



BOSNIA AND HERZEGOVINA: Getting rid of the straitjacket

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On paper, Bosnia and Herzegovina has not done as badly as some other Balkan economies during the current crisis. GDP has declined by about 0.4% per year on average since 2009. Last year's growth was below 1% and the recovery over the medium term should not be much faster than 2%. Employment has been stagnant, but social sustainability has deteriorated. The upcoming general elections could provide a chance to turn things around.

Employment has not been reduced all that much and the unemployment rate has remained stable, though at a very high level. Industrial production proved to be relatively resilient, as did exports. Consumption has stagnated as has investment. However, the deterioration of public and private balance sheets has been quite moderate. Generally, this has been one stably depressed economy with grave problems in the labour market, especially when it comes to the employment of the young. As in most of the region, the probability of securing employment was fifty-fifty until the age of 30.

The country is divided into two entities (something like federal units) of which one, the Federation of Bosnia and Herzegovina, consists of ten relatively autonomous cantons. The other entity, Republika Srpska, is in effect centralised. Somewhat surprisingly, the Federation is fiscally more stable than the Republika, though the debts of the cantons are not altogether accounted for in the overall fiscal balances. Still, due to the currency board regime and the almost constant supervision by the IMF, public debt, though increasing, does not seem to be on an unsustainable trajectory. That is in great part due to relatively low interest rates paid on the accumulated debt as it is in large part non-commercial.

Somewhat more worrisome is the foreign debt, which continues to increase due to persistent current account deficits. In that, a larger share belongs to the corporations than to households. In terms of nonperforming loans, however, Bosnia and Herzegovina is not in a worse position but probably in a better one than most other neighbouring countries. Overall, financial balances are strained, but not unsustainable. Clearly, further support by the multilateral institutions will be needed because the commercial market for debt is hardly accessible due to the high interest rates they tend to charge.

The prospects are for a quite slow recovery due to depressed domestic demand and rather limited supply of tradable goods. Industrial production tends to increase, but the level is quite low. In addition, the complicated structure of fiscal centres slows down infrastructure projects and other development investments too. Though Bosnia and Herzegovina has basically a very liberal foreign trade regime, having free trade agreements with every trading partner that matters, internal barriers to increased

supply of exportable goods are quite limiting. Without further and very ambitious internal liberalisation, it is hard to see that medium-term prospects will improve dramatically.

Fundamentally, the institutional-set up is the major obstacle. It is so rigid that it works for almost complete unresponsiveness of the governing bodies and fuels the feeling among the population that it is powerless, that nothing can be done. This needs to change in order for the process of integration with the European Union to progress. So far that prospect has not proved to be strong enough to make a dent in the deadlocked ethnic, business, and political interests.

The overall conception on which the institutions of Bosnia and Herzegovina were constructed was that common economic interest will eventually trump the political interests. That strategy has been failing and may be exhausted. The political straitjacket is just too tight and the country is struggling to get out of it – currently in the streets, but hopefully eventually at the ballot boxes and in representative bodies.

In the medium run, investment, mainly in industry and infrastructure, should help speed up growth. There is, however, little space for growth of consumption, both public and private. This is in part due to the policy mix with currency board and IMF oversight over the budgets. Prospects for growth of exports depend almost exclusively on industrial production and construction, which has some increased potential. A lot depends on the ability for institutional reform, which has so far been lacking.

Table 1 / Bosnia and Herzegovina: Selected Economic Indicators

	2009	2010	2011	2012	2013 ¹⁾	2014	2015	2016
						Forecast		
Population, th pers., mid-year	3843.0	3843.1	3839.7	3836.0	3832.0	3832	3832	3832
Gross domestic product, BAM mn, nom. ²⁾	24202	24773	25666	25804	26100	27000	28400	29800
annual change in % (real) ²⁾	-2.8	0.7	1.0	-1.7	0.8	1.9	3.0	3.0
GDP/capita (EUR at exchange rate)	3200	3300	3400	3400	3500	3600	3800	4000
GDP/capita (EUR at PPP)	6400	6700	7000	7100	7300	.	.	.
GDP by expend. approach, BAM mn, nom. ²⁾	25809	25929	26777	27199
annual change in % (real) ²⁾	-3.9	-0.2	1.8	-0.9
Consumption of households, BAM mn, nom. ²⁾	20927	21338	21927	22329	22500	.	.	.
annual change in % (real) ²⁾	-4.6	0.1	-0.3	-0.8	0.4	1.0	2.0	2.0
Gross fixed capital form., BAM mn, nom. ²⁾	4810	4299	4800	4803	5000	.	.	.
annual change in % (real) ²⁾	-19.5	-11.1	7.3	1.5	3.0	5.0	5.0	5.0
Gross industrial production								
annual change in % (real) ³⁾	-6.5	4.4	3.5	-4.4	6.4	5.0	6.0	5.0
Gross agricultural production								
annual change in % (real)	4.2	-5.3	1.8	5.0	5.0	5.0	5.0	5.0
Construction output total								
annual change in % (real) ⁴⁾	-7.2	-12.4	-5.1	-3.0	0.0	.	.	.
Employed persons, LFS, th, April	859.2	842.8	816.0	813.7	821.6	823	831	840
annual change in %	-3.5	-1.9	-3.2	-0.3	1.0	0.2	1.0	1.1
Employees total, reg., th, average	697.6	695.7	691.0	688.4	685.1	690	700	700
annual change in %	-1.1	-0.3	-0.7	-0.4	-0.5	0.7	1.4	0.0
Unemployed persons, LFS, th, April	272.3	315.1	310.9	316.6	311.5	312	311	310
Unemployment rate, LFS, in %, April	24.1	27.2	27.6	28.0	27.5	27.0	27.0	27.0
Reg. unemployment rate, in %, end of period	42.4	42.8	43.9	44.5	44.5	45.0	45.0	45.0
Average monthly gross wages, BAM	1204	1217	1273	1290	1300	.	.	.
annual change in % (real, gross)	8.6	-1.0	0.9	-0.6	0.6	1.0	1.0	1.0
Average monthly net wages, BAM	790	798	816	826	826	.	.	.
annual change in % (real, net)	5.6	-1.1	-1.4	-0.8	-0.2	1.0	1.0	1.0
Consumer prices, % p.a.	-0.4	2.1	3.7	2.0	0.2	1.5	2.0	2.0
Producer prices in industry, % p.a. ⁵⁾	-3.2	0.9	3.7	1.5	-2.6	1.0	2.0	2.0
General government budget, nat.def., % of GDP								
Revenues	43.0	43.8	44.2	44.7	43.5	44.0	44.0	44.0
Expenditures	47.5	46.3	45.5	46.7	46.0	46.5	46.0	46.0
Deficit (-) / surplus (+)	-4.4	-2.5	-1.3	-2.0	-2.5	-2.5	-2.0	-2.0
Public debt, nat.def., % of GDP ⁶⁾	36.2	39.3	40.5	43.9	43.0	44.0	45.0	45.0
Central bank policy rate, % p.a., end of period ⁷⁾
Current account, EUR mn ⁸⁾	-812.6	-781.7	-1295.2	-1272.9	-1200.0	-1100	-1000	-1200
Current account, % of GDP	-6.6	-6.2	-9.9	-9.6	-9.0	-8.0	-7.0	-8.0
Exports of goods, BOP, EUR mn ⁸⁾	1643.0	2189.1	2625.2	2574.8	2780.0	2900	3200	3500
annual change in %	-5.4	33.2	19.9	-1.9	8.0	5.0	10.0	8.0
Imports of goods, BOP, EUR mn ⁸⁾	5624.1	6089.8	6892.5	6892.7	6685.0	6900	7200	7600
annual change in %	-21.8	8.3	13.2	0.0	-3.0	3.0	5.0	5.0
Exports of services, BOP, EUR mn ⁸⁾	1428.0	1511.4	1485.8	1486.2	1486.0	1550	1610	1690
annual change in %	-11.6	5.8	-1.7	0.0	0.0	4.0	4.0	5.0
Imports of services, BOP, EUR mn ⁸⁾	456.2	407.9	414.4	399.9	370.0	390	410	430
annual change in %	15.1	-10.6	1.6	-3.5	-7.5	5.0	5.0	5.0
FDI inflow, EUR mn ⁸⁾	107.5	331.0	338.3	272.9	300.0	500	800	800
FDI outflow, EUR mn ⁸⁾	-68.5	58.8	-4.0	-0.3	-15.0	0	0	0
Gross reserves of NB excl. gold, EUR mn	3143.8	3267.6	3207.0	3246.4	3530.1	3500	3500	3300
Gross external public debt, EUR mn	2676.2	3215.4	3405.7	3658.5	3786.0	3900	4100	4300
Gross external debt, % of GDP	21.6	25.4	26.0	27.7	28.4	28.3	28.2	28.2
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	0.9871	0.9686	0.9612	0.9470	0.9355	.	.	.

1) Preliminary and wiiw estimates. - 2) According to ESA'95 (FISIM not yet reallocated to industries). - 3) According to NACE Rev. 2. - 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. BOP 6th edition.

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

