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## Bosnia and Herzegovina: Fear of and hope for Spring

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With a dysfunctional political system, Bosnia and Herzegovina has been weathering the crisis more or less as well as the better performing countries in the region. The recessions have not been very deep, while the recoveries were rather slow. Exports have held up as has industrial production, while private and public consumption and investments less so. In any case, given the weak economic and institutional fundamentals, it is meaningful to say that things could have been much worse.

Probably the main problem is that the country is basically ungovernable. However, it has also been risk-proof concerning social and political dissatisfaction because there were hardly any country-wide policy issues and centres of responsibility. So, the country succeeded in achieving political and social stability through disintegration of one kind or another. This state of political irresponsibility was for a while supplemented by the interventions of the High Representative, but this instance has become rather ineffective already before the economic crisis.

Lately there has been some movement to put pressure on the various levels of government to start dealing with common interest such as a state-wide social security number. Thus, growing social dissatisfaction with the bad economic situation coupled with policy and political impotence may offer some chances of social and political mobilisation which could result in long overdue political changes in next year's general elections. This is the rising hope of a B&H Spring arriving.

This somewhat new situation, if it were to develop, may lead to a reaction by the incumbent politicians and parties that is not completely predictable. On the one hand, the fear of

change may lead them to try to work something out in order to prevent a complete collapse of the current political power set-up. On the other hand, they may be tempted to intensify the crisis with the aim to mobilise the support of their ethnic groups. An additional incentive to move into just that direction is found by some in the upcoming centenary of the start of World War I. That may be an occasion for reconciliation and of an agreement to start working together or the pretext to refight the war all over again, politically this time around.

Against this political and social background, a worsening economic situation, even if some slow recovery materialises this year and the next, may ignite social and political activism not seen in that country for a long time and a possible destabilisation. A positive contribution to change with stability can be provided by the start of negotiations between the EU and Serbia. That should incentivise the local political leaders and parties to turn more towards the EU for fear of B&H being hopelessly left out.

In the short term, the policy framework will remain restrictive because of the currency board and the pressure, by the IMF among others, for fiscal consolidation. If industrial production continues to improve and exports hold up, that should spur more investment and some speed-up of the recovery of growth. But the needed policy turnaround is hardly possible without some kind of political Spring arriving to this country.

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## Bosnia and Herzegovina: Selected Economic Indicators

	2009	2010	2011	2012 <sup>1)</sup>	2012 1st quarter	2013	2013	2014	2015
							Forecast	Forecast	Forecast
Population, th pers., mid-year	3843.0	3843.1	3839.7	3843.0	3843.0	.	3842	3842	3842
Gross domestic product, BAM mn, nom. <sup>2)</sup>	24202	24773	25666	26000	.	.	26600	27700	29100
annual change in % (real) <sup>2)</sup>	-2.8	0.7	1.0	-0.7	.	.	0.8	2.0	3.0
GDP/capita (EUR at exchange rate)	3200	3300	3400	3500	.	.	3500	3700	3900
GDP/capita (EUR at PPP)	6200	6400	6600	6600	.	.	.	.	.
GDP by expend. approach, BAM mn, nom. <sup>2)</sup>	26378	26410	27240	.	.	.	.	.	.
annual change in % (real) <sup>2)</sup>	-4.2	-0.6	2.0	.	.	.	.	.	.
Consumption of households, BAM mn, nom. <sup>2)</sup>	20927	21338	21918	21900	.	.	.	.	.
annual change in % (real) <sup>2)</sup>	-4.6	0.1	-0.3	-2.0	.	.	0.4	1.0	2.0
Gross fixed capital form., BAM mn, nom. <sup>2)</sup>	5380	4779	5241	5400	.	.	.	.	.
annual change in % (real) <sup>2)</sup>	-19.4	-11.8	7.0	0.0	.	.	3.0	5.0	5.0
Gross industrial production									
annual change in % (real) <sup>3)</sup>	1.5	3.7	3.2	-4.3	-6.0	6.8	4.0	5.0	6.0
Gross agricultural production									
annual change in % (real)	4.2	-5.3	1.8	.	.	.	.	.	.
Construction output total									
annual change in % (real) <sup>4)</sup>	-7.2	-12.4	-5.1	-5.0	.	.	.	.	.
Employed persons, LFS, th, April	859.2	842.8	816.0	813.7	813.7	.	810	812	820
annual change in %	-3.5	-1.9	-3.2	-0.3	-0.3	.	-0.5	0.2	1.0
Employees total, reg., th, average <sup>5)</sup>	697.6	695.7	691.0	688.4	648.7	649.4	650	655	660
annual change in % <sup>5)</sup>	-1.1	-0.3	-0.7	-0.4	.	0.1	-0.2	0.8	0.8
Unemployed persons, LFS, th, April	272.3	315.1	310.9	316.6	316.6	.	313	312	311
Unemployment rate, LFS, in %, April	24.1	27.2	27.6	28.0	28.0	.	28.0	28.0	27.0
Unemployment rate, reg., in %, end of period	42.4	42.8	43.9	45.9	45.5	46.1	46.0	45.0	45.0
Average gross monthly wages, BAM	1204	1217	1273	1290	1284	1281	1310	1350	1390
annual change in % (real, net)	5.6	-1.1	-1.4	-0.9	-0.5	-1.1	0.0	1.0	1.0
Consumer prices, % p.a.	-0.4	2.1	3.7	2.1	2.3	0.9	1.5	2.0	2.0
Producer prices in industry, % p.a. <sup>6)</sup>	-3.2	0.9	3.7	1.5	1.1	0.8 <sup>14)</sup>	1.0	2.0	2.0
General governm.budget, nat.def., % of GDP									
Revenues	43.0	43.8	44.2	43.5	.	.	43.5	44.0	44.0
Expenditures	47.5	46.3	45.5	46.5	.	.	46.0	46.5	46.0
Deficit (-) / surplus (+)	-4.4	-2.5	-1.3	-3.0	.	.	-2.5	-2.5	-2.0
Public debt, nat.def., % of GDP <sup>7)</sup>	36.2	39.6	40.7	43.1	.	.	43.0	44.0	45.0
Central bank policy rate, % p.a., end of period <sup>8)</sup>	.	.	.	.	.	.	.	.	.
Current account, EUR mn <sup>9)</sup>	-777.7	-719.3	-1141.9	-1252.8	-291.2	.	-1300	-1400	-1500
Current account, % of GDP	-6.3	-5.7	-8.7	-9.4	.	.	-9.6	-9.9	-10.1
Exports of goods, BOP, EUR mn <sup>9)</sup>	2920.2	3761.9	4347.2	2574.8	554.9	608.7	2700	2800	3100
annual change in %	-17.1	28.8	15.6	-1.9	-10.1	9.7	5.0	5.0	10.0
Imports of goods, BOP, EUR mn <sup>9)</sup>	6330.1	6994.1	7976.0	6892.7	1532.6	1541.8	7000	7200	7600
annual change in %	-24.1	10.5	14.0	0.0	2.6	0.6	1.0	3.0	5.0
Exports of services, BOP, EUR mn <sup>9)</sup>	1024.9	974.5	922.3	1456.3	303.2	.	1510	1570	1630
annual change in %	-9.5	-4.9	-5.4	-2.0	-5.9	.	4.0	4.0	4.0
Imports of services, BOP, EUR mn <sup>9)</sup>	461.7	407.4	378.6	399.3	65.8	.	410	430	450
annual change in %	-1.3	-11.8	-7.1	-3.6	-4.2	.	3.0	5.0	5.0
FDI inflow, EUR mn <sup>9)</sup>	180.5	173.6	313.0	492.6	68.7	72.3	500	500	800
FDI outflow, EUR mn <sup>9)</sup>	4.3	31.7	14.2	28.4	15.9	.	0	0	0
Gross reserves of NB excl. gold, EUR mn <sup>10)</sup>	3143.8	3267.6	3207.0	3246.4	3046.0	3117.0	3200	3200	3300
Gross external public debt, EUR mn	2676.2	3215.4	3405.7	3658.2	3462.9	3696.5	4000	4000	4100
Gross external debt, % of GDP	21.6	25.4	26.0	27.5	26.0	27.2	29.5	28.3	27.6
Exchange rate BAM/EUR, average	1.9558	1.9558	1.9558	1.9558	1.9558	1.9558	1.96	1.96	1.96
Purchasing power parity BAM/EUR <sup>11)</sup>	1.0137	1.0071	1.0186	1.0147	.	.	.	.	.

1) Preliminary. - 2) According to ESA'95 (including non-observed economy, real growth rates based on previous year prices). - 3) From 2011 according to NACE Rev.2. - 4) According to gross value added. - 5) Quarterly data and forecast according to new methodology. - 6) Domestic output prices. From 2013 according to NACE Rev.2. - 7) Based on IMF data. - 8) Bosnia and Herzegovina has a currency board. There is no policy rate and even no money market rate available. - 9) Converted from national currency with the average exchange rate. From 2012 BOP 6th edition, 5th edition before. - 10) Including investment in foreign securities. - 11) wiiw estimates based on the 2005 International Comparison Project benchmark and Eurostat.

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