Lessons from transitional economies' failures: Why is B&H a transitional (non) success story?

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Abstract

Bosnia and Herzegovina (B&H) is faced with many challenges on its path of economic prosperity and suffers from many disappointments and setbacks of transition process. The social and economic activities have deteriorated and changed over time and B&H has passed through different political and economic changes. This paper aims to introduce the debate about the weakness of transitional model in order to explain the process of shift with the decline in production and demand, which increasingly affects the difficult socio-economic status of its citizens. The current concept of economic growth is based on consumption of private and public borrowing, as well as the increasing imports has been proven to be unsustainable. Accordingly, it provides a critical review of the effects that the current transition model left on the development of B&H. A comparative analysis of the characteristics of various important macroeconomic variables and graphical representations of the collected statistical data, on which it formulates proposals for overcoming the current situation in B&H, will be given.

Key words:

transition process, macroeconomic indicators, economic development in B&H

Introduction

Since the beginning of the economic and political transformation of the early 1990s, the economic problems of the growing social and economic inequalities faced by the transition economies were complex and intertwined with each other. Furthermore, given the complexity and nature of the transition process, it is evident that certain primary factors of the transition are not taken seriously at the early stages of this process. Many inter-related issues that have affected the economies' troubles of the Western Balkans during the last two decades are domestically generated. The problems of macro economic stability, poor management of the economy, as well as political reasons during the process of economic transformation of these countries towards a market-oriented economy should also be noted. Whilst it is mostly being ignored by so many governments of Western Balkans, the issues, such as above mentioned do affect that, currently, the most countries are at a lower level of economic development than in the pre-transition period.

The key question that arises is: "Do they need to follow the same path to economic growth as developed countries?" given in mind the disastrous privatization conducted, difficult social situation, as well as the level of economic output, which plummeted throughout the region (the average fall in GDP was nearly 30% in comparison to GDP levels of early 1990s). Dogmatic solutions imposed by the IMF and the liberal-oriented economists are simply exploitation of the poor by the rich and powerful and do not take into account the differences that existed in countries with different levels of economic development and inequality. As time went on, it has been shown that an idea of rapid and complete privatization did not lead to greater efficiency and rationality, but it has had disastrous consequences for the many countries. They no longer produce what they need to sustain themselves and they import much more than they export. IMF politics, as a protector of global capital did not have enough understanding to debtors who are in hardship, and whose financial and economic recovery was under its treatment. (Ganić, 2002).

Armenia, Georgia, Kyrgyzstan, Moldova and Tajikistan are good examples of small import-countries completely dependent on energy imports. At the beginning of the transition period those countries had a relatively large external debt. But, at the end of the year 2000,

their external debt rose to \$ 7.1 billion, or 89 percent of their GDP. In other words, it means that their external debt stood at 158% of their exports and 358% of their national income. Their increasing debt overhang and inability to attract financial flows from donor countries in the form of either, grants or a bilateral aid forced them to ask the IMF for assistance. And, of course, as it is usual in the practice they followed the recommendations of the IMF in the form of classical monetary recapture. These are the liberalization of prices and imports, eliminating government deficit spending with poor results in the stabilization and recovery of production (McKinley, 2004).

There is another reason, as to why the troubling transitional economies should follow the monetarist concept. Basically, this concept goes against all forms of active intervention of the government in terms of economic policy and justifying it by the fact that it would lead to distortion of the operation of market forces. In the early years of the transition, the economies of most SEE were faced with a sharp increase in imports while exports have stagnated. As a result, there has been an increase in indebtedness. Moreover, the lack of money in the internal market has created a lack of liquidity and expanded their debt burdens, dramatically. Thus, the newly infused private capital pushed out the majority of employees the production and caused a rise in the unemployment rate of 4% in Czech Republic (in 1991 - 1992), over 12 % in Hungary (in 1992 - 1993), over 16 % in Bulgaria and over 10 % in Romania (Ganić, 2001). Resolution of the above mentioned problems requires the introduction of structural changes in the economic system of transitional economies. However, the approaches to finding new solutions are still under strong pressure and the influence of political mafias who were apparently well integrated into the maelstrom of privatization.

Western Balkans in transition era

One of the basic elements of the transition process in the countries of the Western Balkans is a break up with the centrally planned economy and transition to a market driven economy. This process can be viewed from different angles and with different aspects. Either way you look at it, its economic dimension is unavoidable, whereby; macroeconomic growth and economic development synthetically express the results and problems in the process. Thereby, it is assumed that the transition aims to create a more

efficient economic system in order to improve the living standards of ordinary citizens. It was supposed that the transition to market economy needs to ensure a stable economic growth, an efficient and stable labor market for workers and employers and greater price stability, as compared to the pre transition period. However, two decades of transition have already gone by and the citizens of the Western Balkans have not seen any progress. Drawing on previous transition experiences and lessons may help us to give some answers on a number of frequently asked questions where and how to move forward. It is related, mainly, to all countries in the region, given that the progress made was negligible. From all the communist countries, Yugoslavia's economy has been among the fastest growing in the Eastern Europe. It was expected that its path of economic reform and the transition to a market economy will be progressed farther. More importantly, its private sector created 25% of GDP and Yugoslavia's living standard was high compared to other countries in the communist block. Also, it was expected that Yugoslavia would become the first member of the European Union, of all communist countries, given that it had open borders, which enabled its citizens to travel freely abroad and to get acquainted with the practices of Western countries. Unfortunately, the violence of war destroyed the country's economy, left Yugoslavia behind in comparison to almost all other communist countries in transition process. Low economic performances, during the first years of transition caused the collapse of state institutions and the absence of a framework for the regulation of market relations. Such a situation was mostly caused by weaknesses of socialism as an economic system and anti-competitive culture that did not exist in the past.

In early stages of the transition, the institutions and mechanisms for the regulation of regional development in the new established countries of Western Balkans were quite dismantled. Many companies were not able to survive, due to altered conditions in the world markets, as well as due to their weak competitive positions. On the other hand, there has also been a number of state-owned companies that have been privatized, but not in a way to increase their economic efficiency. This has affected a major source of change in the structure of foreign trade flows in Western Balkans. All countries of Western Balkans region exported below their economic potential, measured by exports per capita. The structure of their exports was

dominated by the primary products, raw materials and labor-intensive products with little inherent newly added value. All these countries have had trade deficits, which persisted with most of their trading partners. The crisis of transitional process has been caused by numerous weaknesses in the field of development and economic policies caused the unemployment to rise by significantly.

Unlike other transition economies that, on average, came out of transition in 2004 and commenced the process of achieving the economic growth like the developed economies of Europe, the Western Balkans countries are still far from that. If we take 1989 as the base year, then the transition countries of Western Balkans can be considered very backward in terms of the economic development and the level of living standards of the developed European countries - EU members. Some transition economies in the Western Balkans region, even after more than two decades of transition have not reached the level of GDP from 1989. While Albania (2000), Croatia (2005) and FYR Macedonia (2008) succeeded to achieve the level of GDP from 1989, the other three countries in the region have failed. In 2012, GDP per capita in Bosnia and Herzegovina, Montenegro and Serbia was at about 80%, 90% and 70% of levels GDP from 1989, respectively. The information relevant to valuing quality of basic macroeconomic indicators is given in table 1. and it can be useful for making comparisons between selected countries.

Recent developments in the countries of the Western Balkans show that they experienced macro-economic fall over different periods of transition, associated with issues of unemployment, increased indebtedness, trade deficit and economic growth. The analysis by groups of Western Balkans countries shows decline in value of most macroeconomic indicators (see table 1). What is causing this and how could the macroeconomic policies of these countries have led to this situation? Economic development has been led by strong growth of imports of goods and services affecting the increase in the trade deficit, which was partially covered by remittances from abroad and surpluses generated in other services.

Table 1 Changes in macroeconomic indicators by selected countries over the period 2000-2012

		Average	Stand dev	Max	Min
Albania	Current account balance (% of GDP)	-8.70	4.30	-15.56	-3.07
	GDP growth (annual %)	4.75	1.86	7.70	1.60
	GDP per capita (current US\$)	2,807.00	1,152.01	4,109.08	1,115.49
	Unemployment, total (% of total labor force)	14.08	2.69	22.70	12.40
	General government gross debt as % GDP	59.85	4.64	69.63	53.43
	Investment/GDP (in per cent)	28.31	2.58	30.289	24.06
BiH	Current account balance (% of GDP)	-11.80	4.57	-16.85	-7.15
	GDP growth (annual %)	3.63	3.04	6.84	0.70
	GDP per capita (current US\$)	3,248.49	1,295.89	4,802.47	1,435.96
	Unemployment, total (% of total labor force)	26.82	2.34	31.80	24.10
	General government gross debt as % GDP	31.58	7.68	44.27	21.17
	Investment/GDP (in per cent)	23.61	4.87	28.42	15.79
Croatia	Current account balance (% of GDP)	-4.47	2.71	-8.73	-0.31
	GDP growth (annual %)	2.07	3.75	-6.95	-0.93
	GDP per capita (current US\$)	10,695.3	3,796.14	15,695.8	4,861.68
	Unemployment, total (% of total labor force)	13.16	3.32	20.50	3.36
	General government gross debt as % GDP	38.68	7.53	56.28	29.30
	Investment/GDP (in per cent)	25.61	3.89	31.33	20.35
Macedonia, FYR	Current account balance (% of GDP)	-5.24	3.59	-12.57	-0.44
	GDP growth (annual %)	2.57	3.02		
	GDP per capita (current US\$)	3,319.03	1,229.78	4,961.81	1,747.88
	Unemployment, total (% of total labor force)	33.62	2.49	37.30	30.50
	General government gross debt as % GDP	33.77	9.37	48.80	23.83
	Investment/GDP (in per cent)	n.a	n.a	n.a	n.a
Montenegro	Current account balance (% of GDP)	-23.77	13.79	-49.95	-6.76
	GDP growth (annual %)	3.30	4.10	10.70	-0.55
	GDP per capita (current US\$)	4,668.08	2,215.45	7,305.81	1,610.42
	Unemployment, total (% of total labor force)	22.35	4.69	30.30	16.80
	General government gross debt as % GDP	42.30	13.20	75.73	27.50
	Investment/GDP (in per cent)	23.46	7.47	40.67	16.63
Serbia	Current account balance (% of GDP)	-9.02	6.31	-21.76	-1.68
	GDP growth (annual %)	3.26	3.34	9.30	1.01
	GDP per capita (current US\$)	3,919.76	1,819.51	6,497.84	809.28
	Unemployment, total (% of total labor force)	16.98	3.04	20.80	12.60
	General government gross debt as % GDP	42.30	13.20	75.73	27.50
	Investment/GDP (in per cent)	19.60	7.14	29.75	8.15

Source: The elaborations on World Bank data (World development indicators)

If the movement of GDP is taken as an indicator of success of economic development, then it clearly can conclude that economic growth in the countries of the Western Balkans was moderate. By comparing the rate of GDP growth during the transitional period it can be concluded that substantial differences exist between various countries within the Western Balkans region.

- Moderate growth of GDP in the period 2000-2012: GDP annual growth rate in Bosnia and Herzegovina averaged 4.75%, Serbia 3.26%, Montenegro (3.30%), Croatia 2.7%, Albania 4.75% and Macedonia 2.57%.
- Investment, as the share of GDP remained low in the range of 19.60 (Serbia) to 28.31% in Albania;
- General government gross debt as % of GDP increased substantially over the last two decades. All countries of Western Balkan region experienced high increases of general government gross debt, in percentage terms, if we know that they had minimal external debt at the beginning of transition. General government debt, as a percent of GDP across Western Balkan countries, persisted at a range from 30 to 54 percent of GDP, over the period from 2000 to 2008 and rose from around 58 % in 2009, to 60 % in 2010 (Albania). FYR Macedonia remained far below this level (i.e. 33.27 percent of GDP in 2012).
- External macroeconomic imbalances indicated by high deficits in foreign trade and current account balance of payment are created as a result of strong growth in imports based on growing domestic demand. It is interesting that the Western Balkan region recorded current account deficits over the period from 2000 to 2012. Montenegro and B&H recorded the largest current account deficit among selected economies (i.e. -49.95 and -16.85 percent of GDP, respectively). The remaining Western Balkan economies featured current account deficits of 10 %, or less.

The persistently high unemployment rate, as measured by ILO methodology, with significant variations among countries, was especially present in B&H and FYR Macedonia (26.82% and 33.62 respectively). The risk of persistently high unemployment rates indicates in the best way the adverse effects of development policies in the countries of the region, in the past two decades. In fact, this

level of persistently high unemployment with high external imbalances represents the major problem for Western Balkan countries. A comparative overview of the basic indicators of B&H, in comparison with the results achieved by countries in the region shows the intensity of transition at different stages of the transition period and numerous economic similarities. Except Croatia, the GDP per capita in neighboring countries is relatively low. In terms of trade to GDP ratio, Western Balkans economies are largely dependent on foreign trade and their degree of openness is typically higher than in the case of EU 27 (see Figure 2). All countries of Western Balkans region have a relatively high degree of openness of the domestic economy, which is particularly indicative in the case of Macedonia and Montenegro (see Figure 2). Rapidly conducted liberalization in the early stages of transition has been the key to Western Balkans's high degree of openness of its economy. In addition, the economic structures of the Western Balkans are relatively similar (with the exception of Albania, where the dominant sector of agriculture and industry sector is under developed) with a growing share of the tertiary sector (financial sector).

Figure 1 Changes in trade indicators of Western Balkans countries

Source: The authors' elaborations on Euro stat data over the period from 2003 to 2012

Figure 2 Trade to GDP Ratio

Source: The authors' elaborations on Euro stat data over the period from 2010 to 2012

Although, during the analyzed period, the average growth exports rate was higher than the import rate in some countries (especially in B&H, Serbia and Albania) we should not make general conclusions about this development. Specifically, we should bear in mind the modest initial basis of these countries, in terms of volume of exports at the beginning of the transition. At the same time, among other significant imbalances of Western Balkans countries foreign trade shows worrisome results culminating in the growth of the trade deficit (see Figure 1).

The EU-27 countries were the main export market for all Western Balkan economies. The high level of dependence on the EU market was the result of special trade preferences granted by the EU and the aspirations of countries in the region to become part of the EU single market.

Figure 3. Intra CEFTA 2006 countries export to total export

Figure 3. Intra CEFTA 2006 countries import to total import

Source: The author's elaborations on CEFTA Trade statistics (2010, 2011, 2012, 2013).

The volume of trade and investment between the Western Balkans and the EU is an important factor, because Europe remains the largest trading partner of the Western Balkans. The EU market is essential for the export oriented sector of Western Balkan countries. Over the period from 2010-2013 the average share of EU-27 in total exports of Western Balkans amounted to 53.54 %, while the average share of EU-27 in total imports of Western Balkans amounted to 63.46 %. In the period between 2010 and 2013, the volume of trade between the countries of the CEFTA 2006 has increased. In the reference period, there was a slight increase in exports, although, as it was to be expected, rather large differences between the countries were also recorded. Except for Bosnia and Herzegovina, Macedonia and Serbia, the intra-regional trade has been losing importance in relation to the total trade, although, there are some signs that intra-regional trade is growing. For Croatia's and Serbia's market, CEFTA 2006 was 3.81 and 3.65 times more significant, as an export market than as an import market, while for Macedonia 2.23 times. Kosovo has had a trade deficit with almost all countries of the region, while it was most pronounced in trade with Albania and Macedonia. Since Moldova practically commands a marginal share in trade with other member of the CEFTA 2006, it will be omitted from further analysis.

What is causing the economic slowdown of B&H economy ?

Difficult economic environment during the war years, (e.g. from 1992 to 1995), and the loss of trade and other economic ties have led to the collapse of the economic system of our country. Collapse of trade relations with the traditional export markets and high degree of damage to the existing infrastructure has led to a fall in GDP of B&H per capita to only 30% of pre-war level, or \$ 2.1 billion (GDP per capita dropped to \$ 500). Total war damages were estimated at an amount of \$ 50-70 billion and the value of the destroyed manufacturing capacity to about \$15-20 billion. (World Bank, 1997) All this has resulted in a break up in the essential process of economic reforms initiated in 1989. In addition to all of the above, the economic position of B&H is such, that it is more vulnerable than any other transition country. It has been more than a decade since the beginning of the transition in B&H and its results did not show a significant increase in the living standard of its citizens. Unlike other neighboring countries, B&H significantly began the active process of economic transition in early 2000s. At the beginning of its transition process B&H experienced some economic and political problems. The liberalization of trade relations and capital balance has opened the door for integration of the economic system of B&H in the international financial and trade flows. Rapid liberalization of the foreign trade regime with uncompetitive and non-market-oriented economy caused worsening of the deficit on trade balance side (see Table 1). In fact, high domestic production costs and product quality have represented a lack of comparative advantages of the domestic economy to foreign markets. Moreover, the cost structure is burdened with inefficient domestic production, which is characterized by outdated technology and poorly competitive production programs. Unfortunately, after the first decade of transition B&H is faced with solving major structural problems (i.e. unemployment, non-competitiveness and underdeveloped infrastructure). Developments in real economic indicators show economic backwardness of B&H with a high unemployment rate, especially among the young generation and the highest rate of long-term unemployment of total population. This problem is not unique to B&H, but, it is rather present in many developed nations. The most striking indicator of the economic collapse is represented by the unemployment rate, which is one of the most difficult problems of the domestic economy. As a consequence of economic restructuring and enterprise pri

vatization, the unemployment rate measured by the ILO methodology, at the end of 2012 amounted to 28.2% of total labor force.

Although, the economic growth rates during the postwar period appeared to be modest with low inflation and solid inflow of FDI, primarily related to the process of privatization, deindustrialization and job cuts led to rise of unemployment rate, rise of foreign trade deficit, and even more reduction in the overall living standard.

The foundations of economic development after the beginning of the transition process in B&H are very shaky. The transition process in B&H is characterized by the following information:

- In the transition period from 2003 to 2012 the trade deficit by value exceeded the value of exports by 27.12%.
- Unfavorable structure of industrial production where the primary production stage accounts for about 75%, and more stages of production with 25%. Processing capacities are very modest and overly tied to traditional branches whose effects are very limited;
- According to the WDI (2012) Gross National Income in PPP dollars per capita in B&H is \$ 9200 and remains among the lowest of all countries in the region:
- Although the average GDP growth rate stood at 3.63%, in the last 12 years, the GDP in 2012 reached only 80 percent of the level achieved in 1989. This means that B&H needs decades to achieve the level of GDP from, far away year, 1989.
- While the share of industry in value added was 24.1% (in 1990), in the meantime it has fallen to 20.8% (2012);
- Permanent structural crisis has made the domestic business sector the least competitive in the region. Progress towards business environment with the aim of making environmental decision-making more efficient is (too) slow, as indicated by the World Bank report titled "Doing Business". According to the latest report on World Bank (2013); B&H is ranked on the 126th position, far behind Macedonia (23), Montenegro (51), Croatia (84) and Serbia (86).
- At the end of 2012, private sector's share in GDP (in percent) was 60%, and it is lower than other countries of the region such as Albania (75%), Croatia (70%), Macedonia (70%), and Montenegro (60%).
- The coverage of imports by goods exports by the end of 2012 stood at 54.36%. Due to the enormously high imports, an inappropriate amount of our GDP, and the deficit of foreign trade

balance has a distinct tendency to increase. The trade deficit increased from -3,026.32 million EUR in 2003 to -3784.11 million EUR in 2012. The persistently high trade deficit is a cause of the high level of current account deficit. This is one of the main problems of the domestic economy, bearing in mind that its value has increased from the level of 7.14% of GDP in 2000 to 9.34% in 2012.

Table 2. Overview of transition indicators of B&H (1989-2012)

	Average	Stand. Deviation	Max	Min
Large scale privatization	2.0	0.842578427	3.0	1.0
Small scale privatization	2.6	0.474698989	3.0	2.0
Governance and enterprise restructuring	1.6	0.457714668	2.0	1.0
Price liberalization	3.3	1.129319967	4.0	1.0
Trade & Forex system	2.9	1.020483599	4.0	1.0
Competition Policy	1.3	0.523814742	2.3	1.0

Source: The elaborations on EBRD data, Transition report

A good view of the relative progress of basic reforms evaluated by EBRD, since 1989, is providing a quantitative foundation for analyzing the progress of economies in transition. B&H as a part of former Yugoslavia, in process of reform has entered a very good starting position. The average value of the index transition amounted to 1.8. It contributed some efforts made in Small scale privatization (see Index 3 on a scale of 1-4.5), Price liberalization (index 2.7), and Trade & Forex system (see Index 2). However, in 2004, the significant progress was made in improving the average value of the index transition (2.4) largely thanks to reform efforts in the area of Price liberalization (index 4), Trade & Forex system (index 3.7) and Small scale privatization (index 3). After that there is a gradual delay in reforms. B&H is still lagging behind in reforms in areas of large scale privatization, governance and enterprise restructuring and Competition Policy. Overall, B&H is faced with a difficult path to completing the remaining institutional reforms and serious structural reforms that may affect the preservation of its economic viability. This is especially indicative considering the problems of social and political nature. The next evidence of failure in the transition of B&H is the worsening of its external vulnerability.

Basic characteristics of the external vulnerability of B&H in the period from 1999 to 2012 are shown in Table 2. Analysis of external debt shows that, in the last few years, it had recorded a very strong growth tendency. At the end of 2012, the proportion of external debt to GDP ratio stood at 48% (2012). Although this amount is still not great, the speed of its growth in recent years is alarming. In terms of cover provided by External debt to GDP it shows an increase of 14.66% over the period between 1999 and 2011. Bearing in mind the average value of this indicator, it can be considered that B&H maintains an acceptable ratio of debt to GDP. However, in developing countries this threshold is lower. External debt is critical if it reaches 60% of GDP, because over that amount it causes a decline in economic growth. In the analyzed period, the share of short-term debt in gross official reserves was increased by 2.9, attributed mainly to a high level of government debt in the hands of foreign creditors. Such an increase in external debt creates a further problem of external vulnerability of B&H influencing the increased uncertainty in the repayment of short-term debt. Total external debt per capita in the period has increased by 3.6 times. Foreign exchange reserves to imports of goods and services in the months are an indicator of ability to pay import exclusively from foreign exchange reserves. This progress made over the last 12 years is a consequence of the simultaneous acceleration of growth in foreign exchange reserves and a slowdown in imports in the last few years. In addition, the coefficient indicates that 5 months of imports can be funded by foreign currency reserves of CB of Bosnia and Herzegovina, in the case of financing the current account deficit.

Table 3. Indicators of external vulnerability of B&H

	1999	2000	2001	2002	2003	2004	2005
Short-term debt (% of Gross official reserves)	8.74	9.93	4.84	26.09	6.23	14.83	32.85
Gross official reserves in months of imports	1.21	1.41	3.32	3.3	3.54	4.01	3.77
Gross official reserves (% of total external debt)	19	17.91	46.38	42.55	40.68	43.43	40.95
External debt/GDP	51.3	50.91	48.7	47.6	41.8	55.6	36.7
External Debt per Capita (\$)	641	730	722	812	898	1434	803

	2006	2007	2008	2009	2010	2011	2012
Short-term debt (% of Gross official reserves)	31.9	33.46	20.2	36.65	23.51	30.79	28.7
Gross official reserves in months of imports	5.19	5.45	3.99	5.64	5.26	4.24	5
Gross official reserves (% of total external debt)	50.69	57.15	53.95	47.53	44.4	41.8	41.5
External debt/GDP	70.5	45.6	40	56.1	57.6	58.8	48
External Debt per Capita (\$)	1680	1741	1913	2487	2520	2321	2052

Source: The elaborations on WDI data

The next evidence of failure of the transition of B&H is unfavorable trend and an adverse impact on the economic structure. The transition from socialist semi-market system to a market oriented economy has brought many changes. The importance of the industry has relatively declined as a source of the employment, while the importance of the service sector increased (Figure 6). The seriousness of the issue is going to be way higher because of a problem of deindustrialization caused the low level of economic activity. As a result of process of transition B&H has experienced some structural changes in the importance of individual sectors to gross value added (GVA). The share of agriculture and industry sectors is decreasing, while the importance of the services sector is growing. Structure of gross value added (GVA) in the period from 1994 to 2012 changed more in favor of the service sector (see Figure 5). Service sector is a major sector of the B&H economy, and the largest component of GVA. Developments in the structure of the creation of GVA in B&H are the consequence of reducing the level of capacity utilization, primarily in industry with 60-65%, in pre transition, to only 26.74% over the period from 1994 to 2012. In 2012, the share of agriculture in the creation of GDP was 8.44%, the industry with 24.78% and services with 66.77%. Analysis of the structure of GDP creation, per activity sectors, indicates the reduction in the share of sectors that produce interchangeable goods. The period 1990–2012 was characterized by the biggest decline in agriculture sector. The share of agriculture in GDP was reduced from 35.85% to 8.44%, respectively. The structure of GAV has been changed in favor of services. The share of services in GDP in the same analyzed period has increased from 38.29% to 66.77% and it became the largest sector in B&H. Also, the sector of employees-level data indicates some structural changes. The share of employment in manufacturing has been significantly reduced, while the share of employment in service sector has been increased.

Figure 5 Growth rate of value added by sectors, % (1990-2012)

Source: The authors' elaborations on World Bank data

Figure 6 Annual average growth rate employment by sectors % (1990-2012)

Source: The authors' elaborations on Euro stat data

At the aggregate level, the share of agriculture in GDP has declined slightly, while the share of services in the whole period generally increased. The industry almost maintained its current share in GDP with some fluctuations. The sector structure of employment indicates that there has been a certain disproportion between the size of the sector in terms of value added and number of employees. Economic growth in the period 2003 - 2008 was achieved mainly from the industrial sector and the service sector. The contribution of these two sectors to economic growth is accounted over the range of about 90-93%. Share of employment in the agricultural sector during the period 2005 -2012 has not significantly changed and was about 20%. The next evidence of the failure of the transition is the position and competitiveness of B&H in the ranking of countries created by the World Economic Forum (WEF). According to the WEF Global Competitiveness Report for 2013, Bosnia and Herzegovina was ranked in the 87 place, behind Montenegro (67), Macedonia (73), and Croatia (75) as far as the general competitiveness is concerned.

Conclusion

Based on the current economic indicators for the last ten years, it is clear that B&H is faced with some difficulties to get out of the transitional recession. Despite some signs of improvement, domestic economy is still weak with a substantial contraction in domestic demand, while economic institutions are under the control of a few political parties. However, the essential cause of structural imbalance lies in the previous economic system and obstacles inherited from the 1990s that have not been removed by the previous reforms. The economy of the region lags behind other transitional economies. Significant and almost uninterrupted economic growth is not accompanied by the fall in unemployment rate, which is traditionally high in B&H. The current concept of economic growth is based on the consumption of private and public borrowing, as well as an increase in imports has proven to be unsustainable. Furthermore, there are certain characteristics that economic performances of B&H have in common. They are low national income per capita, high unemployment rate and lagging behind in terms of reform process, as well as adopting are form and changes in economic mentality. In fact, all considered transition countries are in the process of transition recession, which led to their GDP decreases by about 15 percent, compared to the pre transition period (e.g. year 1989). Based on these trends we can draw the following conclusions:

- As proclaimed macroeconomic objectives were only partially successful and B&H was unable to generate sustainable GDP growth rate over the transitional period, which resulted in increased unemployment rate ;
- Strengthening of the economy and its competitive position (slightly)
- Role of capital investment in economic growth and export growth (insufficient),
- Unemployment in B&H is actually higher than it was in pre transition time
- Improvement of living standards (partly).

In addition, B&H is facing serious macroeconomic problems expressed in the reduction of employment, a large trade deficit, high and rising external debt burden, high public spending and increase of government budget deficit. Already, it is clear that a small open economy, such as B&H, due to its economic relevance in the re-

gional and global world and legal specificities should redesign the existing macroeconomic policy strategy in order to start solving the unemployment problem. First of all, it is necessary to define an economic policy that will largely eliminate the practice imposed by neoliberal economic development. This policy should be based on its own packages of instruments, policies of economic growth, competitiveness and full employment. Also, B&H is supposed to remove the generators of economic backwardness in order to ensure the functioning of the single market. It requires much more than a program of macroeconomic stabilization. This requires a strong financial regulations, developing the competitiveness of domestic enterprises and encouragement of technology transfer, with the transparency of the entire transitional process.

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