

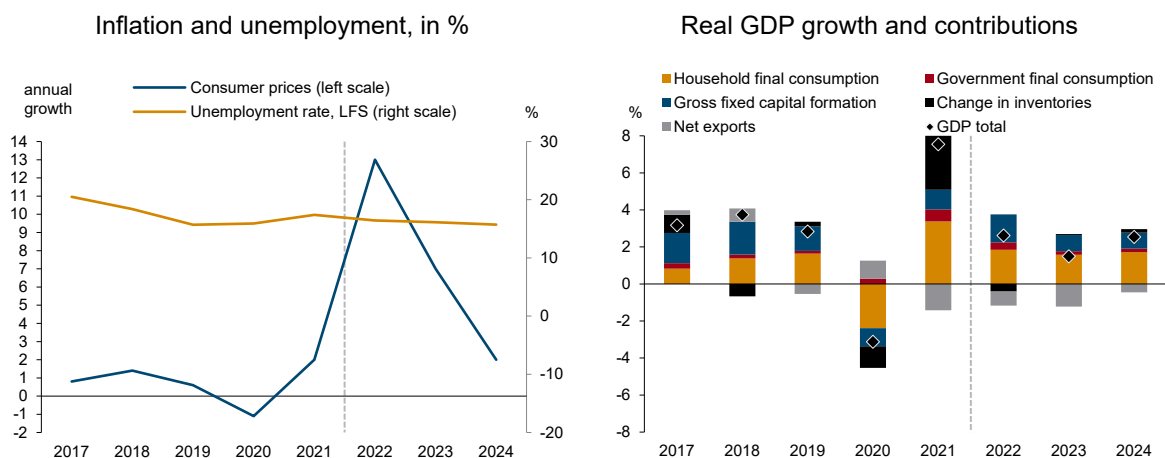


BOSNIA AND HERZEGOVINA: October elections unlikely to bring needed change

SELENA DURAKOVIĆ

Growth in the first half of the year was better than expected, due to a sustained rise in industrial production and retail trade. But high inflation and the continued political risks will slow it down in the second half of the year, and also in 2023. A general election was held on 2 October and revealed the people's desire for something different: two of the three elected Presidency members are from non-nationalist parties. However, no great changes are expected: according to preliminary results, the nationalist parties won the majority of the vote at both state and entity level. This will continue to slow the country's progress generally and towards European integration.

Figure 6.3 / Bosnia and Herzegovina: Main macroeconomic indicators



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

The data for the first two quarters of 2022 suggest a higher-than-expected rebound in economic activity. Following Q1 GDP growth of 5.5% year on year, growth in Q2 2022 was 5.9%. This was largely driven by household consumption and exports. Remittances increased by 14% in the first two quarters of 2022, year on year, and the number of tourist arrivals rose by 77.8%. Industrial production and retail trade continued to increase throughout 2022, but at a much slower pace than in the previous year. The state budget for 2022 was finally adopted in June 2022, and it is expected that previously planned projects will now go ahead. Taking all this into consideration, we expect GDP growth in 2022 to be somewhat above that previously forecast – 2.6%, rather than the previous forecast of 1.8%. However, this growth is still lower than in most of the other Western Balkan countries, due to the political uncertainty.

Inflation over the first eight months was higher than expected, leading us to revise the forecast for 2022 and 2023 upwards. Inflation in August 2022 reached 16.8% (year on year) and was mainly driven by a rise in the cost of transport (30.1%) and food and beverages (27%). On an annual average basis, we forecast inflation of 13% in 2022 and 7% in 2023 – up 5 percentage points (pp) and 2 pp, respectively, on the previous forecast. High inflation is steadily eating away at the standard of living, as wages and pensions have not been adequately aligned with rising prices. Pensions and public-sector wages have recently been raised in both entities, but real wage growth has been negative (real gross wage growth for the first six months of the year was -1.8%). There are still no central government measures to ease the burden of increased prices, as all the proposals to temporarily abolish excise duties on oil and petroleum products and to introduce a lower value added tax on essential goods have been rejected.

The energy sector is currently stable. Bosnia and Herzegovina is the biggest exporter of electricity in the region, and the cost of electricity, gas and other energy sources rose by 'only' 21.4% in August 2022 (year on year); however, further increases are expected. Bosnia and Herzegovina is heavily dependent on Russia for its gas supply, but in fact gas constitutes only 2.5% of the country's total energy requirement. Besides, Republika Srpska did not join in the EU sanctions on Russia and has a special agreement with Russia for the supply of gas on preferential terms. Currently, there are no restrictions on energy consumption.

Due to the high inflation, reduced real incomes and the slowdown in economic activity in the EU, we expect GDP growth in Bosnia and Herzegovina to decelerate in 2023. We forecast growth of 1.5% in 2023 – a 0.7 pp downward revision on our previous forecast, on account of lower real incomes and the slowdown in economic activity and exports. The forecasts for household consumption and exports are therefore also revised downwards. As the October elections heralded no great change, the political tensions are likely to continue, consequently discouraging foreign investment and undermining the country's progress. We expect inflation to gradually decrease, but still to remain high in 2023.

The unemployment rate is falling, but the number of people emigrating is rising. Unemployment fell in the first half of the year from 18.6% in 2021 to 16.2% in 2022. However, this is partly a result of a decline in the working-age population and partly a consequence of the increased emigration of unemployed people. The number of those leaving the country has climbed steadily since the pandemic restrictions were lifted, and surveys show that many citizens are keen to emigrate in the future, which could adversely affect the country's long-term growth prospects. The main labour market problems continue to be long-term unemployment and the high rate of youth unemployment (32.9% in 2021).

The preliminary results of the October elections show a desire for change, but nevertheless the majority of votes were again cast for nationalist parties. Voters went to the polls on 2 October to elect representatives at the state, entity and cantonal levels. Ever since the Bosnian war, the country has been led mostly by nationalist parties, which have blocked the country's progress both generally and toward EU accession. The elections did bring about some change: as the Bosniak member of the Presidency, the voters chose a candidate from a non-nationalist party (in the last three elections, a nationalist party member was elected) and the Croatian member stayed the same (from non-nationalistic party). However, the elected Serb representative is again from a very nationalist party, and she is likely to block any decision at the state level if it does not align with the interests of Republika Srpska. Furthermore, according to preliminary results (last updated on 8 October, with more than 93% of the

votes counted) nationalist parties attracted the majority of votes for the state and entity parliaments. The elections were held following failed negotiations to reach a political agreement to amend the electoral law and introduce constitutional changes. A few minutes after the polling stations closed, the High Representative for Bosnia and Herzegovina imposed alterations to the electoral law, aimed at changing the post-election constitution to prevent the Croats from blocking the formation of a new government.

Table 6.3 / Bosnia and Herzegovina: Selected economic indicators

	2019	2020	2021 ¹⁾	2021 January-June	2022	2022 Forecast	2023 Forecast	2024
Population, th pers., average	3,491	3,475	3,451	.	.	3,415	3,385	3,355
Gross domestic product, BAM m, nom. ²⁾	35,296	34,255	38,637	18,124	21,117	44,800	48,700	50,900
annual change in % (real)	2.8	-3.1	7.5	7.6	5.9	2.6	1.5	2.5
GDP/capita (EUR at PPP) ²⁾	10,110	9,840	11,010	.	.	.	.	.
Consumption of households, BAM m, nom. ²⁾	25,633	24,756	26,484	.	.	.	.	.
annual change in % (real)	2.2	-3.3	4.7	.	.	2.7	2.3	2.5
Gross fixed capital form., BAM m, nom. ²⁾	8,129	7,679	8,367	.	.	.	.	.
annual change in % (real)	5.8	-4.2	4.8	.	.	7.0	4.0	4.0
Gross industrial production								
annual change in % (real)	-5.3	-6.4	9.8	12.2	3.9	3.0	2.0	2.0
Gross agricultural production ³⁾								
annual change in % (real)	-8.7	9.1	0.3	.	.	.	.	.
Construction output total								
annual change in % (real)	-2.0	0.2	2.5	3.3	-0.6	.	.	.
Employed persons, LFS, th, average ⁴⁾	802.9	1,173.1	1,151.0	1,126	1,156	1,160	1,170	1,180
annual change in %	-2.4	.	.	.	2.6	0.5	0.5	0.5
Unemployed persons, LFS, th, average ⁴⁾	149.4	221.0	241.8	256	223	228	225	220
Unemployment rate, LFS, in %, average ⁴⁾	15.7	15.9	17.4	18.6	16.2	16.4	16.1	15.7
Reg. unemployment rate, in %, eop	32.8	33.7	31.2	32.3	30.0	.	.	.
Average monthly gross wages, BAM	1,421	1,476	1,542	1,520	1,664	1,790	1,920	1,980
annual change in % (real, gross)	3.7	5.0	2.4	3.8	-1.8	3.0	0.5	1.0
Average monthly net wages, BAM	921	956	998	980	1,085	1,160	1,250	1,290
annual change in % (real, net)	4.2	4.9	2.4	3.4	-0.7	3.0	0.5	1.0
Consumer prices, % p.a.	0.6	-1.1	2.0	0.1	11.5	13.0	7.0	2.0
Producer prices in industry, % p.a.	0.1	-1.2	5.6	2.7	18.5	15.0	9.0	3.0
General governm. budget, nat. def., % of GDP								
Revenues	42.5	42.1	41.6	.	.	39.0	39.5	40.0
Expenditures	40.6	47.4	41.8	.	.	40.0	39.0	39.0
Deficit (-) / surplus (+)	1.9	-5.3	-0.3	.	.	-1.0	0.5	1.0
General gov. gross debt, nat. def., % of GDP	32.7	36.6	34.4	.	.	34.0	35.0	35.0
Stock of loans of non-fin. private sector, % p.a.	6.7	-2.5	3.7	2.1	4.8	.	.	.
Non-performing loans (NPL), in %, eop	7.4	6.1	5.8	5.7	5.2	.	.	.
Central bank policy rate, % p.a., eop ⁵⁾
Current account, EUR m ⁶⁾	-474	-575	-472	-260	-513	-590	-500	-430
Current account, % of GDP	-2.6	-3.3	-2.4	-2.8	-4.8	-2.6	-2.0	-1.7
Exports of goods, BOP, EUR m ⁶⁾	5,205	4,818	6,499	2,954	4,160	8,030	9,030	9,750
annual change in %	-2.3	-7.4	34.9	30.2	40.8	23.5	12.5	8.0
Imports of goods, BOP, EUR m ⁶⁾	9,276	8,023	10,165	4,537	6,370	12,600	14,050	15,030
annual change in %	1.1	-13.5	26.7	19.1	40.4	24.0	11.5	7.0
Exports of services, BOP, EUR m ⁶⁾	2,121	1,251	1,930	710	1,020	2,770	3,250	3,610
annual change in %	8.3	-41.0	54.2	16.0	43.7	43.5	17.5	11.0
Imports of services, BOP, EUR m ⁶⁾	691	488	615	245	352	840	1,000	1,120
annual change in %	10.8	-29.4	26.2	12.7	43.7	37.0	19.5	12.0
FDI liabilities, EUR m ⁶⁾	397	384	529	451	255	600	.	.
FDI assets, EUR m ⁶⁾	20	62	69	42	3	50	.	.
Gross reserves of CB excl. gold, EUR m ⁶⁾	6,311	6,942	8,204	7,107	7,977	.	.	.
Gross external debt, EUR m	11,444	11,340	11,654	11,105	11,843	12,150	12,860	13,650
Gross external debt, % of GDP	63.4	64.7	59.0	56.2	51.7	53.0	51.6	52.4
Average exchange rate BAM/EUR	1.9558	1.9558	1.9558	1.9558	1.9558	1.9558	1.9558	1.9558

1) Preliminary. - 2) According to ESA'10 (FISIM not yet reallocated to industries). - 3) Based on UN-FAO data, wiiw estimate in 2021. -

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.