

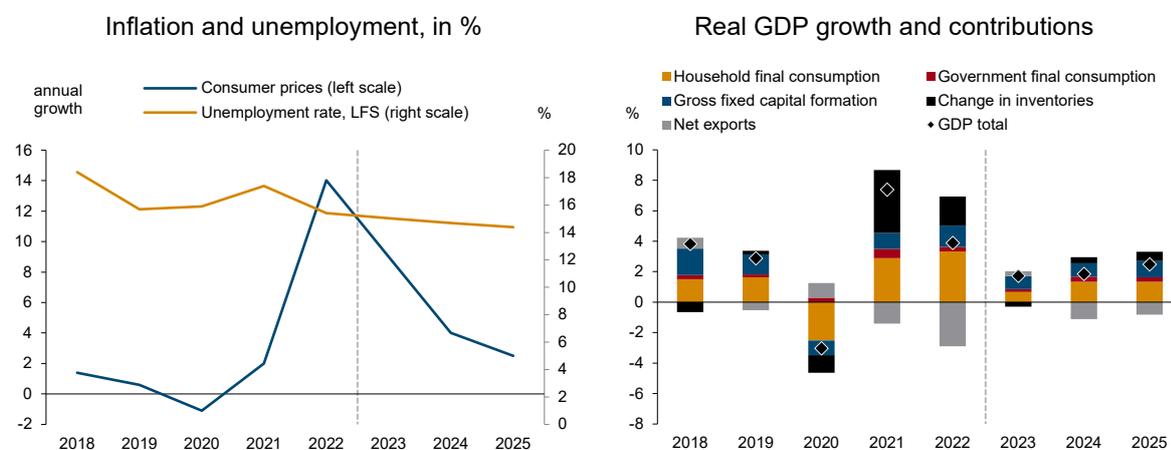


BOSNIA AND HERZEGOVINA: Newly approved EU candidate status offers glimmer of hope

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Growth in 2022 was 3.9%. This was better than expected, thanks to a rise in private consumption and gross capital formation. However, the continuing high inflation and increasing interest rates are likely to drag growth in 2023 down to 1.7%. The formation of governments after the October 2022 elections is not yet quite complete, but the shape of most of the structures is clear and reveals a slight move away from nationalist parties. The country gained EU candidate status in December 2022, even though the conditions required had not been met. This could provide a fillip to the country's progress in the coming period.

Figure 5.3 / Bosnia and Herzegovina: Main macroeconomic indicators



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

The economy grew by 3.9% in 2022, which was better than expected. This was due to positive movements in private and government consumption and in gross capital formation. Despite high inflation and falling real wages, household consumption increased by 4.9% in 2022 – presumably largely because of an increase in remittances, but partly also due to savings being used and lower unemployment. Gross capital formation also increased significantly (by 12.7%) on account of an increase in domestic investment and attempts by companies to protect their stocks against the risk of serious disturbances on the supply market and an inflationary environment. Foreign direct investments increased by 16.3%, which was mainly result of reinvested profits of foreign companies already present in the country. Although remittances increased by 17% and the number of tourist arrivals rose by 50%, the current account deficit increased significantly, due to high energy and food prices. Industrial

production and retail trade turnover continued to increase throughout 2022, but at a much slower pace than in the previous year.

Inflation in 2022 was 14%, and we forecast that it will fall in the coming years. Inflation in 2022 was mainly driven by a rise in the cost of transport (25.4%), 'electricity, gas and other fuels' (14%) and food and beverages (21.5%). On the positive side, it declined in February 2023 (12.9%), which could bode well for future trends. On an annual average basis, we forecast inflation to fall to 9% in 2023 and 4% in 2024. There are still no central government measures in place to mitigate the effect of rising prices, and wages and pensions are not adequately adjusted to the increase in prices, which undermines people's standard of living.

We expect GDP growth to slow in 2023, as high inflation and increased interest rates domestically and in the EU are likely to undermine consumption and exports. We forecast growth of 1.7% in 2023 and 1.9% in 2024. The start of 2023 is already witnessing a slowdown, with a fall in industrial production of 1.6%, year on year, in the first two months. Inflation is still high and the interest rates on loans are increasing, with the prospect of further increases, which will hit consumption and investments. Furthermore, with little additional scope for dissaving, the consequences of high inflation and the negative trends in real wages might be felt more acutely in 2023 than last year.

There have been some positive changes in the various governments in the wake of the recent elections. Following the October 2022 elections, a new government is in place at the state level and in one entity (Republika Srpska). In the three-member presidency of Bosnia and Herzegovina, the Bosniak representative is no longer from the nationalist SDA party, leaving only one ethno-nationalist politician in the presidency. The SDA has also been pushed into opposition in both the state parliament and the parliament of the Federation of Bosnia and Herzegovina by a coalition of parties called 'The Eight'. However, in both the state and the two entity parliaments, the Serb and Croat representatives are again from nationalist parties. The formation of a new government is not yet complete at the level of the Federation of Bosnia and Herzegovina, even though the formal deadline has passed. This may result in a further intervention by the Office of the High Representative, which some politicians believe would be damaging for Bosnian society.

The country has finally gained EU candidate status, which offers a glimmer of hope. The EU Council decided in December 2022 to grant the country EU candidate status – even though the required conditions to implement reforms in the area of the rule of law and public administration have not been met. This should bring some political stability and perhaps improve the economic prospects of Bosnia and Herzegovina over the medium term, although the nationalist parties could make it hard to pass and enact the legislation required to ensure further progress towards the EU.

Table 5.3 / Bosnia and Herzegovina: Selected economic indicators

	2019	2020	2021	2022 ¹⁾	2023	2024 Forecast	2025
Population, th pers., average	3,491	3,475	3,453	3,415	3,385	3,355	3,350
Gross domestic product, BAM m, nom. ²⁾	35,785	34,728	39,107	45,605	50,600	53,600	56,300
annual change in % (real)	2.9	-3.0	7.4	3.9	1.7	1.9	2.5
GDP/capita (EUR at PPP) ²⁾	10,240	9,920	11,120	11,930	.	.	.
Consumption of households, BAM m, nom. ²⁾	25,565	24,659	26,300	30,586	.	.	.
annual change in % (real)	2.3	-3.5	4.1	4.9	1.0	2.0	2.0
Gross fixed capital form., BAM m, nom. ²⁾	8,129	7,679	8,367	9,826	.	.	.
annual change in % (real)	5.8	-4.2	4.8	6.6	4.0	4.0	5.0
Gross industrial production							
annual change in % (real)	-5.3	-6.4	9.8	1.0	1.0	2.0	4.0
Gross agricultural production ³⁾							
annual change in % (real)	-8.6	9.2	-16.9	0.3	.	.	.
Construction output total							
annual change in % (real)	-2.0	0.2	2.5	-0.5	.	.	.
Employed persons, LFS, th, average ⁴⁾	802.9	1,173.1	1,151.0	1,162.0	1,170	1,180	1,190
annual change in %	-2.4	.	.	1.0	0.5	1.0	1.0
Unemployed persons, LFS, th, average ⁴⁾	149.4	221.0	241.8	211.3	207	203	200
Unemployment rate, LFS, in %, average ⁴⁾	15.7	15.9	17.4	15.4	15.0	14.7	14.4
Reg. unemployment rate, in %, eop	32.8	33.7	31.2	29.5	.	.	.
Average monthly gross wages, BAM	1,421	1,476	1,542	1,723	1,860	1,940	2,010
annual change in % (real, gross)	3.7	5.0	2.4	-2.0	-1.0	0.5	1.0
Average monthly net wages, BAM	921	956	998	1,122	1,220	1,280	1,330
annual change in % (real, net)	4.2	4.9	2.4	-1.4	-0.5	1.0	1.5
Consumer prices, % p.a.	0.6	-1.1	2.0	14.0	9.0	4.0	2.5
Producer prices in industry, % p.a.	0.1	-1.2	5.6	19.8	10.0	5.0	3.0
General governm. budget, nat. def., % of GDP							
Revenues	42.0	41.6	41.1	39.0	39.5	40.0	40.5
Expenditures	40.1	46.8	41.3	40.0	39.0	39.0	39.5
Deficit (-) / surplus (+)	1.9	-5.2	-0.3	-1.0	0.5	1.0	1.0
General gov. gross debt, nat. def., % of GDP	32.3	36.1	34.0	34.0	35.0	35.0	35.5
Stock of loans of non-fin. private sector, % p.a.	6.7	-2.5	3.7	5.3	.	.	.
Non-performing loans (NPL), in %, eop	7.4	6.1	5.8	4.5	.	.	.
Central bank policy rate, % p.a., eop ⁵⁾
Current account, EUR m ⁶⁾	-474	-575	-472	-1,045	-1,040	-1,130	-1,250
Current account, % of GDP	-2.6	-3.2	-2.4	-4.5	-4.0	-4.1	-4.3
Exports of goods, BOP, EUR m ⁶⁾	5,205	4,818	6,499	8,249	9,240	10,110	10,870
annual change in %	-2.3	-7.4	34.9	26.9	12.0	9.4	7.5
Imports of goods, BOP, EUR m ⁶⁾	9,276	8,023	10,165	13,410	14,750	16,230	17,370
annual change in %	1.1	-13.5	26.7	31.9	10.0	10.0	7.0
Exports of services, BOP, EUR m ⁶⁾	2,121	1,251	1,930	2,719	3,080	3,540	3,750
annual change in %	8.3	-41.0	54.2	40.9	13.2	15.0	6.0
Imports of services, BOP, EUR m ⁶⁾	691	488	615	866	980	1,110	1,200
annual change in %	10.8	-29.4	26.2	40.7	13.0	13.0	8.0
FDI liabilities, EUR m ⁶⁾	397	384	529	615	.	.	.
FDI assets, EUR m ⁶⁾	20	62	69	27	.	.	.
Gross reserves of CB excl. gold, EUR m ⁶⁾	6,311	6,942	8,204	8,133	.	.	.
Gross external debt, EUR m	11,444	11,339	11,654	11,994	12,550	12,960	13,100
Gross external debt, % of GDP	62.5	63.9	58.3	51.4	48.5	47.3	45.5
Average exchange rate BAM/EUR	1.9558	1.9558	1.9558	1.9558	1.9558	1.9558	1.9558

1) Preliminary and wiiw estimates. - 2) According to ESA'10 (FISIM reallocated to industries). - 3) Based on UN-FAO data, wiiw estimate for 2022. - 4) In 2019 survey once a year and according to census 1991. From 2020 continuous quarterly survey based on census 2013 and according to EU + ILO definition. From 2021 new methodology in line with the Integrated European Social Statistics Regulation (IESS). - 5) Bosnia and Herzegovina has a currency board. There is no policy rate and even no money market rate available. - 6) Converted from national currency.

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