



BOSNIA AND HERZEGOVINA: A glimmer of hope

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The economy suffered a downturn in the aftermath of the disastrous floods in the spring of 2014. That notwithstanding, the GDP recorded a modest increase for the year as a whole. Looking ahead, a strong rebound is anticipated, which may ultimately prove too optimistic an expectation. In the medium term, additional foreign investments and improved absorption of EU funds should contribute to an acceleration of growth. Political risks are on the decline: a trend that should nudge the EU integration process forward.

Growth stalled last year due to the floods in the spring. Still, exports held up and reconstruction investments helped in the second half of the year. Most forecasts see a strong rebound this year, but that may be too optimistic. In the medium run, however, growth should accelerate to about 2.5% per year.

The economy is characterised by running significant and persistent current account deficits. Those are mostly reflections of low coverage (about 40%) of imports by exports of goods and services. However, there is a trade surplus in services and steady growth of exports of goods. The latter indicates some increase in industrial production, though all of that will take time to make a real difference in the structure of the economy.

The data on foreign debt are not reliable. It is probably around 70% of GDP, but does not tend to increase even though current account deficits continue to be quite large. That may be because there are still significant official transfers, i.e. aid of one kind or another. Bosnia and Herzegovina is not using the EU IPA funds because it has been failing to make progress on the fulfilment of conditions, notably those that have to do with human rights and other institutional changes. But, other bilateral aid is coming in and there is also a continuous inflow of foreign investments. All of that refers mostly to the Federation rather than to the smaller entity of Republika Srpska. The latter is also in a notably worse economic position due to relative isolation and mismanagement.

The debate in the public is dominated by the concern with fiscal sustainability. There is no completely reliable figure of the state of public debt due, in part, to the fiscal activities of the local governments and municipalities. Though foreign public debt is well recorded, information on domestic public debt is not reliable. In any case, due to the relatively low interest rate on the public debt, the issue of sustainability does not really arise. This may not apply to Republika Srpska, which seems to have been resorting to deficit financing much more than the other entity, the Federation. Still, given the level of public spending, which is very high, and the sources of public revenues, which are again mostly connected with

government employment, there is clearly a need to consider public sector reforms on all levels, i.e. in the entities, the cantons, and municipalities – and also the central government, as it is not delivering much for the money it is spending.

The country is an example of how an economy can struggle when the institutional set-up is dysfunctional. There is a slow social movement to initiate changes which has found some response in the latest general elections last year. There is a new coalition at the level of the central government that has adopted a type of road map for EU integration. This is one precondition for increased EU financial and political support. Also, the regional context, and the improved relations with Serbia in particular, is more supportive of integrative policies inside Bosnia and Herzegovina than it was the case until quite recently. With the economy being somewhat resilient and with growth slowly accelerating, there are some chances that the country may start to turn the corner.

In summary, the risks for this year are cautiously on the upside, if investments in post-floods recovery are managed efficiently. GDP growth in 2015 might reach as much as 1.6%. In the medium term, growth should accelerate, though not dramatically. Finally, there is a more positive political atmosphere that may start to underpin the positive developments in the economy. The forecast does not differ substantially from the previous one, though the risks are probably on the upside given the slightly better than forecasted outcome of the last year.

Table 1 / Bosnia and Herzegovina: Selected Economic Indicators

	2010	2011	2012	2013	2014 ¹⁾	2015	2016	2017
						Forecast		
Population, th pers., mid-year	3,843	3,840	3,836	3,832	3,832	3,832	3,832	3,832
Gross domestic product, BAM mn, nom. ²⁾	24,879	25,772	25,734	26,282	26,180	26,900	28,000	29,500
annual change in % (real) ²⁾	0.8	1.0	-1.2	2.5	0.5	1.6	2.1	2.4
GDP/capita (EUR at exchange rate)	3,300	3,400	3,400	3,500	3,500	3,600	3,700	3,900
GDP/capita (EUR at PPP)	6,700	7,000	7,100	7,200	7,300	.	.	.
Consumption of households, BAM mn, nom. ²⁾	21,294	21,927	22,338	22,573	22,590	.	.	.
annual change in % (real) ²⁾	0.1	-0.1	-0.8	0.3	1.0	2.0	2.0	2.0
Gross fixed capital form., BAM mn, nom. ²⁾	4,299	4,800	4,783	4,703	4,850	.	.	.
annual change in % (real) ²⁾	-11.1	7.3	1.1	-1.2	4.0	4.0	5.0	5.0
Gross industrial production								
annual change in % (real)	4.3	2.4	-3.9	5.2	0.2	5.0	5.0	5.0
Gross agricultural production								
annual change in % (real) ³⁾	-6.1	1.7	-8.9	5.0	0.0	5.0	5.0	3.0
Construction output total								
annual change in % (real)	-14.3	-5.6	-3.1	-2.3	6.0	5.0	5.0	5.0
Employed persons, LFS, th, April	842.8	816.0	813.7	821.6	812.0	820	830	850
annual change in %	-1.9	-3.2	-0.3	1.0	-1.2	1.0	1.0	2.0
Employees total, reg., th, average	695.8	691.0	686.9	686.1	703.0	710	720	730
annual change in %	-0.8	-0.7	-0.6	-0.1	2.5	1.0	1.4	1.4
Unemployed persons, LFS, th, April	315.1	310.9	316.6	311.5	308.0	300	300	290
Unemployment rate, LFS, in %, April	27.2	27.6	28.0	27.5	27.5	26.8	26.5	25.4
Reg. unemployment rate, in %, end of period	42.8	43.9	44.6	44.5	43.0	43.0	43.0	42.0
Average monthly gross wages, BAM	1,217	1,271	1,290	1,291	1,292	.	.	.
annual change in % (real, gross)	-1.0	0.7	-0.5	-0.1	1.0	1.0	1.0	1.0
Average monthly net wages, BAM	798	816	826	827	832	.	.	.
annual change in % (real, net)	-1.0	-1.4	-0.7	-0.1	1.5	1.0	1.0	2.0
Consumer prices, % p.a.	2.1	3.7	2.0	0.2	-0.9	1.0	2.0	3.0
Producer prices in industry, % p.a. ⁴⁾	1.0	5.5	0.3	-1.8	-0.5	1.0	2.0	3.0
General governm.budget, nat.def., % of GDP								
Revenues	43.7	44.1	44.5	43.7	44.0	44.0	44.0	44.0
Expenditures	46.1	45.3	46.6	45.9	46.5	46.0	46.0	46.0
Deficit (-) / surplus (+)	-2.5	-1.3	-2.0	-2.2	-2.5	-2.0	-2.0	-2.0
Public debt, nat.def., % of GDP ⁵⁾	39.1	40.8	44.6	42.5	46.0	46.0	46.0	46.0
Central bank policy rate, % p.a., end of period ⁶⁾
Current account, EUR mn ⁷⁾	-783.0	-1,269.7	-1,214.9	-797.4	-1,200.0	-1,100	-1,150	-1,200
Current account, % of GDP ⁷⁾	-6.2	-9.6	-9.2	-5.9	-9.0	-8.0	-8.0	-8.0
Exports of goods, BOP, EUR mn ⁷⁾	2,189.1	2,625.2	2,574.8	2,798.8	3,020.0	3,300	3,600	3,900
annual change in %	33.2	19.9	-1.9	8.7	7.9	10.0	8.0	8.0
Imports of goods, BOP, EUR mn ⁷⁾	6,089.8	6,892.5	6,892.7	6,787.8	7,330.0	7,700	8,100	8,500
annual change in %	8.3	13.2	0.0	-1.5	8.0	5.0	5.0	5.0
Exports of services, BOP, EUR mn ⁷⁾	1,513.3	1,479.8	1,486.7	1,506.8	1,480.0	1,500	1,600	1,700
annual change in %	5.9	-2.2	0.5	1.3	-1.8	4.0	5.0	5.0
Imports of services, BOP, EUR mn ⁷⁾	411.1	398.8	385.2	364.6	400.0	400	400	400
annual change in %	-10.2	-3.0	-3.4	-5.3	9.7	5.0	5.0	5.0
FDI inflow, EUR mn ⁷⁾	331.0	340.4	261.4	241.0	400.0	400	400	400
FDI outflow, EUR mn ⁷⁾	58.8	-4.1	1.1	16.3	0.0	0	0	0
Gross reserves of NB excl. gold, EUR mn	3,268	3,207	3,246	3,530	3,700	4,000	4,000	4,000
Gross external public debt, EUR mn ⁷⁾	3,215	3,406	3,659	3,788	4,200	4,300	4,400	4,500
Gross external public debt, % of GDP	25.3	25.8	27.8	28.2	31.4	31.3	30.7	29.8
Average exchange rate BAM/EUR	1.9558	1.9558	1.9558	1.9558	1.9558	1.96	1.96	1.96
Purchasing power parity BAM/EUR	0.9676	0.9604	0.9419	0.9520	0.9380	.	.	.

1) Preliminary and wiiw estimates. - 2) According to ESA'95 (FISIM not yet reallocated to industries). - 3) Based on UN-FAO data, from 2013 wiiw estimate. - 4) 2010 domestic output prices. - 5) Based on IMF data. - 6) Bosnia and Herzegovina has a currency board. There is no policy rate and even no money market rate available. - 7) Converted from national currency with average exchange rate. BOP 6th edition. Source: wiiw Databases incorporating national statistics and IMF.