

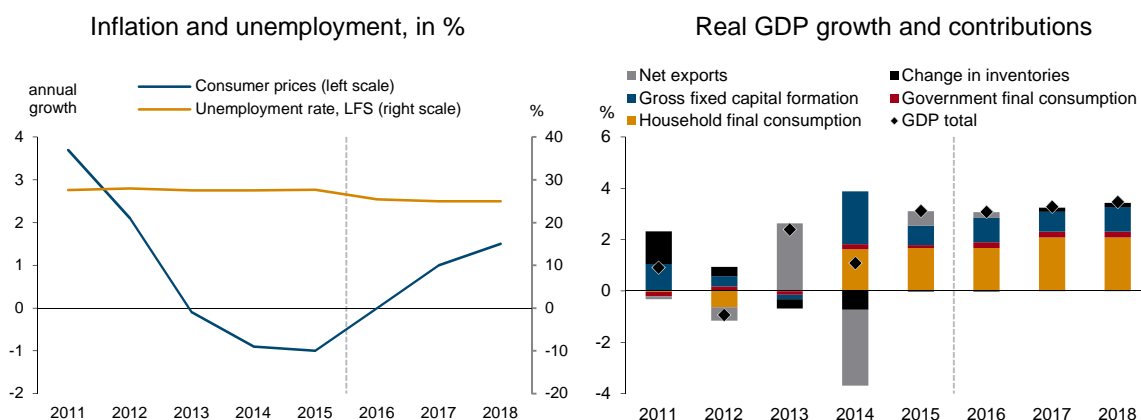


BOSNIA AND HERZEGOVINA: Economic and political prospects diverge

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With politics as usual, economic developments cannot take all that radical a turnaround for better or for worse. Growth should thus be around 3% over the medium term, in tandem with a gradual structural shift towards greater industrial production and exports activities.

Figure 25 / Bosnia and Herzegovina: Main macroeconomic indicators



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

This year's growth should be around 3%. That should also be the medium-term growth rate, or perhaps a bit better than that. The growth drivers should continue to be growth of industry and exports. However, consumption is practically equal to GDP, so its slow growth dampens overall growth to a very large extent. In that, private consumption has more room to grow compared to other components of the GDP. The government cannot run significant deficits, given the currency board monetary and exchange rate regime, while additional tax revenues are hard to extract because those are already high not only by regional but by European standards too. Unlike in most other countries in the region, foreign direct investments have continued to flow into the economy, though more so in services than in industry. Finally, the unemployment rate has declined somewhat and that decline is expected to continue, though that is probably more the consequence of outward migration rather than due to growing employment. Overall the employment level remains low and the unemployment rate at about 25% among the highest anywhere.

As in most other Balkan economies, low prices of oil and gas have proved beneficial for the external balances. The current account deficit has declined, which is important because of the high foreign debt. The statistics on foreign debt are not altogether reliable (and the same can be said about those on public debt). Though the levels of both debts are not as high as in most neighbouring countries, it is to be expected that the country's international financial position is rather more worrisome, as is the case in most neighbouring countries. Public debts, by contrast, are much more in the international focus, but are not necessarily growing all that much if at all given that the general government deficit tends to be rather small (between 1% and 2%). However, given the fiscal regime, with various levels of responsibilities and almost none on the central level, increases in public investments are hard to engineer. In addition, crossing internal borders of jurisdiction is all but impossible, so some investments are possible within the two entities and within cantons, but not throughout the state.

In general, the country will continue to depend on foreign investments, sustained consumption, and growth of industry destined for exports. The latter development faces the problem of relatively high wages, which are due to the predominance of public employment. Indeed, fiscal sustainability depends on taxes collected from those working for the government in one way or another. This is also true for social contributions, which are quite stable and reliable as sources of revenues. Indeed, wages in the public sector tend to grow with no detectable increase in services or their efficiency, which is to say that they increase faster than productivity, which is one of the reasons why the trade deficit is so high. Remittances and now low oil prices help the sustainability of the current account, though that remains clearly the main vulnerability of the economy.

Consumer prices have recorded negative growth, as in most of the economies in the region. Producer price inflation, however, has been slow but positive. Neither mean much if anything for monetary policy because of the strict currency board regime which has been in place for about two decades now. Together with the indirect taxation authority, which means mainly the collection of VAT, which is state-wide, those are two pillars of integration of the economy and the state. Though the central state has a very small budget, its tax collection responsibility is what supports its fundamental legitimacy. Similarly, the stable currency, in terms of the euro, supports the internal market, as otherwise currency substitution, which would be inevitable, would additionally disintegrate the country.

Politically, however, the country continues not to function all that smoothly. On the back of the strategic decision by Serbia to seek membership in the EU, representatives of the Republika Srpska in the Parliament of Bosnia and Herzegovina were ready to support a programme with the same intention. However, with the EU becoming less of an anchor and Russia supporting gradual disintegration of the Bosnian state, politics has become even more complex. In recent regional elections, ethnically more committed parties and leaders staged a comeback, after a couple of years of some rise in more moderate and more democratic policies and people gaining ground.

This setback is particularly important in the Republika Srpska, where the ruling party not only survived but extended its grip on power. It succeeded in beefing up the patriotic vote with a referendum on the Day of the Republic and with a highly publicised visit by its leader, Milorad Dodik, with Russian President Vladimir Putin just ahead of the elections. So, the country is back to its divided ethnic self once again.

With politics as usual, economic developments cannot take all that radical a turnaround for better or for worse, so growth should be around 3% in the medium term with slow structural change towards more industrial production and more exports.

Table 8 / Bosnia and Herzegovina: Selected economic indicators

	2012	2013	2014	2015 ¹⁾	2015 January-June	2016	2016 Forecast	2017 Forecast	2018
Population, th pers., mid-year ²⁾	3,836	3,832	3,827	3,819	.	.	3,820	3,820	3,820
Gross domestic product, BAM mn, nom. ³⁾	26,193	26,743	27,304	28,659	13,693	13,948	29,500	30,800	32,400
annual change in % (real)	-0.9	2.4	1.1	3.1	3.1	1.7	3.1	3.3	3.5
GDP/capita (EUR at exchange rate) ³⁾	3,500	3,600	3,600	3,800	.	.	3,900	4,100	4,300
GDP/capita (EUR at PPP) ³⁾	7,300	7,400	7,700	8,100	.	.	.	.	.
Consumption of households, BAM mn, nom. ³⁾	22,334	22,521	22,830	23,143	.	.	.	.	.
annual change in % (real)	-0.7	0.0	1.9	1.7	.	.	2.0	2.5	2.5
Gross fixed capital form., BAM mn, nom. ³⁾	4,783	4,714	5,234	5,024	.	.	.	.	.
annual change in % (real)	2.2	-1.0	11.7	-3.5	.	.	5.0	4.0	5.0
Gross industrial production									
annual change in % (real)	-3.9	5.2	0.2	3.1	2.7	4.7	5.0	5.0	5.0
Gross agricultural production ⁴⁾									
annual change in % (real)	-10.0	15.3	0.0	5.0	.	.	.	.	.
Construction output total									
annual change in % (real)	-3.1	-2.4	6.8	-3.2	-0.1	-1.7	.	.	.
Employed persons, LFS, th, April	813.7	821.6	812.0	822.0	822.0	801.0	800	820	840
annual change in %	-0.3	1.0	-1.2	1.2	1.2	-2.6	-2.6	2.0	2.0
Unemployed persons, LFS, th, April	316.6	311.5	308.0	315.0	315.0	273.0	273	274	280
Unemployment rate, LFS, in %, April	28.0	27.5	27.5	27.7	27.7	25.4	25.4	25.0	25.0
Reg. unemployment rate, in %, end of period	44.6	44.5	43.6	42.9	42.9	41.6	.	.	.
Average monthly gross wages, BAM	1,290	1,291	1,290	1,289	1,288	1,295	1,310	1,340	1,370
annual change in % (real, gross)	-0.5	0.2	0.8	1.0	0.5	2.0	1.5	1.0	1.0
Average monthly net wages, BAM	826	827	831	830	830	834	840	860	880
annual change in % (real, net)	-0.8	0.2	1.3	1.0	0.5	2.0	1.0	1.0	1.0
Consumer prices, % p.a.	2.1	-0.1	-0.9	-1.0	-0.5	-1.4	0.0	1.0	1.5
Producer prices in industry, % p.a.	0.3	-1.8	-0.5	0.6	1.4	-3.1	1.0	2.0	2.0
General government budget, nat. def., % of GDP									
Revenues	43.8	42.7	43.8	43.2	.	.	44.0	44.0	44.0
Expenditures	45.8	44.8	45.8	42.6	.	.	46.0	46.0	46.0
Deficit (-) / surplus (+)	-2.0	-2.2	-2.0	0.7	.	.	-2.0	-2.0	-2.0
Public debt, nat. def., % of GDP ⁵⁾	44.3	43.5	44.0	45.0	.	.	46.0	46.0	46.0
Central bank policy rate, % p.a., end of period ⁶⁾
Current account, EUR mn ⁷⁾	-1,160	-723	-1,029	-833	-401	-444	-900	-1,100	-1,100
Current account, % of GDP ⁷⁾	-8.7	-5.3	-7.4	-5.7	-6.0	-6.0	-6.0	-7.0	-7.0
Exports of goods, BOP, EUR mn ⁷⁾	2,988	3,286	3,385	3,562	1,714	1,750	3,700	3,900	4,100
annual change in %	1.2	10.0	3.0	5.3	7.2	2.1	4.0	5.0	6.0
Imports of goods, BOP, EUR mn ⁷⁾	7,079	7,027	7,527	7,355	3,534	3,579	7,600	7,900	8,300
annual change in %	-0.1	-0.7	7.1	-2.3	0.6	1.3	3.0	4.0	5.0
Exports of services, BOP, EUR mn ⁷⁾	1,349	1,334	1,365	1,484	680	679	1,600	1,700	1,800
annual change in %	0.4	-1.1	2.3	8.8	8.2	-0.1	5.0	5.0	5.0
Imports of services, BOP, EUR mn ⁷⁾	404	385	385	423	175	179	440	460	480
annual change in %	1.2	-4.7	0.1	9.9	10.3	2.1	5.0	5.0	5.0
FDI liabilities (inflow), EUR mn ⁷⁾	305	239	392	264	186	99	250	.	.
FDI assets (outflow), EUR mn ⁷⁾	46	64	6	43	34	-2	50	.	.
Gross reserves of NB excl. gold, EUR mn	3,246	3,530	3,908	4,307	3,944	4,371	.	.	.
Gross external debt, EUR mn ⁵⁾	6,991	7,138	7,245	7,825	.	.	7,650	7,800	8,250
Gross external debt, % of GDP ⁵⁾	52.2	52.2	51.9	53.4	.	.	50.7	49.5	49.8
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	0.9321	0.9369	0.9218	0.9243	.	.	.	.	.

1) Preliminary. - 2) According to census 1991. - 3) According to ESA'95 (FISIM not yet reallocated to industries). - 4) Based on UN-FAO data, from 2014 wiiw estimate. - 5) Based on IMF estimates. - 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.

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