

The Abandonment of the Poverty-Debt Circle by Dint of the Fiscal policy: the Modest B&H Experience

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Abstract: *The recent crisis that was taking the stage in the 2008/2009 pioneered in developed countries (US and UK) after the failure and merging of numerous financial institutions, bailout of banks, and downturns in stock markets, but soon occupied most countries around the globe. As the consequence of the aforementioned experience many developing countries were caught into a cycle of poverty and debt which impairs a long-term, stable and sustained economic growth.*

The story of developing nation's wide indebtedness starts with the advice of the International Monetary Fund (IMF) and World Bank to borrow the necessary capital to achieve the economic recovery. So they were forced to borrow heavily in order to survive. There is generally 'lack of agreement' about the effects fiscal policy may have during crisis and thus the recent economic crisis stimulated various policy responses globally. But literature agrees that fiscal policy growth support is significantly hampered by the high initial levels of public debt. Bosnia and Herzegovina, a SEE developing country, are not an exception from this plague.

It was floating for long without any BH institution in the 'driving seat' since the local fiscal coordination was in the hands of international community. In 2008, just prior to the Great recession but as the response to the missing fiscal responsibility International organizations advised the Fiscal Council of Bosnia and Herzegovina establishment. But the current situation in Bosnia and Herzegovina is quite away from this idea of sustainability and continuous economic development. In line with aforementioned statements, the objective of this study is to evaluate the existing fiscal policy in the developing Bosnia and Herzegovina in lights of existing relevant literature and to define modes that will perhaps brighten the crucial macroeconomic indicators.

Keywords: *Fiscal policy, debt, IMF, World Bank, unemployment, Central Bank, stand-by arrangement, developing.*

