

TRANSFORMATION OF THE ECONOMIC SYSTEM OF REPUBLIC OF SRPSKA AND ITS ADAPTATION TO GLOBAL PROCESSES

Zoran Mastilo

Univerzitet u Istočnom Sarajevu, Fakultet Poslovne Ekonomije Bijeljina, Bosnia and Herzegovina

E-mail address: zoran.mastilo@fpe.unssa.rs.ba

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ABSTRACT. Republic of Srpska cannot boast of its economic system ever since the onset of the Global Economic and Financial Crisis (2008) to this day. Global Economic and Financial Crisis has produced negative effects onto a small economy like the economy of the Republic of Srpska (RS). In times of such crisis, RS has been faced with high unemployment rate (44%), reduced industrial production, enormous public debt, high deficits and colossal illiquidity. It indicates that the Republic of Srpska is characterised by poor macroeconomic indicators. The fact that RS possesses rich and diverse natural resources, which should be a key factor in its present and future development, did not help the economic system of RS in any way. The industry has been designated as a major segment of development by a long-term strategy of socio-economic development. Such long-term strategy has not given any results in terms of positive rate of economic growth, nor even the slightest improvement of any of the macroeconomic indicators so far. Urgent transformation of the economic system of the Republic of Srpska and its adaptation to the global processes is more than necessary. This can be achieved by offering investors numerous benefits and opportunities for investment under very favourable conditions, particularly in the industries and sectors representing significant natural resources. First of all, it is believed that there is great potential for the development of agriculture; exceptionally favourable conditions for the development of thermal and hydro energy sector; numerous possibilities of providing energy from renewable sources; vast areas covered by forests, mining and mineral resources; great tourist potential, etc. The above listed items are the essential ones, although there are others, which can represent a good basis for development of the economic system. Transformation of the economic system of RS will depend on many factors, primarily, of globalization that has contributed to the huge increase in trade, as well as of modern communication technologies. Globalisation has both positive and negative aspects, but it has certainly brought significant changes. The developed world is the bearer of the globalization process and it made the best use of current global circumstances. The solution is in creation of economic and political integrations, being in a cause-effect relationship with the process of globalization. Economic system of the Republic of Srpska simply has to be included in the such integrations.

1. INTRODUCTION

The global economic and financial crisis, created in 2008, is considered the largest world-wide crisis since the Second World War to this day. Experience from the Great Depression in the 1930s, demonstrated that a much smaller crisis propelled the governments of developed countries to undertake appropriate measures to mitigate the crisis and to minimize its negative effects. The economy starts to recover in cyclical periods in certain quarters, thus providing us with the impression that it is emerging from the crisis. There are quarters which recorded positive rates of economic growth, as well as there are those with negative growth rates within the same year. Through analysis of such situation in the economy of the Republic of Srpska and Bosnia and Herzegovina, it can be said, as proposed by Jurcic (2009), that "the W-shaped great crisis „has a negative impact on economic activity, as well as on human life (p.738). The economy of Republic of Srpska is characterized by a consumption which is higher than production, by imports greater

than exports, high foreign debt, constant loss of competitiveness, significant unemployment. The overall indicator of economic trends in the Republic of Srpska and Bosnia and Herzegovina (BiH) results in, or is measured through the growth of Gross Domestic Product (GDP). To be more specific, the real GDP of the Republic of Srpska in 2008 amounted to the growth rate of 6.3% when compared to 2007, while it faced a negative growth rate of 3.0% in 2009. Further analysis shows that GDP had positive growth in 2010 and 2011, but negative growth in 2012. Coverage of imports by exports still remains on an extremely low level, given that most products are imported as a result of reduced domestic production. Thus, the economic system of the Republic of Srpska (RS) has not yet recovered from the negative effects of the crisis. Therefore, it is essential to transform the economic system of the Republic of Srpska and adapt it to global processes. It is necessary to define the goals of economic policy, such as: increase of domestic production and competitiveness, increase of employment, increase of exports and ensuring balanced regional development. In accordance with the set objectives, it is necessary to define the measures and instruments of economic policy, followed by organizing the administration in accordance with the goals in order for them to be accomplished. The first step in transforming the economic system of the RS is the creation of a competitive macroeconomic environment.

2. ANALYSIS OF ECONOMIC SYSTEM OF REPUBLIC OF SRPSKA IN CRISIS PERIOD

The Republic of Srpska faced production stagnation even before the global economic and financial crisis. In times of crisis, such stagnation has been even more pronounced, especially in 2009, resulting in a negative growth rate of GDP, although a slight positive growth had been registered in 2010 and 2011, which by itself says much about the economic system of the Republic of Srpska. However, industrial production declined in 2012, resulting in a negative rate of economic growth. Negative economic growth rates in the reporting period are not the only unfavourable indicator of the economic system of the Republic of Srpska. Another very significant factor which should be noted is the enormous unemployment rate of 44%, the highest in the region. In addition to the above indicators, the economic system of the Republic of Srpska is characterized by public spending that exceeds production, imports that exceed exports, high foreign debt, and permanent loss of competitiveness which certainly are major problems in the selective international markets. The above significantly reduces the aggregate (foreign) demand (AD) which is why the economic system of the Republic of Srpska remained undeveloped and underdeveloped, which most certainly adversely affects the standard of the citizens and their life in the area.

Table 1: Changes in the Republic of Srpska GDP in the period 2007 – 2013

Indicator / year	2007	2008	2009	2010	2011	2012	2013
nominal GDP	7,352.00	8,490.60	8,236.30	8,318.20	8,682.40	8,584.97	8,760.80
GDP, nominal growth rate (in %)	12.30	15.50	-3.00	1.00	4.40	-1.10	2.00
Real GDP growth (in %)	6.60	6.30	-3.00	0.80	0.80	-1.10	1.90
GDP per capita (in BAM)	5,107.00	5,907.00	5,739.00	5,805.00	6,073.00	6,006.00	6,146.00
INDUSTRY TOTAL		16.8%	19.0%	5.0%	4.7%	-4.2%	4.1%

Source: www.irbrs.net

"According to the Labour Force Survey from 2013, the unemployment rate in BiH amounted to 27.50% which is significantly lower than the actually registered unemployment rate of 44.60%. From 2008 to 2012, unemployment rate rose steadily, as a result of economic crisis, only to be

decreased by 0.5% in 2013, in comparison to the year 2012, but still 4.1% higher compared to 2008"(Mastilo, 2014).

At the same time, the employment rate in the reporting period decreased from year to year, which is certainly unfavourable macroeconomic indicator for Bosnia and Herzegovina; in 2013 it amounted to 31.6%, which is 2% less than in 2008. The analysis shows that less than half of the working age population over 15 years of age in BiH is active (43.6%), including notable differences between the genders (men 62%, women 38%). When comparing the above information with the international standards, it is clear that the activity rate of 43.6% in 2013 is extremely low.

Table 2: Export and Import trends in the period of 2007 – 2013

	2007	2008	2009	2010	2011	2012	2013
Exports of goods (in million BAM)	1,671.60	1,921.80	1,672.90	2,177.80	2,561.90	2,374.30	2,588.10
Imports (in million BAM)	3,347.90	4,142.30	3,567.10	4,053.10	4,584.20	4,487.50	4,551.60
Export-import ratio (in %)	49.90	46.40	46.90	53.70	55.90	52.90	56.90
Share of exports in GDP	22.70	22.60	20.30	26.,20	29.50	27.60	29.50

Source: www.irbrs.net

The share of export in GDP of the Republic of Srpska in 2011 and 2013 was higher compared to other years and amounts to 29.50%, which is certainly insufficient but still higher when compared to the years of 2007, 2008, 2009, 2010 and 2012. Most of the demand comes from the domestic market; a decline in aggregate demand in the world market affects the decrease in domestic demand, which represents a serious problem for the economic system of the Republic of Srpska. The decrease in export has resulted in fewer adverse effects compared to the negative effects incurred by the reduction in domestic demand. The key macroeconomic problem of the economy of the Republic of Srpska is that its domestic consumption overcomes its production, resulting in imports exceeding the exports, thus increasing the deficit on the current account of the balance of payments.

COMPETITIVENESS as important segment of economy OF REPUBLIC of SRPSKA

According to Jurčić (2009), "A country's competitiveness represents its ability to produce goods and services which satisfy the criteria of the world market and to export such goods under the conditions of world competition, while maintaining or increasing living standards of its citizens" (p. 746). Whether a country is competitive or not is contained in the analysis performed in various ways. One of the simplest methods would be to analyse the trends of the indicators of a country's share of exports in total world exports or export of a group of countries within a certain period. Such analysis has revealed the country's ability to produce certain goods that fulfil the criteria of the world market. Likewise, the country's ability to maintain or increase its national income through export is

required to maintain or improve the living standard of its citizens, and is viewed by analysis of export goods according to their added value.

"The total volume of foreign trade of the Republic of Srpska for the period from January to December 2014 amounted to 7.64 billion BAM, which actually represents an increase of 500.53 million BAM or 7.0% in comparison to the same period of 2013. Export value amounted to 2.69 billion BAM, which is an increase of 105.95 million BAM or 4.1% as compared to the same period in 2013. Actual import in the period from January to December 2014 amounted to 4.95 billion BAM, an increase of 394.6 million BAM, or 8.7% when compared to the same period last year. Foreign trade deficit amounted to 2.25 billion, while it amounted to 1.9 billion KM in the same period of 2013. Import - export coverage amounted to 54.5%, while it amounted to about 56.9% in the same period last year "(Information on economic trends in the period from January to December 2014, p.3). The above data indicate that 2014 was marked by higher exports simultaneously increasing deficit due to a higher increase in imports compared to the increase in exports. Accordingly, all efforts should be focused on increasing domestic production and improving product quality, with the aim of increasing exports and reducing imports, thus lowering the deficit. However, a problem is more than evident, since the same import-export trends have been registered in the Republic of Srpska, which indicated that it would not be possible to achieve higher exports without increasing imports at the same time, since most of the necessary inputs are provided via international markets.

Table 3: Export - import coverage classified by economic groups of countries

	I-XII 2013	I-XII 2014
total	57%	54%
EU-28	101%	96%
EFTA countries	408%	374%
Other developed countries	29%	28%
CEFTA countries	71%	65%
Developing countries	2%	3%

Source: Information on economic trends in RS from January to December 2014, 2015, Chamber of Commerce and Industry of Republika Srpska, p. 19

The table indicates that the Republic of Srpska export-import coverage is higher in comparison to developing countries and other developed countries. The highest export-import coverage is present in EFTA countries (Iceland, Liechtenstein, Norway, Switzerland), with the Republic of Srpska being far from such result.

One of the indicators suggesting a drop in competitiveness and in the possibility of maintaining or improving citizen standard is the reduction of the share of industrial products which are more complex and characterized by higher added value. It should be noted that the export competitiveness is of particular importance for small countries such as the Republic of Srpska, one of the two entities in Bosnia and Herzegovina. As a rule, small countries have higher import dependence and imports should be recompensated through exports. As quoted by Jurčić, (2009) "Since imports in a small country increases in line with the increase in domestic demand and exceeds 60% or more of domestic consumption, it is necessary for the purpose of maintaining stability of the domestic economy, create conditions for the corresponding or even higher export through its economic policies " (p. 746). Therefore, the economic policy of the Republic Srpska should be properly defined to ensure the export of complex products, thus reducing the trade deficit.

According to the results published by the World Bank ("Doing Business 2015"), Bosnia and Herzegovina has been ranked as 107th, meaning that it moved up the level by twenty-four ranks when compared to the previous year 2013.

Table 4: Bosnia and Herzegovina's Economy Overview Ranking (Doing Business)

Topics	DB 2015	DB 2014	DB 2013	DB 2012	Change in rank compared to the 2011.
Starting a Business	147	174	162	162	- 15
Dealing with Construction Permits	182	175	163	163	+ 19
Getting Electricity	163	164	158	157	+ 6
Registering property	88	96	93	100	- 12
Getting Credit	36	73	70	67	- 31
Protecting Minority Investors	83	115	100	97	- 14
Paying taxes	151	135	128	110	+ 41
Trading across borders	104	107	103	108	- 4
Enforcing Contracts	95	115	120	125	- 30
Resolving insolvency	34	77	83	80	- 46
Total	107	131	126	125	- 18

Source: Doing Business (2015, 2014, 2013, 2012) World Bank.

Progress has been made in the registration of business entities, with the objective of simplifying procedures for the reporting and payment of taxes and contributions for employees (unified system of registration, control and collection of contributions). The idea is to facilitate and expedite obtaining investment loans for investment in infrastructure projects, which aim to create new values and new jobs, strengthen overall security and protection of investors and the timely resolution of insolvency. Comparing the quality of the business environment, Bosnia and Herzegovina and its entities are lagging behind other countries in the region, for example. Macedonia is ranked as 30th, Montenegro 36th, Slovenia 51st, Hungary 54th, Croatia 65th, Serbia 91st. Based on the above data it can be said that it is necessary to significantly improve guarantees for political and economic security, facilitate obtaining construction permits, improve registration of property and improve trading across borders, all for the purpose of improving the quality of the business environment. By grasping all the said problems that have been present for many years, it is clear that some effort has been made, but the positive effects are not yet measurable.

Another crucial matter regarding the above issues is the exchange rate, which is the most powerful instrument of economic policy. Its significance is even greater for small, open countries that naturally have high import dependence. The exchange rate defines the export -import price ratio, defines relative prices. Defining the exchange rate level affects the prices of imported goods in the domestic market and the prices of domestic goods in foreign markets.

3. ADAPTATION OF THE SYSTEM OF RS TO GLOBAL PROCESSES

Thanks to globalization, relations between people and countries are becoming more intense, where people are starting to think globally and to differently understand the world in general. According to Turek, globalization means a social process that tends to universality and unity of the world (as cited in Lončar, 2005, p.92).

Globalization has certain requirements: continuous investment into knowledge, technologies, research and development. When one starts to fall behind in the globalization process or fails to become incorporated into contemporary processes, it finds itself significantly lagging behind. Today's world has become increasingly "open" and "compacted", thus creating the well-known saying about the world being a "global village". Robertson believes that "globalization as a concept refers to "compacting" of the world, but also to raising awareness about the world as a whole" (as cited in Lončar, 2005, p 92).

It can be argued that globalization is a result of the development of knowledge, modern technologies, market economy and democracy. Globalization has enabled free movement of capital, goods, information and people through the dissemination and the abolition of borders. Environmental, cultural and social side of globalization is often disregarded in relation to its political and economic dimension.

The process of globalization has brought an increased influence and power of multinational corporations. Many countries in which such corporations are doing business, particularly small and poor countries, are often treated as their subsidiaries in financial terms, due to huge financial resources of multinational corporations.

GDP of these countries cannot be even remotely compared to the profits of such corporations. Multinational corporations, however, spread their influence and power onto all countries. No country can avoid "global search". Investment decisions of corporations are made on a global scale by transferring capital or resources from one country to another, thus affecting the (un)employment of millions of people and the level of economic activity in certain countries.

Globalization is a process that has begun and that cannot be stopped. Today, globalization is seen as a world without borders. Everything that is created begins to reflect globally. So today there are global products, fashion, consumers and even global citizens. Therefore, globalization can even be understood as a civilization stage.

Nowadays, the concern about the negative consequences of globalization is not being hidden anymore, but there are also positive sides of such process, embodied acknowledge development, better health care, higher food production and, in general, greater cohesion among people.

"Globalization has started processes present throughout the world. Interconnection and globalization of national systems and financial markets influenced the great vulnerability of the world's total economy. Therefore, all the world's capital markets reacted very quickly when a breakdown of "Asian miracle" occurred, followed by the collapse of the Russian system. That year, all international stock market indices have sharply dropped, causing a major slowdown in the world GDP "(NJAVRO mentioned in Lončar, 2005, p. 103).

Contemporary economic flows in the world economy and particularly developments regarding regional integration are becoming more dynamic and forward focused by coordinating economic policy in international economic regional integration. The scientific and technical revolution has assigned the technological factor as the most essential driver of economic development and launched a strong process of re-industrialization of the developed Western countries. Under such conditions, with increasing interdependence of national economies and with the increasing demand of resisting the American and Japanese competition (particularly in high-tech areas) the process of forming a single internal market of the EU or the European Economic Area has almost been

completed. The process of globalization, primarily owing to advances of funds of Transport and Communications, has turned the planet into a global village. Enormous opportunities have been made thanks to the division of labour and comparative advantages of different countries. Standardization is the essence of the globalization of production and trade process. Mere acceptance of standards does not imply that the barriers to their full and effective implementation in all countries have completely disappeared.

Forming the European Economic Area is an ongoing process, but one gaining momentum. It is certain that, once such market becomes truly unique, all those present will be faced with a much more intense competition than before, which is likely to cause many to lose ground in such competitive game. Creating a single European area will increase the productivity of labour and the internal division of labour in the countries of the EPP, which will further strengthen European international enterprises in the manufacturing, technological and marketing sense.

Thus, European changes provide companies a better chance, which is where the economic system of the Republic of Srpska also belongs, but they simultaneously warn that such companies shall bear even greater consequences for any failures and improper business conduct.

Globalization has penetrated into every aspect of our lives that is to say, according to the IMF, it marks a rapid integration of the economy around the globe, primarily through trade, financial flows, exchange of technology, information network and cross-cultural and historical heritage.

However, the major drawback of globalization is that not all countries have benefited from it, but have also suffered losses, particularly those countries that were against globalization. This becomes even more evident when referring to the countries that have accepted globalization, thus being faced with the problem of trade liberalization, which to this day has not even the basic elements of fair play. Still, rich countries impose barriers to imports of agricultural and textile products, primary raw materials, shoes, etc. from underdeveloped countries; A situation where more powerful countries have a comparative advantage. These barriers or import bans cost developing countries over 100 billion euro per year, which is more than twice the total aid these countries receive.

Globalization is a final stage of integration of world-wide markets.

4. THE GREAT TRANSFORMATION

The Republic of Srpska, as an entity within Bosnia and Herzegovina undergoing the long-lasting transition process, is facing inadequate economic policy which cannot accomplish defined goals. Hence derives the need for significant and rapid transformation of the overall economic and political system of the Republic of Srpska. Situation in the Republic of Srpska points to the fact that it is no longer worthwhile to produce and export, although those segments were already at a very low level. Such situation has not been caused by the mentality of the people, but by the unfavourable conditions caused by poor political decisions. Great Transformation implies a change in the approach towards work and politics. In economic terms, this means abandoning existing schools of economic thought and its ways of perceiving and solving economic problems. Therefore, one must abandon neo-liberal economic concept and its school of thought, and replace them by those which can resolve the accumulated economic problems in the society. It is not an easy process, but it will certainly last for a longer period.

It is imperative to create such conditions that would enable practical work, production, export and employment. The first step would be to determine proper economic policy goals: to increase domestic production and to be competitive; to stimulate employment and exports; to establish a balanced regional development. It is necessary to define measures and instruments of economic policy in line with these objectives, as well as to organize the civil administration in line with the objectives, measures and instruments. The creation of a competitive macroeconomic environment is the first step of economic policy undergoing the great transformation. The capital required for

transformation is, above all, present in our own experience caused by wrong policy and derived from historical experience of others in numerous similar situations. Our country entered the process of transition twenty years ago with higher national (liquid) capital, and lower indebtedness. However, today, when we are facing the challenges of the great transformation, the situation is completely reversed and much more severe: less capital, but with high indebtedness, which is why the challenge is greater.

For great transformation, which is absolutely necessary, the basis is in natural resources and geopolitical position of the Republic of Srpska. Instead of taking loans on international financial markets, it would be cheaper and better to use our natural resources (land, water, mineral resources, forests, energy) and convert them into competitive products. According to Jurčić (2009), "it requires organized policy, namely: the answer what to do, what to live off and are how are we to develop?" (p. 751). The answers to these questions should be sought in new policies, primarily in the industrial sector, reindustrialization and in the fiscal, monetary, regional development policy, social policy and all other policies that can contribute to the recovery of the economic system of the Republic of Srpska.

4.1. INDUSTRIAL POLICY

Industrial policy is considered a key policy. If the reindustrialization is added as a defined objective which should contribute to the recovery of the economic system of the Republic of Srpska, it can be rightfully said that it would contribute to increased domestic production. All this can be achieved by working in sectors where there are unused resources and unutilized capacities lacking infrastructure, as well as educated and skilled workforce.

An integral part of industrial policy and the policy of re-industrialization is the technological development policy, which cannot be performed without education policy. Both technology and education are production inputs, which is why their policies are derived from industrial policy. The policy which seeks to employ all production resources in the sectors in which to obtain the highest added value and increase the rate of employment must create the conditions and build physical and institutional infrastructure for new activities in which the production resources result in even greater added value. The task is also to ensure painless shutdown of "old" industries and provide support to the new ones. So far, there will hardly be any new industries if there were not foreign investors who would come to our region and invest their capital, thus boosting development. Republic of Srpska is a suitable place for such action as there are untapped opportunities in all economic activities, especially in power, agriculture and civil sector. Greater exploitation of these opportunities enables increasing domestic production and employment, reduction of import and creation of conditions for increased exports. Competitiveness must be protected and encouraged through market competition and by protection from monopolistic behaviour. This policy is a great chance for recovery of the economic system of the Republic of Srpska.

4.2. REGIONAL DEVELOPMENT POLICY

Mastilo and Rajak (2013) considered that "it is necessary to devise a modern regional policy, dictated by the requirements of the latest information and telecommunication technologies that are based on self-sufficiency and integration into the various networks" (p. 378). Each activity takes place at a location of a region. Regional development policies substantially provide the conditions for better development activities and balanced development of the entire area of the Republic of Srpska. So far, little attention has been paid to such issue, causing some parts to be almost completely neglected, while some regions experienced huge economic benefits at the expense of others. Therefore, the industrial policy and re-industrialization are in close contact with the regional development policy. Many activities related to natural resources are the basis for the development of the region. Likewise, activities that have evolved in the past and for which there is a physical and institutional infrastructure and education in certain regions, are the fastest to develop in those regions. Such actions are recognizable in developed country and any such countries locate the

production and group related production using such model, thus forming clusters. That way, the policy of balanced regional development is observed, thus reducing the production and institutional costs, contributing to the development of new products and new technologies. Balanced regional development provides not only economic but also political, social and any other stability.

4.3. STATE ADMINISTRATION

Implementation of economic policy requires that the administration is organized in accordance with its own objectives. The complexity of a state organization must be in accordance with the complexity of the structure of the economy and the complexity of products produced with the technology used and the markets it is sold in. Administrative capacity of a country is increased not only through physical increase but also by increasing knowledge of its units. Therefore, the appropriate forms of organization in compliance with the needs of economic development are indispensable. They usually range from scientific institutes, specialized agencies, departments, directorates to services. Any part of economic activity, or any part of the business process must be supported by an appropriate unit within the administration of the state. Creating conditions for new activities depends solely on the administrative capacity of the state, i.e. the ability of the state to create such conditions.

4.4. FISCAL POLICY

Fiscal policy refers to government spending and the tax system. Fiscal policy represents the most direct method to stimulate or discourage economic activity. Reducing government spending affects the decline in demand for goods or services. Similarly, increasing the tax rate reduces the current consumer income, leading to a rapid decline in consumption. Imperative is to focus on development primarily on the basis of domestic revenue, at least when it comes to public spending. No expensive loans should be used for resolving issues of salaries and pensions in the Republic of Srpska.

Credit debt should be utilized only in case of major infrastructure projects that will contribute to economic growth and rising employment, which is only reasonable solution.

Impact of fiscal policy is felt almost immediately; Defining such policy is so complex that it cannot be used in practice for fine economy adjustments. The reduction of tax burdens can contribute to increasing investment in our region and encourage employees to work, which would certainly stimulate economic growth.

The aggregate impact of government fiscal policy is determined by the budget surplus or deficit, i.e. on the basis of the difference between government revenues and expenditures. A large deficit means that the government spends much more than it collects through taxes. The key is to bypass the policies of the IMF, not allowing their expensive loans to become key revenue for budget of transition countries, including Bosnia and Herzegovina and its entities.

4.5. MONETARY POLICY

Republic of Srpska has no sovereignty when referring to its monetary policy. Unfortunately, neither does BiH, since the Central Bank of BiH is managed by the currency board, as in hardly any other country.

Only one more country in South East Europe has a currency board and faces the same problems as BiH. Therefore, our monetary system and monetary authorities are in the hands of others. We are to struggle for new solutions that move towards the sovereign monetary policy at the state level in order to enhance economic growth and achieve positive growth rates through Central Bank of BiH.

Consequently, monetary policy needs to be expansionary, but not too much, yet not restrictive at all. Its aim should be to assist ailing BiH economy through its placements.

Monetary policy certainly has to contribute to production and employment increase without neglecting its main task - price stability. Industrial, fiscal and monetary policy, in terms of economic and financial crisis should be more interdependent in order to mitigate the negative effects of the crisis.

5. CONCLUSION

It is necessary to transform the economic system in of the Republic of Srpska and adapt it to global processes. It is the main reason why it is no longer reasonable to work and produce in the Republic of Srpska. that the facts speaking in favour of such claims are reflected in negative GDP growth rates, high unemployment, very high import-export ratio. All the above demonstrates that the current economic policy is inadequate, that it favours pro-recession development and that it does not contribute to the achievement of defined objectives. This economic policy has very adverse and negative results. Therefore, it is necessary to formulate the direction of further development, as well as all other policies. It is primarily necessary to precisely define the objectives, as well as to define appropriate public policies and instruments for achievement of the established goals. The economic system of the Republic of Srpska, if it is to recover, has no other choice but to demonstrate willingness to accept investments, new ideas and to adapt to the global processes for the sake of raising the living standards of its citizens. It should be adapted to modern conditions and trends, such as globalization, that are present throughout the world and in the area where we live. Therefore, active participation should be made with the international economic trends and the international division of labour. It is necessary to have a certain competitive advantage in the process of active participating in the international market in order to achieve positive results or an appropriate development level. In fact, in the process of participating at the international (global) market, the companies face increasingly harsh global competition. Due to the high unemployment rate, it is necessary to synchronize the current education system with the labour market demand.

The problems for the Republic of Srpska are lack of recognizable final export production, as well as lack of comparative advantages that would strengthen its position at the international market. The relatively high concentration export ratio is unfortunately a consequence of the high percentage of basic raw product groups (metal ore, alumina, paper, wood, electricity), but also a consequence of modest production potential and their export. The Republic of Srpska urges for new investments in processing facilities which are export-oriented, which would certainly have a significant impact on GDP growth and reduce the enormous unemployment ratio, , primarily, reducing the unemployment of highly educated young staff. Nowadays, a high unemployment level of young people represents a dire issue in the Republic of Srpska. In other words, large-scale industrial investments would determine the direction and extent of future development, which would certainly increase the export of Republic of Srpska. The economic system of the Republic of Srpska must overcome the problem of the existing discrepancies between the domestic economy and the international trends and export flows. It is imperative to stimulate domestic entrepreneurial knowledge and skills that would economically and politically encourage the inflow of foreign direct investments (including the creation of conditions for the opening production-oriented branches of multinational companies focused onto the EU market), all of which can be a significant driving force for much needed economic recovery of the Republic of Srpska.

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