households. One small company, which has 20 employees and achieves revenues of 1.5 million BAM per year, allocates an average of 230.000 BAM for salaries, and for various administrative fees, utilities and other obligations, must allocate 160,000 BAM. Fiscal and para-fiscal liabilities amount to about 66,000 BAM. This does not include income taxes, special contributions on temporary jobs and the like. The situation in cantons is even more complicated, because the stress on businessmen in the cantons is even greater, and each canton has its own regulations.

Obligations of employers are: indirect taxes - value added tax, customs and excise duties, direct taxes - profit, property and income taxes, followed by contributions for health, pension and disability insurance and unemployment insurance. There are also para-fiscal levies: contributions for tourist boards, water management, forest protection, civil protection, municipal taxes and fees for the chamber. They are followed by utilities: water, electricity, garbage collection, and legal and administrative fees, payment for documentation to apply to public procurement procedures, as well as capital costs and burdens based on the law and collective agreements.

Fees (para-fiscal levies) can be monitored through the budgets of all levels of state government authorities, i.e. at the administrative-territorial level. In accordance with this, there are: state fees, i.e. fees at the level of BiH, entity and BD BiH fees, i.e. fees at the level of BiH entities and Brčko District; cantonal fees, i.e. fees at the cantonal level, and municipal fees, i.e. fees at the municipality level.

Bosnia and Herzegovina is at the 126th place among 185 world economies ranked by ease of doing business, according to a recent report on operations in 2013 (Doing Business) which was published by the International Finance Corporation (IFC) and World Bank (WB). Bosnia and Herzegovina has reduced the administrative stress related to completing the forms and payment of social security contributions by using the electronic system of filling out forms and payments. In addition, it facilitated the transfer of assets between businesses through computerization of the business register. At the same time, Bosnia and Herzegovina has made it difficult to access information about loans by stopping private credit bureaus from collecting credit information on individuals. However, the problem of starting a business is persistent, and in BiH it has 11 steps and lasts for 37 days, whereas in Macedonia this process has two steps which last two days.

Can the real sector survive?

Just from the data stated here, it is clear that unemployment is rising, public spending is outside the scope of income, and borrowing is most in favour of public spending, partially of the infrastructure, while least goes into the economy. The consequences are clear.

According to the latest available data of the BiH Agency for Statistics for November, 2012, the trend of weakening industrial production continues in Bosnia and Herzegovina. Consequently, BiH observed a decrease of the physical volume of industrial production by 5.3% in the period January-November 2012, compared to the same period last year. Viewed by entities, the fall of industrial production in the period January - November 2012 was 4.7% in the Federation, while the RS registered a decrease of 4.5% compared to the same period last year.

The decline of the import of capital goods of 1.5%, along with the stagnation of completed construction works, reveal the nine-month reduction of investments compared to the same period last year. Semi-annual decline of construction works is replaced by nine-month stagnation, primarily due to the increase in public investments in both entities before the municipal elections in BiH. Nine-month growth of 2.5% has been recorded in FBiH, while in the RS, semi-annual decline of 15% was cut in half after nine months.

According to data published for November 2012, as many as 58,054 corporate accounts from Bosnia and Herzegovina are blocked. According to the list published by the Central Bank, 35,693 businesses in BiH had at least one bank account blocked. In just one month, until December, this number increased by 500! In December, the number of blocked accounts totalled 58,541 accounts, out of which 35,846 firms have at least one bank account blocked.

According to estimates from October 2012, businesses and citizens in BiH owe more than three billion BAM for taxes and contributions. The Tax Administration of Republika Srpska presented information in September 2012 that taxpayers owed a total of 1.4 billion BAM for direct taxes and contributions, with an active debt of around 700 million BAM, of which 515 million BAM is the capital, and 185 million marks are debt interest. From that debt, tax liabilities were reprogrammed in the amount of BAM 260 million. Companies in bankruptcy owed 320 million BAM, 100 million BAM relating to insolvent companies. Substantial debt relates to contributions, too. Thus, taxpayers owe 336.9 million BAM for pension contributions. Of this, liabilities of companies in bankruptcy proceedings amount to 101 million BAM. Debts for contributions for health care exceeded the 201.7 million BAM, of which companies in bankruptcy owe more than 60 million.

Tax Administration of the Federation recently published on its website a list of 194 indebted companies. According to the list, the total debt of those taxpayers amounted to more than a billion and 68 million BAM at the end of June 2012.

Worryingly rapid borrowing from commercial banks for public consumption (more pronounced in the RS) and public companies (emphasized in the Federation). That means less money for the economy, but also more expensive money. The country is a safer owner to the banks than the extremely battered real sector, as evidenced by the growth rate of loans to all levels of government funding in the state. The question is what do bonds and treasury bills do to the market of securities. Who is going to buy or invest in stocks when the income on treasury bills and bonds is so high and certain?!

In international comparison, Bosnia and Herzegovina has a relatively low share of manufacturing industry. What is the cause and what is effect is subject to discussion: is the low share of manufacturing industry a consequence of a high trade deficit and, consequently, the large share of activities that are dependent on import (transport, trade and finance) or is a high trade deficit a consequence of little investment into the processing industry, research and development, as well as the „stepmother“ attitude of the state towards the real sector.

In international rankings and reports on competitiveness by the World Economic Forum (WEF) and the World Bank (WB), BiH is located at the bottom of every list. In the Competitiveness Report 2012-2013, Bosnia and Herzegovina was evaluated with 3.93 points out of a total of 7 and was ranked in the 88th place according to the competitiveness of the economy. This placement is by twelve places better than in the previous report.

This year, the highest growth was recorded in the area of institutions (from 109th place last year to 85th this year) and innovation (from 104th to 80th place). The largest decline of indicators was recorded in the area of macroeconomic stability (from 78th to 97th place).

BiH is still has the worst rating in the development of financial markets (119th place), and goods market efficiency (109th) and also in business sophistication (109th). The area of development of financial markets was badly evaluated this year, primarily due to the availability of financial services (121st place), the availability of funds for lending to entrepreneurs (127th place) and authorisation of financial funds (123rd place).

In the area of commodity market efficiency, our bad score is primarily due to the intensity of local competition (138th place), the degree of market dominance (127th place), the number of procedures to start a business (121st place), the number of days required to start a business (120th place), the degree of the effect of taxation (109th), the cost of agricultural policy (100th) and customer sophistication (124th place).

The most problematic factors for doing business successfully in Bosnia and Herzegovina which affect the low level of competitiveness are: access to finances, high tax rates, inefficient bureaucracy, corruption.

The poor competitive position of BiH is the result of inefficiency of public authorities, delays in the implementation of reforms and slow economic adjustment. BiH is not an attractive destination of foreign investors. Non-functioning of existing and the slow establishment of new and planned institutions makes it difficult and / or prevents the growth of BiH exports. In addition to the obstacles caused by the inefficiency of the public sector, BiH companies have a poor competitive position due to poor access to new technologies and the lack of personnel for specialized areas.

At this point there are no laws or measures in sight that would improve the operations of the real sector and lead to higher employment, which is an essential condition for economic progress and overall sustainability of this bulky system, not to mention the reduction of poverty. Quick loans are still on the scene, and the only "measures" are

those from the letter of intent submitted to the International Monetary Fund in order to get a stand-by arrangement.

The social situation – Will there be a social uprising?

Previously, the critical situation in the BiH economy was highly reflected in the social situation, primarily poverty. According to ASBiH assessments based on the Household Budget Survey in BiH for 2011, there were 566,025 poor persons, i.e. 17.9% of the population. This is the case for "relative poverty" whose boundary ("line") was set at 416 BAM per household member. Some earlier World Bank analyses estimate that the impact of the crisis on the social situation is greater.

At the end of 2010, the World Bank conducted the second Life in Transition Survey (LiTS 2) 2010 to better understand the impact of the crisis, especially on social exclusion. The survey results showed that over 60 percent of households were either significantly or very affected by the crisis, almost one third of the population was at risk of poverty, while about 60% of the population were "at risk of poverty or social exclusion."¹

The main problem of the social protection system in BiH is its poor efficiency in reducing poverty.² In 2011, BiH spent about 4% of GDP for the payment of the various forms of assistance that are not based on contributions. It is much more than the average among countries in the region (1.6% of GDP).

At the same time, the poorest fifth of the population receives only 21% of the total amount of social assistance from budgetary of social transfers, which is a lot less than their real needs.

According to that, these transfers have a negligible impact on poverty reduction. If these transfers (amounting to 4% of GDP) were abolished, poverty would only slightly increase, by about 1 percentage point. On the other hand, even if these transfers were doubled, their impact on poverty reduction would continue to be negligible. Thus, public sources of social assistance are not targeting those who are most in need. On the contrary, their targeting is regressive.³ The main problem lies in the fact that social transfers in BiH are mainly based on "statutory rights", especially in the case of "veterans' benefits." The result is poor targeting precision.

In the quoted World Bank report, this situation was assessed as "fiscally unsustainable, economically inefficient and socially unjust." BiH needs to reform social cash benefits unrelated to insurance programs and measures aimed at developing a social safety net in a way that is: (a) less of a burden on public resources, (b) more effective and (c) better targeted at the poor.

It should be noted that 4% of GDP for social transfers from the budget applies only to entities. In addition, the cantons in FBiH and municipalities in RS are entitled to fund social benefits from their budget which supplement or duplicate entity transfers. When that consumption is also taken into account, the total expenditures for social welfare payments from the budget of BiH could be around 7% of GDP.⁴

Another problem, characteristic for the social situation in BiH, is the explosive growth of "new poverty", i.e. the destruction of the middle class of the population which had a relatively high standard of living before the war and which is in poverty today. It is about the social consequences of privatization theft through an organized system of corruption, i.e. about the "transitional losers." To this we add the social consequences of the war in Bosnia, because material damages were not repaired with the large international financial aid that was used inefficiently, and in large part was "ate by the locusts. "

Relying on the above analysis of the World Bank, detailed analysis shows the following.

For historical reasons, cash transfers which are not based on contributions (from the budget) significantly dominate the programs designed to protect the veterans and / or family members of fallen soldiers. Meanwhile, the 'civilian benefits', particularly cash transfer programs for the poor (permanent social assistance) and child protection, are small and under-funded, and have a limited and uneven coverage in the two entities. Thus, the veterans' benefits⁵ in

¹ World Bank. Social Exclusion in Bosnia and Herzegovina and the Global Crisis. March, 2012.

² See: World Bank Report. Policy Note – Social Assistance Transfers in Bosnia and Herzegovina: Moving Toward a more Sustainable and Better Targeted Safety-Net. April, 2009, p. 6-9.

³ WB, Ibid, p. 6-9.

⁴ World Bank. Bosnia and Herzegovina: Challenges and Directions for Reform – A Public Expenditure and Institutional Review. February, 2012. p. 56.

⁵ For the sake of simplification, all benefit programmes which fall under this type of transfers are referred to as 'veterans' benefits.'

the RS take up about two-thirds of total spending on cash transfers which are not based on contributions, and this share was fairly stable in the period from 2005-2010.

In the same period, veterans' benefits in FBiH make up, on average, two-thirds of spending of the above mentioned transfers, although this share has declined from 82 percent in 2005 to 57 percent by 2009. In 2010, the average share of expenditures on veterans' benefits accounted for 62.6 percent of total spending on social benefits in BiH. As a share of GDP, veterans' benefits accounted for about 2.4 percent of GDP in the period from 2008-10. This represents the highest level of spending on this type of benefits in the region, followed by Croatia, which spends 1.75 percent of GDP on the same category. At the same time, expenditures on all types of civil benefits account for about 1.5 of GDP, including spending on benefits for disabled civilians and civilian victims of the war of about 0.8 percent of GDP, while spending on permanent social assistance for the poor, benefits for children's protection and one-time social assistance together is about 0.6-0.7 percent of GDP.⁶ This consumption is significantly lower compared with veterans' consumption. Differences in the level of consumption and trends among entities are negligible when it comes to veterans' benefits, but they are quite significant when it comes to social benefits for the civilian population.

Large overall costs of social benefits are significantly conditioned by a strong reliance on categorical ("status"), veterans' benefits, rather than benefits based on needs. Means-tested benefits make up about 0.5 percent of GDP, while the remaining expenditure is allocated by categorical principles to individuals and families who are not necessarily in need. Spending on permanent social assistance subject to means-testing is quite low by regional standards and is in decline, although less noticeable. Spending on civilian disability benefits amounts to 0.8 percent of GDP, despite the elimination of a large portion of these benefits (all benefits for people with less than 90 percent disability in FBiH) in 2008, with leaving benefits only for the most serious cases (90 and 100 percentage disability in FBiH). This act led to the fiscal savings in 2009 and afterwards, and radically reduced the number of beneficiaries, however, it increased inequality in the treatment of beneficiaries on the basis of disability and undermined the role of these benefits as an instrument of poverty reduction and social inclusion of people with disabilities.

Veterans' benefits were largely intact by reforms and spending cuts in the 2000s. After the introduction of framework legislation on the income testing for benefits from the budget, both entities were committed to the implementation of income-testing for a wide range of veterans' benefits (disability benefits for disabled persons below 60 percent disability, compensation for families of fallen soldiers and veterans with disabilities, except children in regular education) from 1st January 2011. This has not yet occurred, regardless of the provisions of entity framework laws.

In FBiH, spending on permanent social assistance remains negligible, with 4.6 percent of total spending on benefits that are given by Centres for Social Work and almost up to 7 times lower than single social assistance and other forms of ad hoc social assistance. Spending on permanent social assistance was significantly reduced from 2008 to 2010, compared with the mid-2000s. Increase of that consumption remains limited due to complicated criteria for acquiring rights and small amounts of benefits. Spending on children's allowance is also very small - with 5.8 percent of total spending. During the crisis, there has been no increase in either of these two programs - either permanent social assistance or child allowance.

In RS, the overall spending on civilian cash transfers from the budget increased by over 50 percent in the period from 2008 to 2010, compared with the 2000s. Monthly child allowance is the main category of expenditure accounting for nearly 48 percent of total consumption, followed by benefits for civilian disabilities that are not based on contributions, with 26 percent of total spending on benefits that go through Centres for Social Work. Children's allowance in RS is better funded in relative terms, and it makes up nearly 55 percent of total spending on civil benefits in 2010.

Because of the dominance of category-based ("status") benefits, the overall targeting of budget allocations for cash transfers that are not based on contributions is poor in BiH. The poorest 20 percent of the population receives only 36.8 percent of total social benefits from the budget. Such an effect of targeting of overall social benefits is weak also by regional and ECA (Europe and Central Asia) standards. It is the weakest in the Western Balkans region, where in most cases the effect of targeting of social benefits is impressive (Albania, Kosovo, Serbia and Montenegro), where over 60 per cent, even close to 80 percent of total spending goes to the poorest quintile of the population of

⁶ This includes 0.19 percent of GDP for permanent social assistance, 0.33 percent of GDP for child allowance and 0.07 percent of GDP for other cash and in-kind benefits.

the respective countries. The effect of targeting in BiH is among the poorest in the region and, observed more broadly, social welfare programs are inferior only in Russia and Belarus.

Spending on social benefits is characterized by significant coverage of the elite and significant targeting mistakes. Coverage by cash transfers from the budget to the poorest quintile or coverage of the elite by benefits is 16.6 percent in BiH, which is significantly more than the ECA average, and also higher in comparison with other countries of the Western Balkans. In ECA countries, coverage of the elite by benefits is higher only in Belarus. Coverage of the elite is attributed to the large proportion of veterans' benefits that are not targeted to the poor, and which are largely regressive in terms of the distributional impact, while 26.7 percent of those benefits goes to the richest fifth of the population, and less than 15 percent goes to the poorest quintile. Coverage of the elite is also attributed, although to a lesser extent, to deficiencies in the design of targeting (income and property census) and practices of implementation of permanent social assistance and child allowance. Finally, coverage of the elite is also increased by the fact that disability benefits to disabled civilians and civilian war victims are also category-based.

Despite the large budgetary expenditures for social benefits, coverage of the poor is very small. According to the Household Budget Survey (HBS) 2007, coverage of the poorest fifth by cash transfers from the budget was 21 percent - the second lowest in the ECA region, only comparable to the coverage of social benefits in Montenegro (20 percent). This means that only 4 percent of the poorest population (defined as the quintile with the lowest consumption) received some type of transfers from the budget, as opposed to other systems of social welfare in the ECA region, which succeed in covering more than 70 percent of the poorest fifth (Poland, Latvia, Lithuania, Estonia, Bulgaria) or even more (90 per cent in Romania and over 95 in Hungary). Coverage of the richest fifth is not large, and where it exists it indicates the category-based nature of disability benefits.

In addition to fiscal pressure, the dominance of categorical ("status") programmes of social benefits in BiH can also discourage labour supply and increase informal employment. There is evidence that poorly targeted benefits in BiH (received by those who do not need them) produce disincentives and distortions in the labour markets. It is estimated that 57 percent of people able to work in BiH is economically inactive-about 1.5 million-in addition to those who are registered as unemployed. This situation can not be the only consequence of poor targeting of benefits, which by themselves are not sufficient to produce unemployment and economic inactivity, but they certainly have a significant impact which should be explored further.

The potential for disincentives to work is mainly due to the specific characteristics of programme design. Permanent social assistance is a benefit with unlimited duration. It is necessary for the user to be registered as unemployed, which is taken as evidence that the registered unemployed person has no income. In addition, registering as unemployed and the right to social assistance also provide the right to health insurance. Finally, the difference between the (maximum) established income for a family of a certain size and the actual revenue reported to the family is paid from the program of poverty alleviation, which means that each additional earned income reduces the amount of the benefit. Over 50 percent of beneficiaries remain in the program for more than 5 years. This is ineffective considering that over 50 percent of them are capable of working and are of working age.

Can the constant deterioration of social situation, and the lack of prospects for economic recovery due to the complete incompetence and lack of interest of political elites to solve the real economic and social problems lead to social revolt?

Hypothetically, analytically speaking, the chances of social uprising are reduced by apathy, widely present in the population, or more precisely, by the fear of violence ("as long as there is no war"), lack of civic consciousness, "academicism" civil society, the lack of any subject who could initiate social uprising (the unions are semi-partisan organizations), the fact that a large number of the employed work in the public sector, which is directly dependent on the government, etc. To this we add the justified fear of nationalistic interpretation, directing of social rebellion and right-wing populism to which some political parties are prone.

On the other hand, realistically speaking, social uprising in BiH has been around for years and is expanding. It is, for now, partial, robbed workers or one or the other "status" vulnerable social categories demonstrate or strike. So it is regularly fragmented and dominated by the struggle to defend the acquired "status" rights to social transfers, especially with war invalids. An important feature of this "decentralized and divided" awakening of social rebellion in many cases contains an element of self-violence or indirect violence, from hunger strikes to blocking the roads.

Experience from the world from 2011 and 2012 show that poverty also has its limits after which each "spark" is enough to cause a fire of social rebellion that overthrows governments. If the „Arab Spring" countries seem unrelated, the case of Slovenia is very close to us.

Keeping the aforementioned in mind, it may be noted that BiH (unless things dramatically, positively resolve, which will not happen) is in the lobby of social rebellion. It is more realistic to say that the question is not whether a rebellion will happen, but when and how it will happen? We should not forget that the ILO (International Labour Organization) officially warned EU member states that the EU can expect social unrest in this year and the next.

"Who does not listen to the wind, listen to the storm."

What can be done – Towards new policies

Everybody has been talking about reform, the use of the plural, talks about a partial approach, various reforms of everything. We need a Reform, i.e. a complete reformation of the economic system in all its aspects and, along with it, the social protection system. In other words, it is EU accession, i.e. the acquisition of candidate status and negotiations on amendments of all laws. For this Reform, one does not have to wait for candidate status, even without that we can align with EU standards, with, of course, respect for the specificity of BiH.

A key issue is of the conceptual starting point are the basis of the Reform. The apparent collapse of neo-liberalism, "market fundamentalism" in the global scale, i.e. the crisis of globalization based on it, must become lessons learned. Thus, BiH Reform must be outside and against the neoliberal matrix. On the other hand, it must also be out of the logic of partial "extinguishing the fire" only where it breaks and beyond the superficial, greatly exaggerated estimates of our main resources and potential. In anecdotal terms, we have to stop thinking about magic wands such as finding oil that will save us all. Here it is possible to expose only possible conceptual basis, the angular points of the Reform as a whole.

- Focusing on the real sector, more precisely, on the industry ("reindustrialization"). It also means the development of its competitiveness, primarily radically improving the business environment, and support for technological development.
- The question of the model a fixed exchange rate and the Central Bank as a "currency board", i.e. abandonment of the current monetary policy for small countries in transition. Without going into the analysis of the reasons for or against, it is obvious that the value of BAM is overestimated (which suits the import lobby and reduces the competitiveness of our export), and that the BAM has to be devalued against the euro. Of course, it should be accompanied by a number, a system of other measures as isolated devaluation provides only short-term effects.
- General cutting of consumption (which is a wrong model of exiting the crisis in the EU) is not the solution. The structure of spending needs to be changed - public spending, especially administration, should be significantly reduced while investment consumption should be significantly increased.
- This not only allows an increase in employment, but also changes its structure through a "transition" of the unproductive public sector employees into productive employment in the industry.
- Our market should open up to the domestic producer, primarily in agriculture, which means replacement of tariff protection by all forms of duty-free protection.
- Confiscation of what is left after the privatization theft when the looting and corruption are fortified in the judicial system, and an attempt to revitalize those businesses.
- Development of the social security system into the system of social inclusion, by activating the socially disadvantaged and minority population groups in the world of labour, always in specific ways according to the needs and abilities of the vulnerable population.

In order to stop the apparent decline, the following should immediately be done in the lobby of the Reform:

1. Stop both self-deception and deception of others, the government at all levels must face and disclose the actual data and the actual situation. Selling false hope, the stories of the billions of BAM that are about to come, falsifying reality and statistics, the expectation that the situation will solve itself or that someone from the outside will send money to preserve the peace - is the most destructive for all! Obviously, dealing with the problem would also mean admitting to bad policy, but also that we must eventually do something. However, neither the voters, nor social peace can be bought by further borrowing and waiting for miracles.

- Idealistically, inventories would be made at all levels: created liabilities and disposable income, plus income that has a mysterious way of disappearing or getting a completely different course, after which we could approach the elimination of para-fiscal levies. For example, benefits for shelter?!
2. Coordinating policies within BiH! How much do the policies of one entity influence the situation in the other? Not to mention the cantons. Also, a business needs to have operations in the entire territory of the state, as well as an outlet into the region and beyond. With completely uneven fiscal policies and regulations, businesses are facing a forest of problems, which requires not only spending and extra time, the gap also consumes money. For instance, harmonizing fiscal policy has been announced for years, yet no one has seriously started to clear the obstacles.
 3. Stop borrowing for maintenance of administration, especially from commercial banks.
 4. Urgently break the chain, the illiquidity spiral by tightening the existing measures and introducing new laws that would limit payments for performed duties to 30 days, for example, when it comes to government, and to 60 days (maximum) for economy.
 5. Unburdening the economy: from para-fiscal levies and paperwork to the lowering of taxes and contributions. The golden rule is: when there is plenty, take and invest for a rainy day. When there is none, or when there is a drought, reduce obligations to preserve as many jobs as possible, plus stimulate each investment. Continually increasing the fiscal and para-fiscal levies (often through the back door), will increase revenues in the short term, but already in the second step there is a decline, as is evident from the data on collected revenues from direct taxes and social security contributions, while indirect taxes and their structure reflect the state of the economy, and part of the customs enforcement of the SAA. Exceptions are excise duties, which only register growth when observed on an annual basis.
 6. Consistency of economic policy and credibility! When the government announces measures (in our case great promises), the economy, as well as individuals, adjust their behaviour and make new decisions based on this information. So, if the government has the discretion to implement the policy they want based on the circumstances in the field, and fails to fulfil these promises, it is faced with the problem of credibility, and the economy will be left in an even worse condition. In economic theory, it is well known that business cycles are not the result of "failure" of the economy, but that the economy responds to shocks that affect it, so policymakers need to think differently about business cycles. In BiH this is very visible at the time of political instability and shock, which are producing the collapse of institutions and the absence of any economic policy.
 7. Reallocation in budgets! Especially considering that in the structure of revenues from VAT, revenue from VAT on imports for about 80% are prominent (import VAT at the end of 2011. has grown by 12.4 percent. At the same time, revenue from domestic VAT are experiencing a decrease of 19.4 per cent.) This is the best picture of both the economy, and the current policy. The biggest item on the revenue side are indirect taxes, and the largest share of indirect taxes are, again, revenues from VAT on imports! So where is the created new domestic value?! Budgets that are most reliant on this type of income, plus borrowing, are a recipe for disaster.
 8. Urgent reform of the pension fund, with simultaneously guided reform of the insurance sector! Apart from the fact that the number of pensioners is equal to the number of the registered (formal) employed, and that fund pension system are threatened by collapse, there is a second, parallel factor. Namely, commercial banks can not follow long-term investments, investments in infrastructure for which debt repayment is required. But such investments can be monitored by funds of life and pension insurance, with the responsibility of investing. Suppose that there are such funds in BiH and that they are encouraged to invest in BiH?!
 9. Education reform is a long process, but what can be done immediately is the collaboration between industry and education: school personnel should be educated according to needs of the industry, with scholarships and with the possibility of releasing the economy from unnecessary burdens so that it can take part of the staff from administration.
 10. When it comes to foreign investment, prohibit the sale of resources, and promote offset jobs.
- Also, it is devastating to highlight cheap labour as a competitive advantage, and that in doing so, the existing tax structure relies significantly on the taxation of labour. To this we should add the level of educational structure, skills and knowledge of modern technology and the mobility of the labour force in BiH, which is extremely low.
11. Establish a Fund for the future in which a sum will be deposited from each ton of coal, cubic meter of wood, cubic meter of water, which would be earmarked for investment, research and development, sustainable development, or, in exceptional cases, to cure the consequences at the time of crisis .

12. Further lowering of commercial banks required reserves by the CB can only lead to more borrowing at all levels of government. There is also the question of the mechanism to truly channel the money into the economy, because any such law would mean undermining the independence of the CB. Amendments to the law, as is now proposed by SDP - SNSD, by which instead of money, the reserve requirement could be in bonds and treasury bills, will just lead to more borrowing by all levels of government!

13. Legal security and the rule of law is the alpha and omega! Every privatization, every tender, every transaction, every right (work-related, social...) leads to losses of the community if the legal state is not working. Rule of law and knowledge are the bases of success. Not resources, not cheap labour, but the rule of law and knowledge. Therefore, the fight against such high levels of corruption is possible.

14. For amounts which have the purpose of winning over veteran and related categories - potential voters indiscriminately extracted from the budget, thousands of jobs could be opened (through funding research and development, not counting on the state as the employer), which would drastically reduce poverty in BiH. So, redistribution within social funds is inevitable, but not on the basis of audits which result in even greater costs. In fact, legal experts say that the acquired rights cannot be revoked by decrees, without starting (and proving) proceedings against the person who gave those rights with no grounds.

The following recommendations are especially important in that direction:

- Develop updated tools for improving the targeting of civilian benefits from the budget for the purpose of reaching out to the poor and vulnerable. A better targeting mechanism would help resolve the above-mentioned problems and provide support for the transition from a politically extorted rights-based approach to a neutral approach based on needs, that will strengthen benefits for those who are socially disadvantaged.
- Make changes to the design of social assistance programmes in order to set aside their disincentive effects on labour and amplify compatibility of social assistance programs with incentives to work in order to facilitate the transition to employment.
- Improve the effectiveness, transparency and accountability of administration of benefits. Better administration of benefits could be achieved through a thorough functional review of existing registration processes, the flow of information and data management, institutional roles and responsibilities at all levels, with the ultimate goal of establishing uniform registers at the entity level. Finally, the administration of benefits will benefit from the review of legality of rights, which is particularly critical for the cost management and containment programs, which have produced a rapid growth in the number of users in the last period.

The existing political elites are definitely neither capable nor interested in "opening the door" to reform. Without changing the character of the governments (not by replacement of one party by another which has the same character and only a different name), it is difficult to be optimistic.

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