



BOSNIA AND HERZEGOVINA: Awaiting change

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Bosnia and Herzegovina was enjoying respectable growth before being hit by floods in May and June. As a consequence, it is quite likely that no growth will be registered for the current year as a whole. If industrial production and exports hold up, risks may prove to be on the upside. In the medium term, acceleration of growth will hinge on two factors: the efficiency of the reconstruction efforts and the outcome of the crucial parliamentary elections on 12 October. The President of Republika Srpska secured Putin's support, thus making the polls a highly competitive affair. The outcome in that entity proved mixed, with predictable outcomes in the rest of the country, so politics will continue to be a drag on economic recovery.

After a good start in the first quarter, the shock of the floods in May and June dimmed the growth prospects for this year. Some speed-up can be expected in the next couple of years, which could even surprise on the upside. That could happen if reconstruction and recovery efforts prove efficient enough to increase public and, by consequence, private investments too. Otherwise, growth prospects depend on the increase in industrial production and of exports. Public and private consumption will contribute little. That, however, depends on the aftermath of the parliamentary elections, which may still usher in some more meaningful changes.

Economic dynamism comes from foreign investments and exports, mostly in industrial goods. Those may start to recover later in the year and especially next year when the effects of recovery due to reconstruction efforts should be felt. These developments are somewhat more uncertain than before due to the outcome of the parliamentary and presidential elections which were inconclusive. More is also at stake for all political actors. That is in part due to the emergence of new political actors that hope to cash in on the widespread social dissatisfaction expressed forcefully in the social uprising last year and earlier this year. There is a pervasive feeling that the country needs to emerge from almost two decades of post-war stalemate.

In terms of expressing dissatisfaction, it is the Federation where most of the action is. Some of the old parties have fallen in disrepute due to corruption and ineffectiveness. There are a number of new groups and faces that seek to take their country back. Still, the main unknown is the outcome in Republika Srpska. The sense is that this Serbian entity is ready for change, but the ruling party and its leader are not ready to give up. They have turned up the independence and secession rhetoric pointing to the precedents in Crimea and Scotland in recent times. In the past, they argued from the position of strength, as the Serbian entity was arguably doing better than the Federation, but in the current crisis the secessionist call is basically the last resort to stay in power.

Another change is in the outside support. In the past, the EU was strongly supportive of Bosnia and Herzegovina while the then Serbian government was flirting with secessionist sentiments. In that, Russia was mostly providing implicit support, staying clear of more open interference. This has all changed. The EU seems somewhat uninterested, while the new Serbian government is distancing itself from the secessionist leadership of Republika Srpska and is trying to mend fences with the government in Sarajevo. Russia, by contrast, has come out openly in support of Milorad Dodik, the president of Republika Srpska, and Putin himself has expressed his expectations that the Serbian voters will make the right choice. Promises of financial aid and of investments in the South Stream project, which should branch out into Bosnia and Herzegovina, have been made. That has made the election outcome uncertain.

Depending on that outcome, the policies of the new government and of the new leadership of the entities and the local governments will change or stay the same. Assuming a messy post-electoral process, economic activity may recover rather sluggishly. Otherwise, post-flood recovery could lead to better than expected speed-up of growth. In the medium run, the economy should continue to grow at a pace of up to 3% per year. Rather faster and stronger recovery is feasible with institutional and political changes.

Table 1 / Bosnia and Herzegovina: Selected Economic Indicators

| | 2010 | 2011 | 2012 | 2013 ¹⁾ | 2013 January-June | 2014 | 2014 Forecast | 2015 Forecast | 2016 |
|---|--------|--------|--------|--------------------|----------------------|--------|------------------|------------------|--------|
| Population, th pers., mid-year | 3,843 | 3,840 | 3,836 | 3,832 | 3,832 | . | 3832 | 3832 | 3832 |
| Gross domestic product, BAM mn, nom. ²⁾ | 24,879 | 25,772 | 25,734 | 26,259 | 12,679 | . | 26,300 | 26,800 | 27,900 |
| annual change in % (real) ²⁾ | 0.8 | 1.0 | -1.2 | 2.1 | 2.6 | . | 0.0 | 1.0 | 2.0 |
| GDP/capita (EUR at exchange rate) | 3,300 | 3,400 | 3,400 | 3,500 | . | . | 3,500 | 3,600 | 3,700 |
| GDP/capita (EUR at PPP) | 6,700 | 7,000 | 7,100 | 7,300 | . | . | . | . | . |
| Consumption of households, BAM mn, nom. ²⁾ | 21,294 | 21,927 | 22,338 | 22,573 | . | . | . | . | . |
| annual change in % (real) ²⁾ | 0.1 | -0.1 | -0.8 | 0.3 | . | . | 1.0 | 2.0 | 2.0 |
| Gross fixed capital form., BAM mn, nom. ²⁾ | 4,299 | 4,800 | 4,783 | 4,703 | . | . | . | . | . |
| annual change in % (real) ²⁾ | -11.1 | 7.3 | 1.1 | -1.2 | . | . | -1.0 | 3.0 | 5.0 |
| Gross industrial production | | | | | | | | | |
| annual change in % (real) | 4.3 | 2.4 | -3.9 | 5.2 | 5.2 | 0.3 | 1.0 | 5.0 | 5.0 |
| Gross agricultural production ³⁾ | | | | | | | | | |
| annual change in % (real) | -6.1 | 1.7 | -8.9 | 5.0 | . | . | 0.0 | 5.0 | 5.0 |
| Construction output total | | | | | | | | | |
| annual change in % (real) | -14.3 | -5.6 | -3.1 | -1.1 | -0.1 | 9.3 | 5.0 | 5.0 | 5.0 |
| Employed persons, LFS, th, April | 842.8 | 816.0 | 813.7 | 821.6 | 821.6 | 812.0 | 823 | 831 | 840 |
| annual change in % | -1.9 | -3.2 | -0.3 | 1.0 | 1.0 | -1.2 | 0.2 | 1.0 | 1.1 |
| Employees total, reg., th, average | 695.8 | 691.0 | 686.9 | 686.1 | 684.8 | 699.8 | 700 | 710 | 720 |
| annual change in % | -0.8 | -0.7 | -0.6 | -0.1 | -0.4 | 2.2 | 2.0 | 1.4 | 1.4 |
| Unemployed persons, LFS, th, April | 315.1 | 310.9 | 316.6 | 311.5 | 311.5 | 308.0 | 312 | 311 | 310 |
| Unemployment rate, LFS, in %, April | 27.2 | 27.6 | 28.0 | 27.5 | 27.5 | 27.5 | 27.0 | 27.0 | 27.0 |
| Reg. unemployment rate, in %, end of period | 42.8 | 43.9 | 44.6 | 44.5 | 44.4 | 43.8 | 45.0 | 45.0 | 45.0 |
| Average monthly gross wages, BAM | 1,217 | 1,271 | 1,290 | 1,291 | 1,285 | 1,288 | . | . | . |
| annual change in % (real, gross) | -1.0 | 0.7 | -0.5 | -0.1 | -0.9 | 1.7 | 1.0 | 1.0 | 1.0 |
| Average monthly net wages, BAM | 798 | 816 | 826 | 827 | 824 | 830 | . | . | . |
| annual change in % (real, net) | -1.0 | -1.4 | -0.7 | -0.1 | -0.8 | 2.3 | 2.0 | 1.0 | 1.0 |
| Consumer prices, % p.a. | 2.1 | 3.7 | 2.0 | 0.2 | 0.7 | -1.5 | 0.0 | 1.0 | 2.0 |
| Producer prices in industry, % p.a. | 1.0 | 5.5 | 0.3 | -1.8 | -1.2 | -1.4 | 0.0 | 1.0 | 2.0 |
| General governm.budget, nat.def., % of GDP | | | | | | | | | |
| Revenues | 43.7 | 44.1 | 44.5 | 43.4 | . | . | 44.0 | 44.0 | 44.0 |
| Expenditures | 46.1 | 45.3 | 46.6 | 45.6 | . | . | 46.5 | 46.0 | 46.0 |
| Deficit (-) / surplus (+) | -2.5 | -1.3 | -2.0 | -2.2 | . | . | -2.5 | -2.0 | -2.0 |
| Public debt, nat.def., % of GDP ⁴⁾ | 39.1 | 40.8 | 44.6 | 42.5 | . | . | 44.0 | 45.0 | 45.0 |
| Central bank policy rate, % p.a., end of period ⁵⁾ | . | . | . | . | . | . | . | . | . |
| Current account, EUR mn ⁶⁾ | -781 | -1,268 | -1,213 | -794 | -367 | -506 | -1,080 | -1,000 | -1,200 |
| Current account, % of GDP | -6.1 | -9.6 | -9.2 | -5.9 | -5.7 | . | -8.0 | -7.0 | -8.0 |
| Exports of goods, BOP, EUR mn ⁶⁾ | 2,189 | 2,625 | 2,575 | 2,799 | 1,383 | 1,449 | 2,900 | 3,200 | 3,500 |
| annual change in % | 33.2 | 19.9 | -1.9 | 8.7 | 10.6 | 4.7 | 5.0 | 10.0 | 8.0 |
| Imports of goods, BOP, EUR mn ⁶⁾ | 6,090 | 6,892 | 6,893 | 6,788 | 3,214 | 3,457 | 7,200 | 7,600 | 8,000 |
| annual change in % | 8.3 | 13.2 | 0.0 | -1.5 | -2.1 | 7.6 | 6.0 | 5.0 | 5.0 |
| Exports of services, BOP, EUR mn ⁶⁾ | 1,511 | 1,477 | 1,484 | 1,506 | 713 | 670 | 1,500 | 1,560 | 1,640 |
| annual change in % | 5.9 | -2.2 | 0.5 | 1.5 | 5.1 | -6.0 | -0.5 | 4.0 | 5.0 |
| Imports of services, BOP, EUR mn ⁶⁾ | 407 | 394 | 380 | 360 | 154 | 156 | 380 | 400 | 420 |
| annual change in % | -10.3 | -3.2 | -3.6 | -5.3 | -0.4 | 1.6 | 5.0 | 5.0 | 5.0 |
| FDI inflow (liabilities), EUR mn ⁶⁾ | 331 | 340 | 261 | 241 | 277 | 239 | 300 | 400 | 400 |
| FDI outflow (assets), EUR mn ⁶⁾ | 59 | -4 | 1 | 16 | 4.7 | -12.6 | 0 | 0 | 0 |
| Gross reserves of NB excl. gold, EUR mn | 3,268 | 3,207 | 3,246 | 3,530 | 3,214 | 3,559 | 3,500 | 3,500 | 3,300 |
| Gross external public debt, EUR mn | 3,215 | 3,406 | 3,659 | 3,788 | 3,727 | 3,843 | 3,900 | 4,100 | 4,300 |
| Gross external debt, % of GDP | 25.3 | 25.8 | 27.8 | 28.2 | 27.8 | 28.6 | 29.0 | 29.9 | 30.1 |
| Average exchange rate BAM/EUR | 1.9558 | 1.9558 | 1.9558 | 1.9558 | 1.9558 | 1.9558 | 1.96 | 1.96 | 1.96 |
| Purchasing power parity BAM/EUR | 0.9686 | 0.9618 | 0.9471 | 0.9464 | . | . | . | . | . |

1) Preliminary. - 2) According to ESA'95 (FISIM not yet reallocated to industries). - 3) Based on UN-FAO data, 2013 wiiw estimate. -

4) Based on IMF data. - 5) Bosnia and Herzegovina has a currency board. There is no policy rate and even no money market rate available. -

6) Converted from national currency and based BOP 6th edition.

Source: wiiw Databases incorporating national statistics and IMF. Forecasts by wiiw.