FACTA UNIVERSITATIS
Series: **Economics and Organization** Vol. 6, N° 2, 2009, pp. 161 - 176

THE ROLE OF THE INTERNATIONAL MONETARY FUND AND WORLD BANK IN SOLVING GLOBAL FINANCIAL CRISIS

UDC 339.732.4+339.732]:338.124.4

Izet Ibreljić, Amra Kožarić

Faculty of Economics, Tuzla, Univerzitetska 8, Bosnia and Herzegovina
ibreljic@yahoo.com, kozaricamra@yahoo.com

Abstract. *Late in 20th and in the early part of 21st century, through different forms of action plans and with ambitious steps, world financial institutions had engaged in solving of the emergence and impulsive spread out of global economy instability, which the developing countries have intensively encountered during the last decade. On the other hand, the results of these efforts have not been quite impressive. Considering predefined research problem, the general research aim in this paper is establishing the main and actual role and significance of IMF and World Bank in solving global financial crisis as well as concern level analysis due to global economy recession, and in final implication of those instable world trends on undeveloped economy and business in B&H. In this text, authors used methods of analysis, synthesis, comparison, description, generalization, induction and deduction, statistic data processing. Finally, fundamental conclusions of this research are: specifying the existence of a new international financial architecture, itemizing that predicted economic indexes of the situation and growth (GDP, interest rate, inflation, foreign currencies, deficit of the balance of payment) are quite volatile, because of credit crisis and transformation of credits into stock, specifying that the risks have been fogged and the market has been brought to delusion. Authors also, noticed that the current situation in global economy discriminates economic development in BH economy.*

Key Words: *IMF, World Bank, global financial crisis, B&H, possible solutions.*

INTRODUCTION

Late in 20th and in the early part of 21st century, through different forms of action plans and with ambitious steps, world financial institutions had engaged in solving of emergence and impulsive spread out of global economy instability, which the developing countries have intensively encountered during the last decade. On the other hand, the results of these efforts have not been quite impressive. There is still concern over repeated

Received October 26, 2009

emergence, of even more cruel global economy recessions and global instability spread out on international financial markets. As it seems, the situation is more serious than the officials, IMF and World Bank are ready to admit, and economists and world leaders are expressing ever more pessimism over heated financial instability and recessions. In general, the uncertainty of the market remains considerable. In this environment, the discussions will probably be aimed to actions that should be taken by the financial institutions to decrease risks in financial markets and to cut down on instability that has marked world economy in the 21st century.

Unfortunately, the crisis that begun in the American market was felt throughout the world. As time goes by, the real dimension and size of this crisis is shown. Even though the crisis broke out in the USA market, in short time it had its influence in markets all around the world. This contemporary state shows how much the markets of the world are really connected. In other words, in this way the crisis does not manifest itself only as a local event, but it takes global scope. Due to this situation, most of the crisis-infected countries begun taking actions, but with help of international financial institutions, especially IMF and World Bank. Besides that, the need emerged for all the countries to work together and take every necessary action to eventually reduce the consequences of globally spread financial problems. In that context, crisis-infected countries have taken certain actions to keep the damage and losses provoked by world financial crisis at lowest level possible. For example, USA took over the management over some banks, Ireland put all savings in state guarantee, and yet other countries announced packages and support programs publicly, and put large amounts of money on the market to save and support bank capital and whole banking system. In that sense, very fast the support packages which at the beginning were aimed only for banks in critical state, now included the companies from outside financial sector, which due to certain deficiency have problems with raising a credit or loan.

In accordance with this, and considering the commitment for mentioned research subject, in this paper we set the following *research hypothesis*: international financial institutions need to have clear and functional role in the elimination of world financial crisis, whenever and wherever they appear, in order to operate more efficiently with global financial system stability and to secure the foundation of its further development. Considering predefined research problem, *general research aim* in this paper is establishing the main and actual role and significance of IMF and WB in solving global financial crisis as well as concern level analysis due to global economy recession, and in final implication of those instable world trends on undeveloped economy and business in B&H.

1. INTERNATIONAL FINANCIAL INSTITUTIONS IN SOLVING THE PROBLEM OF WORLD FINANCIAL CRISIS

Considering financial crisis spread, more and more countries turned to IMF and World Bank in the last few months. Hungary, Iceland, Byelorussia, Ukraine, Serbia and Pakistan did this so far, and they are all negotiating with IMF over loan supported economy programs. Most of the economists agreed that crisis which hit global financial system reached a critical level, considering the intensity and crisis depth in the world. On one hand, the combination of government reactions, central banks, IMF, World Bank, regulating authorities and private sector has created basic stability that is still weak and not enough for world financial system. In accordance with that, in the last few months IMF has been preparing different help packages which would provide for the growing economy to be able to change national currency into American dollars with the aim to reduce pressure in the international market. These reciprocal currency arrangements for an increase of liquidity will be available just for a group of leading economies in development. They are even called liquidity improvement arrangements. The aim is to implement this arrangement very fast, since there is a strong urge for them right now. Opening reciprocal currency arrangements for central banks gives greater credit possibilities. Unfortunately, in case of such liquidity improvement arrangement not being present, left no choice for many developing economies but to depend on their own reserves and state stabilization funds in process of supporting their currencies and banks (Fisher, 2001).

In this process, IMF and World Bank work on special programs to protect developing countries from consequences of world financial crisis and to reduce their liquidity. Hence, IMF is announcing the creation of programs for quick help for counties in development that are faced with liquidity lack due to global financial crisis.[1] Within that program, 100 billion dollars of funds will be available to the countries, and these given funds will be paid off with 4% of interest rate (within the period of one year). Each country which satisfies the criteria will be able to borrow 5 times bigger amount then its own funds amount, that is the amount contributed to the fund by that country. After 3 months, a country will be able to reprogram the loan, with three rates most within 12 months period. Except from these, extra specific terms for granting a loan are that a country that is certified needs to maintain strong economy and interest rate policy, low and/or firm inflation. That is the main difference to contemporary IMF loan granting programs, which are reserved for poor economy countries which have to adjust their policies. This can serve as a capital "injection" for countries' banking systems. Some of the first users could be countries in development like Turkey, Brazil, and South Korea, which in normal circumstances do not have difficulties with loans, but now are faced with lack of cash due to constraint of loans granting by Western banks. In this context, giving more support to international financial institutions, EU leaders gave their support to overall bank saving plan which foresaw guaranties for inter banking loans and fund giving to banks in bad state. They also underlined the necessity for coordinating the surveillance system of the financial sector on European level.

Considering this, no bank should act without surveillance. Countries' governments announced securing around 2000 billion dollars for bank loans and other emergencies. So far Great Britain, Germany, France, Spain, Austria and Portugal have obliged to give 1960 billion dollars (IMF, 2008). A great part of this money will be directed to crisis overcoming, and in the meantime the rest of the European countries announced to give funds needed for this purpose. For example, only Hungary got 5 billion € of help from ECB to reduce the shortage in local banks, while IMF still helps Ukraine and Iceland with 14 billion dollars, and help is also directed to Serbia. Negotiations with B&H are still running. In accordance with the previously mentioned, economists from Asia and Europe

---

[1]IMF had made a decision to solve the financial crisis. IMF has $200 billions for emergency, and also IMF can pull additional $50 billions, of course if there is need. The loans have additional conditions for solving the macroeconomic problems.

are warning about global financial system reform. For example, China wants better regulation of financial system so that virtual economy would not affect real economy. Also, these countries asked IMF to take a bigger role in crises like this so they could be avoided next time. They corroborated their attitudes with the fact that the financial crisis in the world can be solved only with corresponding common activities on the global level, because it was shown that no country is immune to such devastation. The entire financial situation in world financial markets made investors sell everything that could be risky, and big manufactures like Brazil and Mexico already felt tremble, and their stock markets are down to 56%, that is 40% retrospectively. In the center of the attention are countries with high debts and banking sectors which depend on foreign financing sources, and especially on help and donations of international financial institutions. But, a question of what is the role of these institutions in solving global economy crisis may be asked. Today the risk of financial crisis is the strongest in Central and Eastern Europe. Actually, each economy of these regions, of course except Russia, has huge shortage and their saving accounts. Special concern is related to the fact that financial institutions of Central and Eastern Europe took their loans mostly in foreign currencies which led them to a situation where they have to pay off even more than they should, due to world financial turbulences. Or as an example we can take Asia, which already turned to IMF, World Bank and Development Bank of Asia, to secure the fund which should cover its 5 billion dollars debt. When we are talking about Balkan countries (B&H, Serbia, Croatia and others), these countries avoided the first wave of financial crisis, to some degree due to undeveloped banking and financial system, less use of complicated financial derivates which made global crisis effect, but also due to restrictive policy of their central banks. (Figure 1).

Fig. 1 Rating of Middle and East Europe (2008.)

Countries	Deficit calculating	Deficit of balance of payment	Rating
Ukraine	-1,7	-9,6	B+ stabile
Serbia	-2	-18,6	BB/b negative
Turkey	-2	-6,6	BBB/ negative
Hungary	-1,8	-5,5	BB/ negative
Croatia	-2,4	-10,1	BBB/stabile

Source: Lider, broj 184, godina V, 10. april 2009.

This data and the very bad rating can be explained with the fact that credit granting became more difficult. In Serbia, for example, banks are not very happy with granting loans in euros, and interest rates when dealing with dinars are too high. State guaranteed deposit levels were increased, first of all to prevent the outflow from commercial banks. In case of Croatia, tourist visits will probably not be increased in this year. Even though Croatia adopted the law that foreigners can buy properties, which eventually should have resulted in real estate market growth due to foreigners who are buying houses, this market could feel the credit ability downfall within the EU. Because of this, the world's biggest multilateral investors in the Central and Eastern Europe like EBDR, EIB, and World Bank Group (Kato, 2007) promised to support banking sectors in this region and to finance companies which had been struck by the world economy crisis entirely with 24,5 billion euros. This initiative represents extra charge to national measurement programs in their response to the crisis and will mobilize fast, thorough and coordinated financial help from international financial institutions, to support real sector credit system using private banking groups, first of all small and medium entrepreneurship. Financial help will include financing through owners participation increase and debt financing, credit lines and political risks insurance. These measures will take in consideration the different macro economic conditions and financial pressures in the countries of Eastern Europe.

In the overall two-year plan, EBRD will secure 6 billion euros for financial sector through 2009-10 year, in the case of financing through share portion increase and debt financing, for banks and directly for small and medium entrepreneurship, including trade financing. Further on, EIB should have secured 11 billion euros for credit granting for small and medium entrepreneurship in Central, Eastern and Southern Europe. Out of this amount, 5,7 billion euros is already available for fast payment, while 2,8 billion euros more should be certified by the end of the year. But, economy development on the global level during the past several years has decreased the importance and role of IMF and World Bank. Most of the countries made high interest rates so that there was no need for granting a loan for them. 6 years ago IMF marketed 40 billion dollars of loan, and in the year of 2007 this amount was just 1,9 billion dollars. Less credit signifies less interest rate income, so that IMF estimated 400 billion dollars loss by 2010, and planned firing 20% out of 2900 employees. But this year, IMF is back on the scene because of the financial crisis, which has global frame, so that IMF becomes a very important help institution. The fact is that this crisis shows the need for connection analysis between financial sector and real economy, and Fund is actually one of rare institutions that can deal with both sides of this problem (Camdessus, 2005). It is also not fair to put the blame on IMF for regulative cutting for financial sector which encouraged the crisis, considering there is large number of countries that took IMF' s program of financial sector evaluation with the aim to promote healthy financial practice. In this sense, 2 billion dollars of loan was granted to Iceland, Ukraine got 16 billion and Hungary 25 billion dollars. For the first time, credit had been granted to an EU member. More applications and requests are expected, because currencies of countries in development are falling down very fast and more and more companies have difficulties serving credits taken abroad. IMF leadership is aware that today's crisis asks for emergency measures, where their trading needs to be adjusted. This means that there is no time for long-term negotiations and many condition settings, but credit-granting process is shortened and simplified. Hungary got 25 billion dollars in record time, and this is only on condition to reduce calculated deficit from planned 2.9 to 2.6 % BDP. IMF has in disposal 250 billion dollars for emergency credit granting, which will not be enough for solving each problem. Developed countries have too much of their own problems so that they could secure new deposits for credits, so that IMF should turn to China or oil making countries, which again opens the question of political influence and control. For decision making in IMF, 85% of votes are needed, bearing in mind the fact that USA as its main investor controls 17% of votes. China has only 3% and increased investment in IMF will have bigger influence as its result, and most opposed to these reforms are Great Britain, France and Germany. Realizing their crucial role in solving globally spread problems, IMF and World Bank are considered as key members of this year's G-20 Summit in which results should be of no doubt. The chairman of the Bank, Robert Zoellick (Kim, 2006), considers that the most important thing is that after conclusion follows action, putting in the foreground the fact that citizens expect global, fast, and coordinated response to the crisis from their leaders. He marked the fact that leaders of developed economies met with leaders of growing economies as a step ahead, but also warned that even the poorest countries of the regions should not be forgotten. One-year help of 100 billion dollars to poorest countries is just like a drop in the ocean when comparing to trillions of dollars used as finance help in developed world.

In this context, World Bank will keep on giving finance, ideas, innovative products and partnership to help developing countries, will keep on investing in social welfare network, infrastructure and small and medium entrepreneurship, with the aim of opening workplaces and avoiding social and political disorder. World Bank announced that large accountant deficits of developed countries would additionally limit credit granting for poor countries. Still developing countries, which can go into debt, will pay higher interest rates in temporary financial climate. It is written in the World Bank report that 94 out of 116 countries in development record decreased their economy growth. It is obvious that IMF and World Bank are coming back to world economic and political stage but with purpose of being more global than a Euro-Atlantic institution. In the next period they should secure enough funds to continue playing their role in global crisis overcome.

Considering this, IMF suggests more transparency in getting enough information for supervisors, which will help to determine institutions connected enough to make system risk. IMF proposes as one of the solutions to reinforce market discipline and to introduce early crisis indicators, and also to come up with better loss dividing arrangement. In all this, it is suggested that IMF has committee supervising role in case of world crisis solving to stop the so-called financial markets anarchy. Creativity in methods and mechanisms is expected from these institutions in the future. Moreover, those institutions should organize their funds equally to help each member who is struck most by the crisis. Unfortunately, when it is late, they turn to credit granting from international financing institutions, and whose help in the past half of year was especially active in those countries where crisis made great damage. When dealing with this, one should bear in mind that world financial institutions, even in those situations and turbulent circumstances, will not have second thoughts and grant loans under harsh conditions.

2. The Role of IMF in World Financial Crisis Solving as the Key Element of its Reorganization and Reform in the Future

Almost the biggest spot for IMF reorganization was left in the direction of profiling and strengthening of this institution in the field of management, prevention and solving of future international financial crisis (so called: crisis management, crisis prevention, crisis resolution) as well as loan solving in countries in development. After Asian crisis, huge stress had been put on crisis prevention, because it was shown that its existence later causes much more complicated problems, whose resolution lasts longer or leaves more negative consequences on these countries. In the context of crisis management, IMF uses different approaches; on one hand, it gives support for countries which were suddenly struck by huge liquidity crisis and acts through two forms of credit arrangement like special reserve fund (SFR), with the aim of supplying great amount of help for countries with suddenly interrupted market confidence with pressure on capital, and Conditioned Credit Lines (CCL), designed to help countries affected by reflection action (Ramakrishnan, Zalduendo, 2006). This IMF's newest mechanism, that is CCL, represents a new thing when compared to standard and traditional ways of granting credit. They understand crediting with over-average interest rate of the country that leads healthy policy and credit granting with adjusted but restricted conditions that could be taken by the country. On the other hand, in long term IMF gives political advice, technological collaboration and financial support to poorest countries in deep crisis. Between these mentioned extremes many countries, which from time to time need Funds care and support, are found. Some of them continuously need extra funds. The Fund keeps these funds under control, adjusts them if needed and revalorizes the kind of World credit union. IMF and World Bank should ease financing of loan decrease operations by giving funds to countries which own certain funds with the goal to buy off their debt, debt guaranties and interest payoff. Fund should especially secure funds for countries in debt to fill up their reserves, which are decreasing by financing buying of instruments of their debt. An increased possibility of loan granting for countries in debt from IMF would help financing programs as well as creating protection mechanisms from interest rate increase which worsens the conditions of countries in debt, making help funds for counties in debt.

IMF has a central role in giving advice and financial support as help to many member countries to solve problems with official and commercial loans. IMF's final aim would be to secure that countries in debt achieve sustainable development and balance, which will enable growth and development as well as the normalization of relations with creditors including access to international financial markets. While used instruments evolved through time, basic elements of IMF's debt strategy stayed the same, in manner of program upgrade adjustments which are orientated on growth and structure reforms in debt country, in the manner of keeping healthy global economy surrounding and securing financial support from official and private sources. It is considered that IMF, World Bank and regional developing banks should write off their funds given to poor countries which, together with World Bank and regional developing institutions, lead efficient economic and social developing strategy. Special significance for IMF is crisis-controlling action. In accordance with this, procedures of system loan solving are the key that is the first element in crisis control. These procedures should recognize special bankrupt nature caused by external shocks and collective action problems between debt countries and great number of creditors. International bankrupt mechanisms, which reconstruct and guarantee adequate burden sharing, would bring about the reduction of impacts on unemployment and financial crisis social expenses and would secure foundations for stronger growth. Moreover, the attention is directed towards the creation of Sovereign debt restructuring mechanism, SDRM (Rajan, 2003). The goal of SDRM is to ease systematic, predictable and fast loan reconstruction in a case when IMF member's loan is judged to be unsustainable. If it is well designed and implemented, this mechanism should increase international market capital efficiency and should result in better global allocation of capital. The second approach, so-called contract approach, is based more on the use of Collective representation clauses (Collective representations clause, CAC) in some contracts. So far, only the questions under European law included CAC, while questions under the USA law have not, reflecting USA's financial market repulsion to these clauses. But responses to crisis were highly unsatisfactory. Their saving of government and investors with help packages is expensive and gives wrong initiative for lenders as well for borrowers, establishing conditions for deeper crisis. Allowing countries to suspend their loan payoff can have devastating effects on their economies, their neighbors and global financial markets as was shown in Russia in 1998 and Argentina in 2002.

In this context, moving towards the creation of systematic reconstruction loan seems like the most reliable and sustainable alternative for big payoffs and devastating effects. Second important component in crisis control is a new approach to financing program by IMF, which is based more on adjustment balancing mix and avoiding of over level payoff which suits for creditors. Finally, supply increase of emergency financing during the time of crisis should be considered as mechanism that should help developing countries to solve their financial instabilities. So far, mechanism adjusted by IMF looks limited in its size and amount of available resources. Even though this reform is mainly based on risk reduction from future crisis, some measures are still being tested. However, developing of Early warning system based on enforced IMF monitoring is considered to be the foundation for redesigning of international financial structure. This led to the creation of International market capital department in the frame of IMF, then adoption of standards and laws in several areas, creation of credit lines with fast access and amounts big enough to control with shock effects, and international supervision improvement by BIS and IMF, with the aim of strengthening financial market, including tax laws. As a part of these attempts, the so-called Financial Sector Assessment Program, FSAP, governed together form IMF and World Bank, significantly oversized in depth and size. Its main goal is to help developing countries to emphasize their "bouncing" in the wrong way (Williamson, 2006). Generally taken, these specified groups act on crisis prevention. They are based on well-established views that insufficient information gathering plays a key role in market failure of financial sector. Strong proof that volition and flight of capital was common stage of crisis during 1990s and is hidden behind general need for increase of financial supplies. These initiatives are useful, but their implementation will probably be gradual, because inheriting new norms and standards from official institutions and private companies requires significant period of time. Difficulties and expenses connected with fast implementation of these laws in the developing world, especially in poorest countries of the world, must be recognized. Also, there is a concern that developing countries are not included enough in the creation of these standards so that more attention should be given to this problem in the future

3. Financial Crisis in Bosnia and Herzegovina and its Influence on Liquidity Macroeconomic Stability

In today's turbulent surroundings, the question is how much the current world financial crisis can affect the financial system of B&H. It is certain that B&H would not be able to avoid consequences of that global crisis. Even though it is claimed that world financial crisis would not have direct consequences on B&H, we get daily warnings about its indirect consequences, which will be reflected through different forms of inflation, but also through interest rate increase, and strict conditions for loan granting. It would not be possible to avoid economic consequences too, which will mean less export, possible decrease in economic growth, less direct foreign investments, less tourists, less donator's help, weak privatization etc. Access to international money market became more difficult, and potential long-term liquidity problem also appeared. The fact is that life and working conditions in B&H got much worse, and our country in the 4th quarter of 2008 went into recession with all its consequences. When compared to other, faster-developing countries, B&H is constantly falling behind, which is shown in BDP data which is among the lowest in Europe. In 2008, this percentage even increased. However, first statistic evaluations say that BDP growth will go over 5%, and with accounted inflation will be lower than in 2007. BDP per citizen is 5 800KM, which is around 4000 euros, which proves that B&H has the lowest BDP in Southeast Europe. Financial structure also shows that only 1/3 of BDP is from newly made securities manufacturing activities in the country, and even 2/3 from services and public sector, which is most usually financed by B&H's diaspora, given away from international community representatives stationed in B&H, foreign credit granting, and gray market whose incomes are legalized through fictive firms and selling network on basis of imported goods and services. Despite that, most of B&H economists and analysts consider that the financial system, that is banking system, is pretty stable, and that it is not endangered by current and contemporary globally spread financial problems. In their opinion, the banking system is very stable, and saving deposits are safe. Guarantee is proposed to B&H Council of ministers for act amendments on obliged deposit insurance law where money amount guaranteed for citizens' saving role increased from 7 500 to 20000 KM. B&H Central Bank measures also have as their purpose the banking sector promotion. B&H Central bank promptly intervened with 200 million euros of cash, and decreased the obliged reserves rate from 18 % to 14 % by which 727 million KM was free, which should make the liquidity of B&H banks more successful.

Fig. 2 Banking sector of B&H – structure of capital

	31.12.00	31.12.01	31.12.02	31.12.03	31.12.04	31.12.05	31.12.06	31.12.07	30.06.08
Structure of Inaugural capital %									
Social capital	47	19	10	10	14	13	11	10	9
Domestic private capital	53	56	24	20	19	14	10	13	13
Foreign private capital		25	67	70	67	73	79	77	78

	31.12.00	31.12.01	31.12.02	31.12.03	31.12.04	31.12.05	31.12.06	31.12.07	30.06.08
Total number of banks	55	48	40	37	33	33	32	32	32
Property									
Banks in private property	36	36	34	30	27	27	27	30	30
Banks in social property	19	12	6	7	6	6	5	2	2

Source: http://www.cbbih.com, March 2009

Home risks for financial stability have their sources in potentially endangered fiscal position of B&H, significant payment increase for budget users and the structure of current account financing deficit. Interest rate risk in 2009 increased in B&H when compared to recent years due to the increase of referent interest rates. Devise risk in B&H is still low; also liquidity risk is still low (funds income from abroad which finances credit granting growth in B&H also assures spare of liquidity). However, risks can be leveled up if it comes to underestimation of accumulated credit risk and foreign sources instability of credit expansion financing.

Fig. 3 Banking sector- credit growth in B&H

	31.12.00		31.12.01		31.12.02		31.12.03		31.12.04		31.12.05		31.12.06		31.12.07		30.06.08	
	sum	%	sum	%	sum	%	sum	%	sum	%	sum	%	sum	%	sum	%	sum	%
Total credits	1.652	100	2.101	100	3.213	100	5.122	100	5.927	100	7.546	100	9.308	100	11.964	100	14.374	100
Companies in private property	833	50	988	47	1.304	41	1.860	36	2.478	42	3.256	43	4.075	44	5.288	44	6.555	46
Public companies	322	20	350	16	361	11	1.167	23	692	12	695	9	662	7	646	5	638	4
Population	375	23	647	31	1.415	44	1.966	38	2.628	44	3.442	46	4.374	47	5.685	48	6.690	47
Other sectors	122	7	116	6	133	4	129	3	130	2	153	2	197	2	345	3	491	3

Source: http://www.cbbih.com, March 2009.

World financial crisis consequences worries most B&H's business men who consider that the real crisis is just about to come, because real consequences of that crisis will actually be felt on the real level. Their opinion is shared by economy experts who emphasize the fact that the state, government and its officials act upon the crisis very slow, which does not go in favor of B&H's idea of joining European integrations. By the B&H Central bank councils decision from November last year, all new credit lines which commercial banks withdraw from abroad will not get into basis for reserves accounting. Primary goal of this role is to stimulate capital inflow into home banking sector and to give extra support to commercial bank activities. It is especially needed to give attention to coordination measures of monetary and fiscal policy, with emphasis on planning and budget projection for the next year. Further on, it is needed to keep public spending under control and to have real budget planning, and there are IMF and World Bank's recommendations to secure and save economy growth rate in B&H. In all that, unsatisfactory trends on the world financial market have caused panic and concern in B&H citizens-depositors who took 81 million KM in FB&H during October. In the same period, the amount of 17 million KM was withdrawn from the banks from Republika Srpska. Still B&H economists say that there is no room for panic, that the banks are operative and savings secured. However, with the deposit withdrawal from the banks, an additional problem is created in the form of decrease in funds level. All this affects citizens' standard, and especially businessmen activities, small and medium entrepreneurships and farming. In accordance with that, B&H Central bank intervened with around 200 million KM of cash, and with interest rate decrease from 18 % to 14 % and with additional 727 million dollars, it will try to help banks to keep their liquidity. Rate between capital level and active in B&H is around 16%, and in countries of Western Europe 11-12%, which is the consequence of strict capital level demands, and all this makes additional resistance of banking system in B&H. Foreign banks in world financial markets can easily help their banks – daughters in B&H

whose participation in foreign banking groups is very small, 3-5%. There is guarantee from EU countries' governments for foreign banks in B&H, which certifies that it will not have financial downfall of its branch in some country. Also, B&H banks are not financed in risky way, and do not grant long term loans; on the contrary, they are dealing with traditional banking and they are financed on the basis of home deposits.

Also banks in B&H do not have risky securities and other financial derivates that could cause a crisis. B&H banks do not weigh so much on stock markets, and their creditors know their financial stability very well and based on that give necessary financing with a price that reflects their financial ability. Keeping of uninterested money out of banks does not pay. In periods when the inflation was low that effect was not felt so much. Moreover, B&H banks have steady reserves of 6 billion and 830 million KM. In B&H, Central bank found additional 3.5 billion KM of funds from commercial banks which are protected. Banks have enough money, because certain funds are brought each day. However, world financial crisis has indirectly caused interest rate increase in world market, which affected the interest rate increase in home B&H market. B&H banks support savings, have secured deposits, because of that growth of 1% in interest rate is not expected, due to the fact that home banks will use their inside reserves to keep clients. In our countries we have banks whose economies are in developed countries of Western Europe. Their reaction to the crisis brought about money cost increase in market of capital which will increase interest rates and lower possibilities to borrow money from Western Europe's market in some real economy criteria for local banks in B&H. Unfortunately in some ways this is already reflected on interest rates in our country. Also, interest rate increase lowers investing level in one National economy.

Fig. 4 Interest rate in B&H

Date	Interest rate on deposit (KM) Private companies		Interest rate on deposit (KM) Population	
	Rate on short term loans	Rate on long term loans	Rate on a-vista deposit	Long term savings
2002	12,07	10,59	1,44	4,38
2003	10,54	9,18	0,96	3,40
2004	9,92	8,23	0,77	4,02
2005	9,03	7,70	0,63	3,63
2006	7,66	7,39	0,49	3,48
2007	7,03	7,13	0,35	3,98

Source: http://www.cbbih.com, March 2009

This previously presented data confirm that in the last three months of 2008 and in the beginning of 2009 B&H was faced with problems of global economy crisis which was first of all reflected on B&H finances, and then on real economy in decrease. According to consumer index, the export price of 644 products and services which make spending for living, inflation in B&H for the year 2008 was 7.4%. Prices of food were most affected by year's inflation, which went up for 12,1%, and when considering prices of food, the biggest increase was in prices of oil for 52.9%, and then rice 47.3%, bread and flour for 23%, milk, cheese and eggs for 18.4% and meat for 11.2%. For house expenses, that is for municipal services in the last year and water supply increased for 16.9 %, electricity for 12%, natural gas 20.6%, and solid fuels 14.7%. When taking these two departments together they make more than 50% of all spending, and it can be seen that price increase within them brought to overall annual inflation in B&H with more than 2/3 while the rest goes on technicalities, clothing, shoes, studying equipment and books.

Fig. 5 Index of consumers prices in B&H, 2008

Part	XII 2008 / XI 2008	XII 2008 / XII 2007	2008 / 2007
Index-total	99,4	103,8	107,4
Food and drinks	99,9	106,0	112,1
Clothes and shoes	99,8	97,1	97,9
Municipals services	100,0	108,6	108,5
Transport	95,4	111,2	111,2
Communication	100,0	105,9	106,4
Education	99,5	102,5	102,5

Source: http://www.cbbih.com, March 2009

From Figure 5 we can see that inflation would be much higher in the last three months if it were not for prices deflation, which was partially effected by oil derivates decrease for over 50%. However, it is evident that even the decrease in oil prices has not reflected on the rest of life supplies. It did not come to expected fall of prices of bread, fats, milk and sugar and municipal services. On the contrary, they are still growing. In December 2008, measured by consumer prices index, it came to prices increase in catering, health services, and prices of cleaning products and hygiene went up. Considering small fall of prices, B&H citizens still do not have enough money to pay for their consumer bags. Moreover, the number of the unemployed is still rising too. According to the Agency for work and employment in B&H, the number of registered employees is growing, however, their structure shows worrying tendencies. The number of employed in industries is in downfall, while the number of employed in services is in increase.

Fig. 6 Employment and unemployment in B&H

	Total
Employment	708.173
Unemployment	483.296
Unemployment rate	40,4%

Source: http://www.fzs.com, March 2009

The number of persons in the entire B&H in December 2008 who were looking for jobs in Employees Bureau, was 483.296, while in December 2007 it was 518.180. In 12 months, the number of the unemployed fell down for 38.884, which is normally a positive result. However, the unemployment rate is still high and is the highest unemployment rate in Europe. In its full strength, the problems will be rising during 2009. The production downfall, and brands from abroad will have laying off and unemployment growth as their consequence. Shortage of workers will appear in manufacturing and non-manufacturing sector, which could bring pension payoffs in question. Less and less money will be in circulation, even in public companies, funds, and budget users. Global economy crisis is slowing down big investment courses, which means that the interest for investing in B&H has been lowered, which is reflected on economy growth in B&H, that is on the size of BDP, slowing down of employment and in the worst case unemployment increase. The crisis can also affect the spending ability in home market and decrease the export of goods, which is already felt in some sectors (car making sector, service sector) and crisis will normally affect the real estate market, where the downfall of prices is expected due to credit reduction. Moreover, the crisis will also reflect on real economy sector, which strikes citizens most, because prices of consumer goods will sky rocket. Consequences of the world crisis on B&H economy will depend on measures from state and entity government actions to make recession invisible or at least less effective. Summed up, considering activities of international financial institutions on the territory of B&H, authorities in the country sent a request for credit arrangement granting from IMF, where this would entail strict macroeconomic measures which would suit IMF' s frames. In that case, budget rebalance should be done, holding down of payment growth in public sector, carrying out strict spending policy. We should not be fooled, however, because the world financial crisis could really shake up economy foundations in B&H.

We remind on IMF analysts' warning that B&H is one of the most endangered countries of southeast Europe. B&H is high in debt, as we do not cover even half of our import by our export, as well as there is danger of too much participation of foreign banks on B&H territory. Current happenings in the world financial market could disturb fragile balance of loans, spending and payoff in B&H. It is being explained that in any crisis banks take care of themselves and their trading in the country of origin. Due to this, they are ready to sign off some branches abroad, cut loan granting and then completely leave some markets. In that case B&H could be left without new loans. It is stressed that we have to take care about events in the world market and about serious warnings that are coming to us. The key question was if and how current events in the world financial market affect B&H economy. An answer to this question should be found as soon as possible, so B&H could be prepared for what is to come. As it seems now, a tough period of dependence on external factors is before B&H, with large external debt, goods exchange deficit, dependence of the entire economy on service trades, citizen debt for long term house loans, high difference between the employed and the unemployed… In this whole situation, "bright notes" can only be viewed from a point of view that Europe, that is the EU, is now in opportunity to become more powerful force than USA, where it will not just blindly follow every USA command, and where entering of B&H into EU it will be little bit better for B&H, than to stay out of this community. B&H can achieve and maintain higher economy growth rates only by reducing public spending and fiscal deficit, and by improving business surroundings. Potential growth of BDP in B&H is now around 6.2%. For faster increase of necessary economy reforms, less state participation and less fiscal deficit, more flexibility of market of work and jurisdiction are needed. Further limitation of public spending remains the main question, because this would decrease balance account deficit and total debt of the country. However, public consumption in B&H is making IMF concerned. Many things that need to be done are before B&H authorities, like stopping of inflation increase and current account deficit. IMF' s chairman, Straus

Kahn, declared that many assignments are facing B&H, like stopping of inflation increase and current account deficit as well as solving of internal debt issue, with the aim of maintaining fiscal stability and removing any possible risks connected to any of the mentioned. The prices of basic life supplies will grow until which period or does this represent only the begging of deeper crisis in the country?

CONCLUSION

The financial crises noticed on global level during the last decade of 20th and at the beginning of 21st century are different in nature and character when compared to those that happened before. Almost each of them were crisis of capital liquidation with many and relatively small stockholders. From that reason, compared to earlier loan crisis which were mainly problems of loan granters and relatively small number of official or private grant takers, the controlling of new generation of crisis demands a more sophisticated approach set, macro prudence indicators and political tools. New era makes an imperative to prevent global crisis, instead of recovering from it, considering that economic and social overloads in contemporary international monetary system are relatively bigger when compared to previous overloads, instabilities and financial crises. This new orientation makes it necessary to establish a new structural working frame that will allow economists and international financial institutions to control the global monetary system more efficiently, but also to increase capacity in capital absorption. In this context, concept creation of self-sustainability and stability in accordance with economy growth has become the integral factor of useful benefit which resulted from the integration into the world economy, at the same time eliminating risks. The implementation of strong macro economy politics and awareness of all kind of risks, together with institutional and absorbing capacities is necessary to be done. With that, international financial institutions should be ready to define factors of risk in advance both on regional, national and global level, as well as to build necessary mechanisms for prevention or overcoming of crisis situations. This is the final time to start with public debates on "new economy order", "crisis ahead", "global economy crisis", highlighting of the world financial institution role in crisis solving, and increased concern from global economy recession (or depression).

IMF was warning in its two-year report on *"Global financial stability"* for 2007/08 (IMF's Global Financial Stability Report) about the pretty unbalanced and highly dangerous situation in international financial markets and in contemporary international monetary system in general. The Fund made some directions that demonstrated how regulation and surveillance over financial market have fallen behind increased innovation development and business models that increase risks on real economy. Today IMF considers putting additional control mechanisms. New rules should forbid banks to put aside problematic funds from account, at the same time forcing banks to set aside more reserves which would be used in a situation of crisis. The Fund also stresses that the process of securing is spread on extremely complicated and hardly understood structures, and based on highly risky and low quality properties. The second problem, which the IMF analysts point out, is the creation of speculative bubble in real estate market. Following that, central banks should focus their attention on such markets during interest rate establishing. Developing countries mainly proved resistant to crisis in international financial market, but some of them are still vulnerable to decreased size of loan granting. So far markets in development were resistant to financial markets turmoil, and that is thanks to improved economic indicators, high foreign currency reserves and strong increase. IMF report also shows macroeconomic weak spots in series of countries, which make them sensitive on state worsening in external surroundings. The countries in which loan-granting growth is financed from external sources were put on the highest level, as well as those in which the need for financing of huge deficits is present. As the awareness of changes is spreading around the world, debates on international economy relations and international finance crisis are opening new questions, which lead to new and continuous debates. At the beginning of the 21st century already a lot had been spoken about the look of the new millennium in which new world economy order will be made.

However, that new global order still does not have a name, or defined character. Except from characteristic phenomena which used to be presented in form of international financial crisis and oversized volition in international financial markets from 1990s till this day, there is very little amount of agreement about which world politics characteristic will come in first plan in the 21st century. It is obvious that the depth and dynamic of the crisis is much more serious than it had been expected. The world has entered into the new millennium, but how should we be thinking of the future, when momentarily global world order is headed towards collapse? Population and public are discouraged by this pessimistic forecast, left on their own with downfall of faith in the future of global economy politics, with which the fear of yet another huge world economy crisis is growing. Than we should ask ourselves, is there a basis for believing that global crisis can be removed?

REFERENCES

1. Camdessus M., International Financial Institutions: Dealing with New Global Challenges», The Per Jacobson Foundation, Washington D.C, 2005.
2. Fisher S., Financial crises and reform of the international financial system, IMF, Washington D.C., 2001.
3. IMF, Reform of IMF Quotas and Voice: Responding to Changes in the Global Economy, IMF, Washington D.C., 2008.
4. Kato T., Challenges to the International Monetary System: Rebalancing Currencies, Institutions, and Rates, Salzburg Global Seminar, Salzburg, Austria, 2007.
5. Kim J., IMF –Supported Programs and Crisis Preventions: An Analiytical Framework, WP 06/2156, IMF, Washington D.C. Available [http://www.imf.org, januar 2008.], 2006.
6. Rajan R., The Future of the IMF and the World Bank, 2003.
7. Available:[http://www.faculty.chicagogsb.edu/raghuram.rajan/research/Future%20o%20IMF%20and%20World%20Bank.pdf,januar 2008.]
8. Raffer K., Reforming the Breton Woods Institution, Conference An Enterprise Odyssey, International Review of Economics and Business, Zagreb, 2002.
9. Ramakrishnan U., Zalduendo J., The Role of IMF Support in Crisis Prevention», IMF, Washington D.C., 2006.
10. Williamson J., Reforms of the international monetary system, Senior Fellow, Institute for International economics, World Economic Forum, Davos, 2006.

ULOGA MEĐUNARODNOG MONETARNOG FONDA I SVETSKE BANKE U REŠAVANJU PROBLEMA SVETSKE FINANSIJSKE KRIZE

Izet Ibreljić, Amra Kožarić

Krajem XX.-og i početkom XXI.-og stoljeća, svetske finansijske institucije su se, kroz različite forme akcionih planova i uz ambiciozne korake, angažovale na rešavanju problema nastanka i impulsivnog širenja nestabilnosti globalne ekonomije sa kojom su se intenzivno, posebno u poslednjoj deceniji susrele zemlje u razvoju i tranzicijske ekonomije. Međutim, rezultati tih napora nisu baš impresivni. I dalje postoji zabrinutost od nastanka ponovnih, čak i surovijih globalnih ekonomskih recesija i širenja nestabilnosti na međunarodna finansijska tržišta. Kako izgleda, situacija je ozbiljnija nego što su predstavnici vlasti, MMF-a i Svjetske banke spremni priznati, a ekonomisti i svetski čelnici sve više izražavaju veliki pesimizam zbog uzavrelih finansijskih nestabilnosti i recesija. Neizvjesnosti na tržištima, u celosti gledano, ostaju vrlo velike. U takvim uslovima, u narednom periodu će diskusije verojatno biti usmjerene na poteze koje bi trebale poduzeti svetske finansijske institucije da se ublaže rizici na finansijskim tržištima i umanje nestabilnosti koje karakterišu svetsku ekonomiju u XXI-om stoljeću. Stoga, u prvom delu ovog rada autori razmatraju ulogu i značaj MMF-a i Svetske banke u rešavanju problema svetske finansijske krize, dok će poseban fokus u ovom istraživanju biti usmeren prema ekonomiji Bosne i Hercegovine kao drugom delu rada, koja se nalazi u teškom ekonomskom položaju i kojoj preti veliki udar od svetskih nestabilnosti u narednom periodu.

Ključne reči: *MMF, Svetska banka, svetska finansijska kriza, Bosna i Hercegovina, rešenja*