

Optimizing Bosnian (BH) Macroeconomic Policy

Adisa Omerbegovic Arapovic

Sarajevo School of Science and Technology, Sarajevo, Bosnia and Herzegovina

adisa.omerbegovic@ssst.edu.ba

Postwar economy of BH has adopted free market economy mechanisms while inheriting most of the policies in the area of pension system, health care system, and market regulation from the time of centrally planned economy, which is unsustainable. BH has also adopted EU membership as the aim, which provides the constraint to policy making in many areas including macroeconomics, economic system and regulation of the market mechanisms. The additional constraints imposed on small open economy limit the macroeconomic policy of BH in achieving the external and internal balance. This paper analyzes present macroeconomic policy of BH using the standard open economy framework along the lines of Dornbush model, within the above mentioned limitations and constraints, and provides the optimum macroeconomic policy for BH, assuming the set objectives of economic growth, price stability and employment. We show that macroeconomic goal of employment can be reached, within constraints placed on BH economy, only through structural reforms that increase labor market flexibility, policies that tackle issues of efficient use of resources and effective mechanisms of market regulation.

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