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Bosnia and Herzegovina: the financial situation forces politicians to reach a compromise regarding the government

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On 28 December, almost fifteen months after parliamentary elections in Bosnia and Herzegovina (BiH), the leaders of the six largest parties reached a compromise on the composition of the central government, census laws and regulations concerning state aid, the adoption of which was among the main conditions for deepening integration with the EU, and the budget for 2011 and 2012. Vjekoslav Bevanda, a representative of the Croatian HDZ BiH party, was named prime minister. The cabinet will consist of ten ministers, four of whom will represent Bosniaks, while Serbs and Croats will be represented by three ministers each. Considering the need to agree on the choice of individual candidates for ministers, it may be expected that the government will be sworn in within three months.

Commentary

- This compromise fails to resolve the fundamental dispute between the two visions of the political system of this country. Bosniak groupings support the centralist concept, while Serbs and Croats favour the vision of a federation based on broad autonomy for the two republics which make up BiH, Republika Srpska and the Federation of BiH, the latter of which is additionally divided into Bosniak and Croat cantons. This conflict has prevented the efficient operation of the state institutions and the implementation of complex reforms for years. As a consequence, since the parliamentary elections in October 2010, BiH has not had a central government and its budget for 2011 and 2012 has not been adopted.
- Politicians have been forced to enter into this compromise due to the financial situation in BiH. The state would be unable to function with an provisional budget for one more year due to the significant decrease in budget revenues resulting in a very high increase in budget deficit, which until October 2011 stood at 12% of GDP. Problems financing the budget deficit result from the suspension of financial aid from the IMF and the EU, which made the availability of their loans dependent on the formation of the government, and also from Sarajevo’s low credibility on financial markets. The nomination to the post of prime minister of Vjekoslav Bevanda, an economist who has the reputation of being an independent expert, is aimed primarily at creating an opportunity to unblock external aid.
- The new government has announced that its main goal will be to improve the economic situation. Firstly it will need to tackle is the consistently high unemployment rate standing

at approximately 43%, the highest level in the region. Another challenge for the cabinet will be the acceleration of EU integration. BiH is the only Balkan state (with the exception of Kosovo) not to have submitted a membership application, and the reform process required by the EU is significantly behind schedule. However, it is very unlikely that the new prime minister will be able to conduct essential reforms necessary to improve the functioning of the state. Representatives of Serb and Croat parties will continue their efforts to strengthen the autonomy of their respective national communities within Republika Srpska and the Croat cantons at the expense of the competences of the central government.

- The resolution of the dispute over the composition of the government and the budget proves that politicians in BiH are able to reach a compromise only in the face of the risk of a total collapse of the state finances. This will certainly be used at the time of granting financial aid to BiH by the EU or the IMF. Therefore, such aid is likely to be granted on strict conditions of implementing economic and political reforms.