

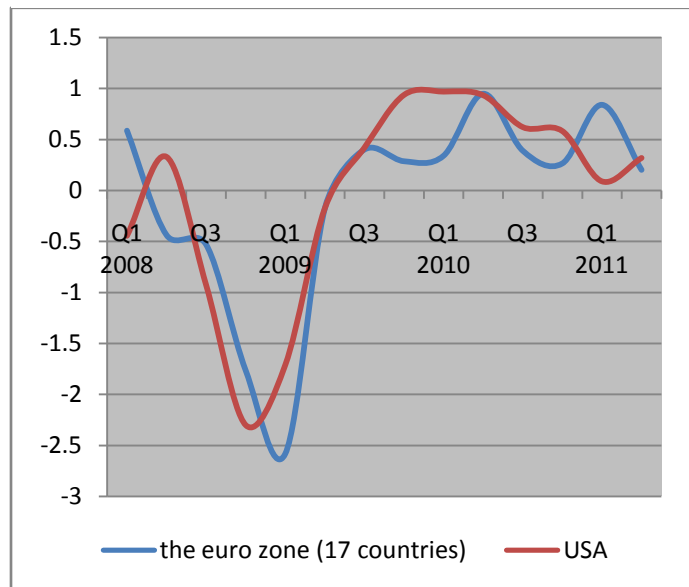
## **Are we sliding towards a new global recession and what that means for the Republic of Srpska?**

A series of unfavorable developments in the USA and the EU in August increased the fear of another recession period for the developed world. Lowering of the credit rating of the USA was called by some the moment of China becoming the leading economic power in the world. Standstill in the euro zone growth in the second quarter has complicated the question of current debt crisis in five EU countries. Estimations of the vicinity of another slide into recession differ, but everyone agrees that new arrangements of fiscal consolidation on EU level are needed. Past crisis made clear the high degree of dependence of RS on economic tendencies in the region. It should be noted that RS now finds itself in much worse position than prior to the previous recession, which increases the hazard of more drastic losses of domestic economic potential.

After the USA and the EU had technically exited recession at the end of 2009 and positive rates of economic growth had returned, this summer was marked by events that increased the risk of entering global recession once again. Among other, latest data on the euro zone's slowdown of 0.2% in the second quarter, primarily caused by stopped growth of Germany and France, have increased investors' worries about possible return of crisis and new disturbances at world market. In the previous period, a number of worldwide acknowledged economists has warned about the danger of double recession (shaped in the form of letter W), having in mind that risks of recession have never been fully eliminated. What is especially notable is the strong relation between economic developments between the USA and the EU, best proved by reactions of stock exchange indexes in both continents to developments "on the other side of ocean".

In further text, an overview of several events that marked the development of situation in world economy in August will be provided, along with a consideration of possible future developments, as well as possible implications on the economy of RS.

*Quarterly growth of GDP (growth in relation to previous quarter, adapted in terms of season)*



*Source: OECD, other sources*

### **Worryingly “hot” August in global economy**

Political crisis in the USA, which has developed in amidst of negotiations regarding increasing the allowed limit of public debt, has brought to light previously not so known weaknesses of the American fiscal system.

Inability to achieve agreement between Democrats and Republicans on this issue until the very last moment before deadline brought a great deal of insecurity and caused volatility of indexes at world stock exchanges. It is known that American bonds represent the most present instrument of “maintaining the value” (savings) for biggest investors and financial institutions in the world, including most central banks. Inability to charge interests on these securities and a consequential fall of their market value would directly reflect on property value of these institutions, and would additionally worsen their attitude towards future global economic developments. Bearing in mind the debt crisis in Greece, which has appeared prior to these events (and has been lasting still), it can be said that world market has become more sensitive now to fiscal problems in countries in which there are no political conditions for solving this issue.

#### ***Last chance***

*On August 2 this year, only ten hours before lawful deadline, the president of the USA, Barack Obama, signed difficultly agreed new law on allowed public debt level, increasing the limit by another 2.4 trillion USD (from then 14.3 trillion USD). This law, under the pressure by the Republican Party, brings decrease of public expense of at least 2.1 trillion USD over next ten years. Had the law not been adopted on time, the USA would be facing the problem of not being able to pay their own financial obligations for the first time in history.*