

## Have the implemented and planned measures by the Government of RS been harmonized with the objectives of the Economic Policy?

*Due to limited space available in this edition of the Quarterly Economic Monitor, in the analysis there are several issues considered that we find important and that require additional attention by the public in the process of adopting the draft Budget of RS for 2012. These include the decrease of available budgetary funds due to increased annual public debt payments, and the consequential need to re-allocate expenditure between administrative budgetary items (wages, material costs, etc.) on one hand and developmental and social items on the other.*

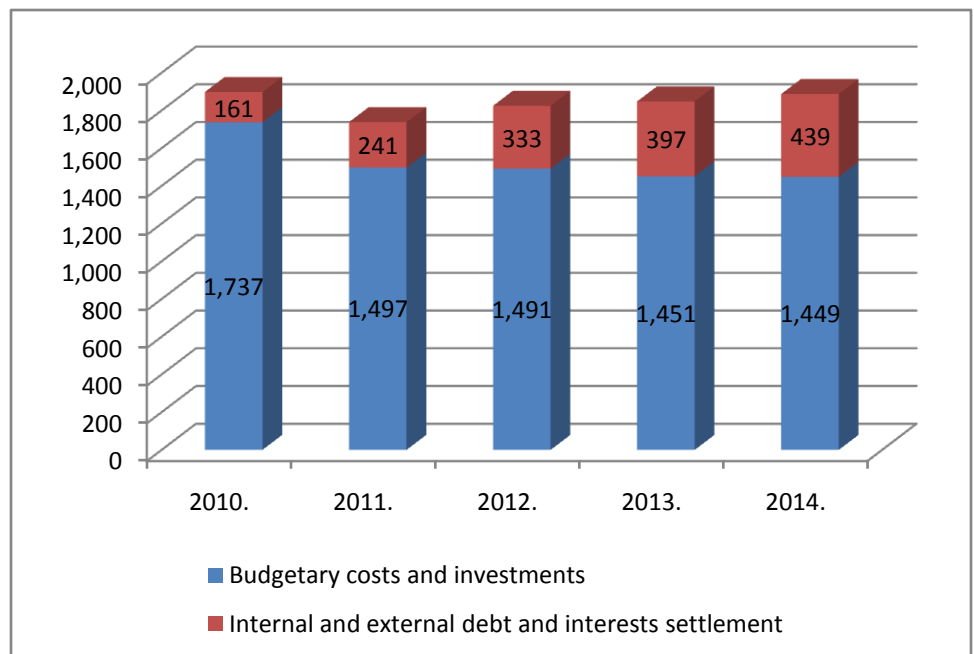
### Budget growing, available funds falling

**The amount of funds from the budget of RS needed for monthly debt settlements was growing increasingly.**

For this purpose, 293 million BAM or 16% of total budgetary funds has been planned to be spent in 2012. If we look at the planned tendencies of this cost from 2010 to 2014, we can see that debt payment increased from 6.7% of the budget or 124 million BAM in 2010 to the whole 23.2% of the budget or 439 million BAM in 2014. Such a strong increase of annual debt payments was the basic reason for which the

remaining amount of budgetary funds, including all budgetary costs and investments, were decreasing constantly during the period in question. This remaining amount of budgetary funds in fact represented a budget share available for realizing the development strategy and social function of the RS Budget, but we can see that it has been planned to decrease it by entire 16.6% (from 1.737 million BAM to 1.449 million BAM) from 2010 to 2014. According to projections in the Document of general budget of RS for 2012 to 2014 (DOB RS 2012-2014), such restrictive planning will result in decreasing the debt of RS to 32.6% of GDP in 2014.

*Tendencies among basic RS budget elements*



*Draft budget of RS for 2012, Document of general budget of RS 2012-2014*

However, it can be concluded that, over the period in question, a more significant economic and social recovery of RS within such framework will be difficult to realize, unless serious austerity measures are to be introduced in public administration (wages, material costs, etc.). It has to be noted that for realizing such cuts it is necessary to implement thorough reform processes, whereas this cannot be seen in the DOB RS 2012-2014.

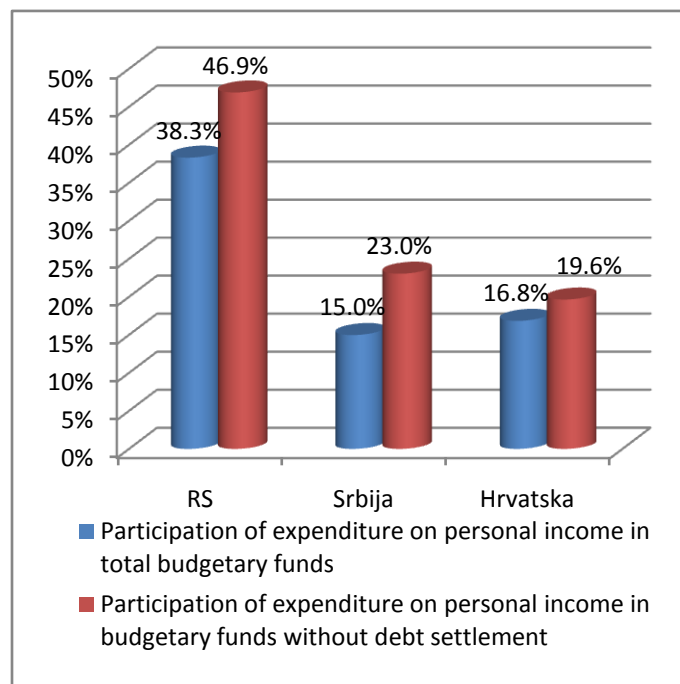
### **In 2012 almost half of available funds goes for wages**

**Expenditure on personal income in 2012 participated in the budget of RS with 38.3% and even 46.9% in budgetary funds remaining after making payments of external and internal debt.** Therefore, only 53.1% of the amount remaining after debt settlement will remain at disposal in the budget for financing developmental and social needs of the Republic of Srpska. For comparison, in 2010 35.7% of funds that remained available after debt payments had been made (or 792 million BAM) were spent on personal income, while 64.3% (1.117 million BAM)

was spent on developmental and social needs. Here, we can see that from 2010 to 2012 there was an increase in expenditure for personal income (+12.8%) and a strong decline of remaining available funds (-26.5%). If we compare the level of participation of expenditure on personal income in budgets of RS, Serbia and Croatia (see graph), we can see that this participation (before and after debt settlement) was significantly less in Serbia and Croatia in comparison to RS.

Furthermore, it has to be emphasized that during last two years both Serbia and Croatia adopted laws and decisions aimed at significant decrease of the number of employees in public administration. In 2009 Serbia adopted a law according to which the number of public administration employees could not exceed 28.400 people, which demanded 7% decrease of the number of employees. If we consider the information that RS currently employs around 35.000 people, it can easily be concluded that RS has excess public administration. It has to be added that, in our case, a portion of public administration tasks is performed in institutions on the level of B&H that employ around 22.000 people. If we assume that RS finances one third of labor costs in these institutions, than we conclude

*Participation of expenditure on personal income in the budget of RS*



*Sources: Draft budget of RS for 2012, budget of Serbia 2011, budget of Croatia 2011.*

that tax payers of RS finance additional over 7.300 administrative workers. Here, employees in institutions on local level (municipalities and cities) are not even included.

Next, we will deal with the strong negative influence of relatively high wages in public sector on the

competitiveness of private sector in view of employing quality staff. Namely, an average wage in the public sector of RS was 99.2% higher than an average wage in process industry in September 2011 (source: Institute of Statistics of RS). Even though this data can be taken with a certain degree of reserve (having in mind the fact that in process industry

*An average wage in the public sector of RS was 99.2% higher than an average wage in process industry in September 2011\*. Such policy decreases the competitiveness of private sector in view of employing quality staff. (\*Source: Institute of Statistics of RS)*

there is lower qualification structure of employees and that a great number of workers officially gets minimum wages, with the rest of monthly salary paid to them “under the table”), policy of far higher wages in public sector decreases the competitiveness of economic sector in view of employing quality staff. The level of an average public sector wage could hardly be reached in any of economic sectors, so better quality staff went to public sector. In order to avoid this situation, basic principle of having harmonized wages for a same vocation in public and private sectors should be respected. This would result in public sector sharing the fate of private sector, while the focus of social dialogue would be transferred from public to private sector. We would also like to mention that the level of parliamentary wages in parliaments of RS, B&H and FB&H significantly exceeded the limit of three average wages in the country, which was not evidenced in any of eight foreign parliaments analyzed in a study by Center for Research and Studies GEA (more detailed analyses of this problem can be found at [www.gea.ba](http://www.gea.ba)).

### **8.000 workers lost their job in real economy sector**

**Two previous years have proven our claim that increasing burdens on income cannot solve financial problems of public funds and budget of RS.** As we said, the solution for the problem of deficit in public funds and budget must be sought after in its basic causes, which, besides the economic crisis, include structural problems inside pension-disability and health system, unsustainably high costs of public administration and poorly directed social transfers.

By increasing taxes and contributions on wages there was a short-term increase of income on these grounds, but in long-term, negative effect was created on creating new workplaces in the economy.

Simultaneously, unreported employment was

additionally stimulated. Therefore, this measure increased negative effects of economic crisis on the labor market, which resulted in less employed persons in RS. Here are some facts in favor of this claim.

*Private firms in RS employed around 120 000 workers at the end of September, 2011, which was 8 000 less than in the same period previous year, while, simultaneously, the number of workers in public sector increased by 300, so at the end of September their number was 70.458\*. (\*Source: Institute of Statistics of RS)*

Private firms in RS employed around 120 000 workers at the end of September, 2011, which was 8 000 less than in the same period previous year, while, simultaneously, the number of workers in public sector increased by 300, so at the end of September their number was 70 458. The number of employees in process industry decreased by 4 000, while more than 3 000 workers lost their jobs in areas of wholesale and retail trade, and vehicle, motorcycle and personal use objects repairs. The number of workers in cooperatives sector in September of this year was less by 290 when compared to the last year, while multi-sectored firms lost 3 642 workers over the same period. In RS in September there were 237 923 employed persons, while at the same period 2010 the number was 247 388. The majority of employees worked in administration and defense, and also social security, 22 550 workers, and in comparison to last year the number of employees in these areas increased by 200. A great number of persons was employed in educational system as well, 20 152, and in comparison with 2010 this number has decreased by about 500 (Source: Institute of Statistics of RS). Speaking in long-term, the fall of employment (above all in private firms) results in the decrease of tax basis, which of course leads to lower revenues (and revenues were the basic reason for introducing this measure). A complete analysis of effects of these measures can be found in the Quarterly Economic Monitor number 4.