

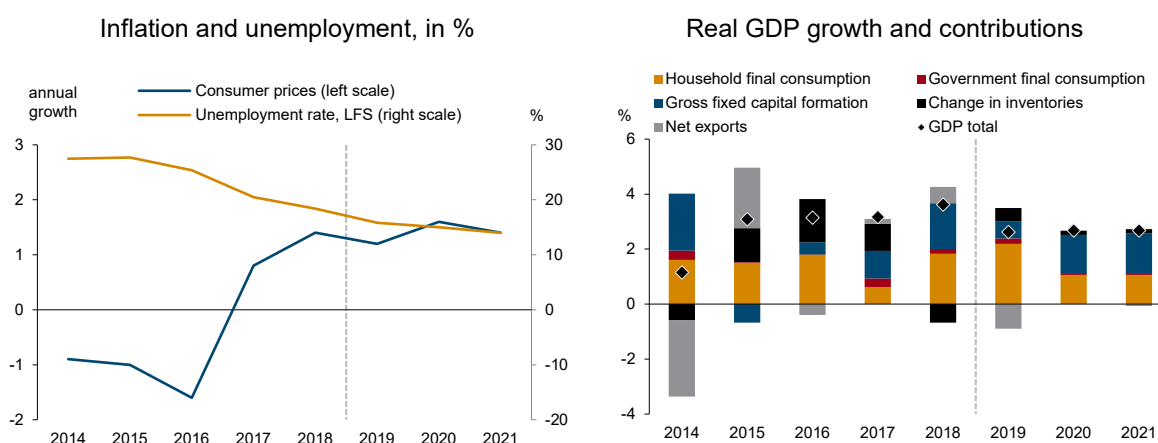


## BOSNIA AND HERZEGOVINA: Suffering in the face of external headwinds

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Prospects for growth are more or less where they almost always are; below 3% this year and around that level in the medium run. The political crisis is not all that consequential for the economy, but does represent a barrier to improving international relations. The key sticking point is NATO integration. It is seen as an instrument of stability (as in Montenegro and North Macedonia), but it is opposed by the majority among the Bosnian Serbs. The EU for its part has run out of ideas when it comes to this country.

Figure 5.3 / Bosnia and Herzegovina: Main macroeconomic indicators



Source: wiiw Annual Database incorporating national and Eurostat statistics, own calculation. Forecasts by wiiw.

**Economic growth has slowed somewhat so far in 2019 and the headline growth rate is likely to be below 3% for the year as a whole.** The slowdown in the Euro Area, a key source of export demand and remittances, appears to have had an impact on economic activity in Bosnia and Herzegovina. Real GDP expanded by 2.8% year on year in Q1 and slowed to 2.6% in Q2 according to a flash estimate released by the statistics office on October 11<sup>th</sup>. In seasonally adjusted terms, real GDP rose by 1% in Q2 relative to the previous three months.

**The policy framework is the one which is geared towards export-led growth.** There is a currency board and fiscal policy is constrained by the exchange rate and financial stability. Given the available resources, the comparative advantages need to be found in industry. In the last years, exports of services have increased, but there are clear limits to their growth. The country also needs significant investments in energy, as it is dependent on coal in an unsustainable manner. It is also in need of infrastructure investments which are, however, hard to agree on as those can be seen as instruments of

state-building which is strongly opposed by the main Serbian party. Within the Berlin process, however, a highway between Belgrade and Sarajevo was agreed on and its building has just started. Given the geography, infrastructure investments, going inwards as well as outwards, would certainly be supportive of economic development.

**Given the importance of exports for growth, the slump in industrial production this year is certainly not a good sign for future growth prospects too.** In year-on-year terms, industrial output has contracted in every month of 2019 so far, most recently declining by 5.9% on this basis in August. Export of services continues to grow but that is no adequate substitute for the export of goods which is stagnating this year, reflecting tougher external conditions.

**Bosnia and Herzegovina is strongly dependent on remittances, which will continue to flow in given the persistent outward migration.** The remittances support large merchandise trade imbalances as well as the consumption-based economy. As a result, the current account deficit (4.5% of GDP projected for this year) is rather moderate by Western Balkan standards and much of it is financed by transfers and non-debt creating investments.

**The country's public finances are not threatened by sustainability but the levels of public spending and taxation as shares of GDP are very high given the level of development.** Given the low employment rate and the high unemployment, together with the aging population, it is to be expected that public expenditures will be relied on rather heavily in the future. In terms of the government's final consumption, however, it might be higher by only a couple of percentage points in the GDP in comparison with other Balkan economies and perhaps on the level of developed European economies.

**Consumption (public and private) is around 100% of GDP which is probably the best indicator of the character of the economy.** The country lives one day at a time not just in economic and political terms, but also socially. The key determinant of the state of affairs is the political and policy set-up which makes it rather impossible for people to vote in the needed changes, so they basically rely on the opportunities to vote with their feet and to send cash transfers to the relatives left behind. As things stand, there is not much of a chance that this situation will change.

**In the short run, growth will struggle to reach 3%, while in the medium term that might be the best the economy can do.** Industrial production appears to be losing steam and thus exports are too. Given quite negative trends in the global economy, including in the Euro Area, this may well continue into next year. However, investments should continue to grow. Foreign capital inflows and remittances will continue to cover the trade deficit and support the growth of consumption.

**Table 5.3 / Bosnia and Herzegovina: Selected economic indicators**

	2015	2016	2017	2018 <sup>1)</sup>	2018 January-June	2019	2019 Forecast	2020 Forecast	2021
Population, th pers., average	3,518	3,511	3,504	3,496	.	.	3,495	3,490	3,485
Gross domestic product, BAM mn, nom. <sup>2)</sup>	28,589	29,904	31,376	33,408	16,002	16,914	34,700	36,200	37,700
annual change in % (real)	3.1	3.1	3.2	3.6	3.7	2.7	2.6	2.7	2.7
GDP/capita (EUR at PPP) <sup>2)</sup>	8,800	9,000	9,300	9,800	.	.	.	.	.
Consumption of households, BAM mn, nom. <sup>2)</sup>	23,157	23,653	24,231	25,203	12,390	12,952	.	.	.
annual change in % (real)	1.8	2.2	0.8	2.4	1.6	3.0	2.9	1.4	1.4
Gross fixed capital form., BAM mn, nom. <sup>2)</sup>	5,097	5,189	5,653	6,310	.	.	.	.	.
annual change in % (real)	-3.5	2.5	5.8	9.2	.	.	3.3	7.5	7.8
Gross industrial production									
annual change in % (real)	3.1	4.4	3.2	1.6	3.1	-4.3	-3.0	2.3	2.0
Gross agricultural production <sup>3)</sup>									
annual change in % (real)	12.6	12.0	4.1	2.3	.	.	.	.	.
Construction output total									
annual change in % (real)	1.7	-1.9	-1.1	0.4	1.2	-1.6	.	.	.
Employed persons, LFS, th, April	822.0	801.0	815.7	822.4	.	.	840	850	860
annual change in %	1.2	-2.6	1.8	0.8	.	.	1.8	1.0	0.7
Unemployed persons, LFS, th, April	315.0	273.0	210.7	185.5	.	.	158	150	140
Unemployment rate, LFS, in %, April	27.7	25.4	20.5	18.4	18.4	15.7	15.8	15.0	14.0
Reg. unemployment rate, in %, eop	42.9	40.9	38.7	34.7	35.7	33.1	.	.	.
Average monthly gross wages, BAM	1,289	1,301	1,321	1,363	1,348	1,405	1,420	1,470	1,510
annual change in % (real, gross)	1.0	2.5	0.8	1.7	1.3	3.3	3.0	2.0	1.3
Average monthly net wages, BAM	830	838	851	879	867	911	920	960	990
annual change in % (real, net)	1.0	2.6	0.7	1.9	1.2	4.2	4.0	2.5	1.3
Consumer prices, % p.a.	-1.0	-1.6	0.8	1.4	1.1	0.9	1.2	1.6	1.4
Producer prices in industry, % p.a.	0.6	-2.1	3.0	3.5	3.6	0.9	2.1	2.0	1.6
General governm.budget, nat.def., % of GDP									
Revenues	43.0	42.7	43.1	43.1	.	.	43.0	42.5	42.0
Expenditures	42.3	41.5	40.5	40.8	.	.	42.5	42.0	42.0
Deficit (-) / surplus (+)	0.7	1.2	2.6	2.3	.	.	0.5	0.5	0.0
General gov.gross debt, nat.def., % of GDP	41.9	40.4	36.1	34.2	.	.	30.0	28.0	27.0
Stock of loans of non-fin.private sector, % p.a.	2.0	3.5	7.3	5.5	7.0	6.0	.	.	.
Non-performing loans (NPL), in %, eop	13.7	11.8	10.0	8.8	9.3	8.0	.	.	.
Central bank policy rate, % p.a., eop <sup>4)</sup>	.	.	.	.	.	.	.	.	.
Current account, EUR mn <sup>5)</sup>	-741	-720	-697	-633	-354	-497.2	-800	-795	-780
Current account, % of GDP	-5.1	-4.7	-4.3	-3.7	-4.3	-5.7	-4.5	-4.3	-4.0
Exports of goods, BOP, EUR mn <sup>5)</sup>	3,679	3,937	4,776	5,327	2,588	2,596	5,570	5,930	6,300
annual change in %	5.1	7.0	21.3	11.5	16.5	0.3	4.5	6.5	6.2
Imports of goods, BOP, EUR mn <sup>5)</sup>	7,348	7,561	8,568	9,158	4,421	4,651	9,710	10,260	10,820
annual change in %	-2.4	2.9	13.3	6.9	8.9	5.2	6.0	5.7	5.5
Exports of services, BOP, EUR mn <sup>5)</sup>	1,515	1,621	1,774	1,876	821	881	2,050	2,220	2,400
annual change in %	21.0	7.0	9.5	5.7	4.2	7.3	9.1	8.3	8.0
Imports of services, BOP, EUR mn <sup>5)</sup>	514	530	583	606	266	290	640	670	700
annual change in %	29.9	3.2	10.0	3.9	11.0	8.8	5.0	4.8	4.8
FDI liabilities, EUR mn <sup>5)</sup>	345	284	415	412	218	331	400	.	.
FDI assets, EUR mn <sup>5)</sup>	85	3	85	-17	-7	8	40	.	.
Gross reserves of NB excl. gold, EUR mn <sup>5)</sup>	4,307	4,768	5,293	5,835	5,572	6,028	.	.	.
Gross external debt, EUR mn <sup>6)</sup>	7,937	8,379	8,695	9,241	.	.	9,670	10,300	11,000
Gross external debt, % of GDP <sup>6)</sup>	54.3	54.8	54.2	54.1	.	.	54.5	55.6	57.1
Average exchange rate BAM/EUR	1.9558	1.9558	1.9558	1.9558	1.9558	1.9558	1.9558	1.9558	1.9558

1) Preliminary. - 2) According to ESA'10 (FISIM not yet reallocated to industries). - 3) Based on UN-FAO data, wiiw estimate from 2017. - 4) Bosnia and Herzegovina has a currency board. There is no policy rate and even no money market rate available. - 5) Converted from national currency. - 6) Based on IMF estimates.

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