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## Bosnia and Herzegovina: An economy under attack

***Due to its specific export specialisation, the economy of Bosnia and Herzegovina is hit hard by the adverse international business climate. The current account gap has widened, and a widening gap between government revenues and expenditures is causing headache. It would be difficult to justify expectations of a quick recovery.***

Given their country's past history, entrepreneurs in Bosnia and Herzegovina (BiH) are accustomed to a harsh business environment. None the less, even for many of them, the current situation poses a real challenge. During the first four months of 2012, industrial production was down by 8.5% year-on-year. The manufacture of machinery, admittedly only a wee part of the whole, slumped by more than 50%. The production of capital goods, in general, dropped by a third, consumer durables by a quarter and textiles by a fifth. Food production stagnated. In the business section of the newspapers, reports of losses or reduced profits abound. Minor foreign investment projects are presented as good news, yet at the same time foreign businesses are reported to be checking out, Turkish Airlines allegedly being one of them.

Aluminium Mostar, one of the country's main exporters, has been hit hard by the adverse international business climate. Aluminium prices have fallen yet again – albeit not as steeply as in May 2009 - and energy is an increasingly expensive resource. Conditions have also worsened for the steel company, Arcelor Mittal Zenica, another leading exporter.

Not surprisingly, in the first quarter of 2012, export revenues were down by 9.6% year-on-year. Imports remained at the level they were a year ago; hence, for 2012 we have to reckon with a still wider gap in the current account. In 2011 the CA deficit already amounted to 8.6% of GDP: a figure that is uncomfortably and perhaps unsustainably high. The currency board arrangement, an important stability factor, means that the current account gap can only narrow, if the producers of tradeables increase their level of competitiveness. Reaching an effective level calls for investment in the real sector, but investors, especially foreign investors, are rare on the ground. Under the present circumstances, the financial sector can survive, but it will hardly flourish.

After 1995, society engaged quite successfully in reconstructing the country and its economy. Today BiH is a normal European post-transition country. No doubt, it could have attained better results, had economic activities enjoyed continuous public sector support in terms of appropriate regulations and institutional arrangements. Parts of the public sector are functioning well, but given its size it bears distinct traits of parasitism.

Most hopes are placed in the IMF renewing its support. It would improve preconditions for a bridging of the gap between fiscal revenues and expenditures, which is likely to widen substantially in 2012. At the same time, fears are being voiced about the conditionality of that support. Structural reforms in times of recession mean hardship for large segments of the society. Even now, only a fraction of the population has a regular job. This situation may well not change soon, since GDP growth will be at best moderate in both 2013 and 2014.

Table BA

## Bosnia and Herzegovina: Selected Economic Indicators

	2008	2009	2010	2011 <sup>1)</sup>	2011 1st quarter	2012	2012 Forecast	2013	2014
Population, th pers., mid-year	3842.3	3843.0	3843.1	3839.7	.	.	3843	3842	3842
Gross domestic product, BAM mn, nom. <sup>2)</sup>	24759	24051	24584	26100	.	.	26500	27400	28500
annual change in % (real) <sup>2)</sup>	5.6	-2.9	0.7	2.2	.	.	-0.5	1.5	2.0
GDP/capita (EUR at exchange rate)	3300	3200	3300	3500	.	.	3500	3600	3800
GDP/capita (EUR at PPP - wiiw)	6700	6400	6600	6800	.	.	.	.	.
GDP by expend. approach, BAM mn, nom. <sup>2)</sup>	28116	27895	27955	.	.	.	.	.	.
Consumption of households, BAM mn, nom. <sup>2)</sup>	22468	21631	21828	22700	.	.	.	.	.
annual change in % (real) <sup>2)</sup>	6.0	-3.9	-1.0	0.2	.	.	0	1	1
Gross fixed capital form., BAM mn, nom. <sup>2)</sup>	7565	5952	5344	5800	.	.	.	.	.
annual change in % (real) <sup>2)</sup>	16.1	-22.4	-11.1	5.4	.	.	2	4	5
Gross industrial production <sup>3)</sup>									
annual change in % (real)	7.3	1.5	3.7	5.6	11.2	-9.4	-5	5	7
Gross agricultural production									
annual change in % (real)	9.1	3.9	-7.1	.	.	.	.	.	.
Construction output total <sup>4)</sup>									
annual change in % (real)	16.9	-7.2	-12.4	.	.	.	.	.	.
Employed persons - LFS, th, April	890.2	859.2	842.8	816.0	.	.	810	810	812
annual change in %	4.8	-3.5	-1.9	-3.2	.	.	-0.7	0.0	0.2
Employees total - reg., th, average	705.6	697.6	688.2	693.3	695.3	688.3	682	685	685
annual change in %	2.9	-1.1	-1.3	0.7	-0.7	-1.0	-1.6	0.4	0.0
Unemployed persons - LFS, th, April	272.0	272.3	315.1	310.9	.	.	315	313	312
Unemployment rate - LFS, in %, April	23.4	24.1	27.2	27.6	.	.	28	28	28
Unemployment rate, reg., in %, end of period	40.6	42.4	42.7	43.8	43.3	44.1	44	44	44
Average gross monthly wages, BAM	1113	1204	1217	1270	1249	1284	1280	1300	1350
annual change in % (real, net)	8.4	5.6	-1.1	-1.4	-1.0	-0.5	.	.	.
Consumer prices, % p.a.	7.5	-0.4	2.1	3.7	3.3	2.3	2	2	2
Producer prices in industry, % p.a. <sup>5)</sup>	8.6	-3.2	0.9	3.7	4.3	1.1	2	2	2
General government budget, nat. def., % GDP									
Revenues	44.0	43.0	44.2	44.0	.	.	43.5	43.5	44.0
Expenditures	46.2	47.5	46.7	46.5	.	.	46.5	46.0	46.5
Deficit (-) / surplus (+)	-2.2	-4.5	-2.5	-2.5	.	.	-3.0	-2.5	-2.5
Public debt, nat. def., in % of GDP <sup>6)</sup>	30.7	35.3	38.9	39.0	.	.	41	42	43
Central bank policy rate, % p.a., end of period <sup>7)</sup>	.	.	.	.	.	.	.	.	.
Current account, EUR mn <sup>8)</sup>	-1771.3	-777.7	-719.3	-1141.9	-163.1	.	-1200	-1200	-1200
Current account in % of GDP	-14.0	-6.3	-5.7	-8.6	.	.	-8.9	-8.6	-8.3
Exports of goods, BOP, EUR mn <sup>8)</sup>	3522.0	2920.2	3761.9	4347.2	1035.3	936.1	4200	4500	5000
annual growth rate in %	13.9	-17.1	28.8	15.6	25.1	-9.6	-3	7	11
Imports of goods, BOP, EUR mn <sup>8)</sup>	8344.6	6330.1	6994.1	7976.0	1746.9	1750.4	8000	8400	9000
annual growth rate in %	15.4	-24.1	10.5	14.0	23.3	0.2	0	5	7
Exports of services, BOP, EUR mn <sup>8)</sup>	1132.0	1024.9	974.5	922.3	168.9	.	920	950	1000
annual growth rate in %	6.6	-9.5	-4.9	-5.4	-4.7	.	0	3	5
Imports of services, BOP, EUR mn <sup>8)</sup>	467.7	461.8	407.4	378.6	65.6	.	390	400	420
annual growth rate in %	10.8	-1.3	-11.8	-7.1	3.0	.	3	3	5
FDI inflow, EUR mn <sup>8)</sup>	683.8	180.5	173.6	313.0	83.7	.	320	330	340
FDI outflow, EUR mn <sup>8)</sup>	11.3	4.4	31.7	14.2	-3.1	.	2	3	3
Gross reserves of NB excl. gold, EUR mn <sup>9)</sup>	3218.9	3143.8	3267.6	3207.0	3108.8	3046.0	3150	3200	3200
Gross external public debt, EUR mn	2168.0	2676.2	3215.4	3405.3	3188.9	3466.0	3700	4000	4000
Gross external debt in % of GDP	17.1	21.8	25.6	25.5	23.9	25.6	27.4	28.6	27.5
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>10)</sup>	0.9658	0.9842	0.9742	0.9972	.	.	.	.	.

1) Preliminary. - 2) According to ESA'95 (including non-observed economy, real growth rates based on previous year prices). - 3) Until 2008 wiiw estimates based on weighted averages for the two entities (Federation BH and Republika Srpska). - 4) According to gross value added. - 5) Domestic output prices. - 6) Based on IMF data. - 7) Bosnia and Herzegovina has a currency board. There is no policy rate and even no money market rate available. - 8) Converted from national currency with the average exchange rate. - 9) Including investment in foreign securities. - 10) wiiw estimates based on the 2005 International Comparison Project benchmark and Eurostat.

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