

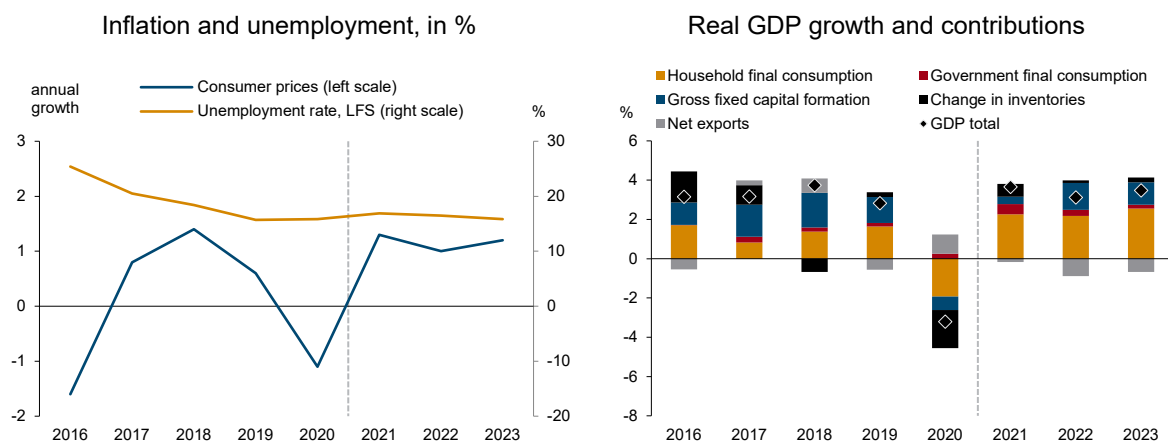


## BOSNIA AND HERZEGOVINA: Recovery transcends 2020 losses

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The economy has bounced back since restrictions were eased in Q2 2021, growing by 11.6% (and thus more than recouping last year's decline). Mass vaccination has started, but the public's interest in getting inoculated has been far lower than expected; this poses an additional risk to the health sector, as the fourth wave of the pandemic is already upon the country. The introduction of a law proscribing genocide denial has led to fresh political tensions in the country and disruption to the work of government institutions by politicians from Republika Srpska; this could have economic repercussions.

**Figure 4.3 / Bosnia and Herzegovina: Main macroeconomic indicators**



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

**The easing of COVID restrictions in Q2 resulted in the economy bouncing back strongly.** In May, following a sharp drop in the number of infected people, most of the COVID-19 restrictions were eased. While certain restrictions do still apply (e.g. the need to wear a mask in enclosed areas and limitations on the number of people in enclosed areas), those that directly affect economic activity were lifted. The upshot is that the number of COVID-19 infections has again started to trend upwards.

Mass vaccination started in August, but many people have proved reluctant to get the jab. Both entities in Bosnia and Herzegovina finally managed to arrange the direct procurement of bulk quantities of vaccines from August; this, together with donations and deliveries under the COVAX scheme, enabled mass vaccination to get under way. However, the interest of the public has been far more muted than expected, and as of 29 September, only 23% of the population had been vaccinated (16% fully). The health sector is coming under additional pressure, as the number of seriously ill patients is on the

increase. The governments are considering introducing measures to target anti-vaxxers, but such a move is widely regarded as discriminatory.

Political tensions increased when the outgoing High Representative for Bosnia and Herzegovina imposed a law proscribing genocide denial. On 23 July, the Office of the High Representative – the international body which oversees the implementation of the peace agreement that ended Bosnia's war – imposed a law banning the denial of genocide and the glorification of war criminals. This resulted in a protest by some Bosnian Serb politicians, who do not accept that the Srebrenica massacre constituted genocide, despite the rulings of international courts. They refused to participate in the work of the country's multi-ethnic presidency, parliament and government for over a month, thereby disrupting the decision-making process at the state level. Political manoeuvring ensured that greater economic consequences were avoided; but if the boycott continues, there may well yet be more serious repercussions.

The data for the first two quarters of 2021 suggest a significant improvement in economic activity. Following Q1 growth in GDP of 2.5% year on year, growth in Q2 2021 was 11.6% – 3 percentage points (pp) greater than the decline witnessed in 2020. Thus, the economy has already surpassed the pre-pandemic level. The growth is largely driven by increases in the export of goods and services and in household consumption. The growth in both exports and imports of goods in Q2 2021 exceeded the fall in the same quarter of 2020, although the increase in trade in services was much lower. Remittances (which made up around 8% of GDP in 2019) fell by 40% in 2020, but rose by 27.8% in Q2 2021, year on year. Tourism (which accounted for around 9% of GDP in 2019) plummeted by 70% in 2020, but tourism revenue bounced back strongly in Q2 2021, with a year-on-year increase of 71.34%, as the country's borders were opened up to all tourists with a vaccination certificate or negative PCR test (and to tourists from neighbouring countries without any proof). Total industrial production increased in Q2 by 12.3% year on year, which more than recouped the decline seen in Q2 2020 (-9.4% year on year). Overall demand for loans – by companies and households alike – increased in Q2 2021, following three previous quarters of reduced demand. Taking all this into consideration, we expect GDP growth in 2021 to be greater than the decline in 2020.

**The country's accommodative fiscal policy has continued in 2021, supporting firms, households and the health sector (albeit at a lower level than in 2020).** The government budget recorded a deficit of 5.3% of GDP in 2020, after five years of surpluses. In Q1 2021, budget revenues increased and spending decreased, resulting in a surplus of 2.4% of GDP. We project that the budget will still be in deficit in 2021, but that this deficit will be lower than in 2020. Specifically, we project a deficit of 2% in 2021 (followed by 0.5% in 2022). Public debt increased in the first two quarters of 2021, but, at a forecast 39.5% of GDP in 2021, it is still much lower than in neighbouring countries, due to the country's limited ability to borrow. In the first two quarters 2021, direct investments slightly increased compared to the same period 2020 and further increase is expected, as the intensification of construction work on the Sarajevo–Belgrade highway has been announced.

The rate of unemployment increased in Q2 2021 compared to Q2 2020. According to the Labour Force Survey, the unemployment rate in the first two quarters of 2021 was 19.1% and 18.6%, respectively. This is higher than in 2020, but the numbers are not directly comparable, as the Labour Force Survey methodology has changed since the start of 2021. We expect the unemployment rate to fall slowly in the coming period, to 16.9% by the end of the year and to 16.5% in 2022. The resumption of emigration

among the unemployed (especially young people) once all restrictions are removed is likely to contribute to this downward trend. Wages are expected to rise slightly, due to an anticipated increase in private consumption, loans and remittances.

Because of the stronger-than-expected economic recovery in the first half of the year, our forecasts for GDP growth and inflation have been revised upwards. Thanks to a recovery in consumption and exports, we expect GDP to grow by 3.7% in 2021 and by 3.1% in 2022 – an upward revision of 0.4 pp and 0.1 pp, respectively. Following a spell of negative inflation in 2020 and Q1 2021, inflation picked up in the second quarter, due to higher energy and food prices, and in July and August it reached +1.9% and +2.3%, respectively. Still, the average for the first eight months remains rather low, at 0.6%. We have thus revised our forecast for 2021 upwards, but only marginally, by 0.5 pp. The new projections are that inflation will average 1.3% in 2021 and 1% in 2022. Downside risks to growth are the potentially slower recovery on the export markets and the possible negative impact of the new rising wave of the pandemic on business and tourism, if fresh restrictions are introduced.

**Medium-term growth trends are potentially threatened by political instability.** Frequent speculation by Republika Srpska officials about the country's disintegration has led to political tension rising. The general elections in 2022 could add to the political turmoil, as the leading party in Republika Srpska has already announced activities designed to prevent the elections from taking place on its territory. Constant political disagreements at all levels of government and an inability to implement adequate structural reforms for the creation of a single economic space are hampering the EU and NATO accession processes, and could also lead to a reduction in investment and international financial support, which would pose a threat to medium-term growth.

**Table 4.3 / Bosnia and Herzegovina: Selected economic indicators**

	2018	2019	2020 <sup>1)</sup>	2020 January-June	2021	2021 Forecast	2022 Forecast	2023
Population, th pers., average	3,496	3,491	3,475	.	.	3,470	3,446	3,434
Gross domestic product, BAM m, nom. <sup>2)</sup>	33,444	35,296	34,240	16,407	17,596	36,000	37,500	39,300
annual change in % (real)	3.7	2.8	-3.2	-2.5	7.0	3.7	3.1	3.5
GDP/capita (EUR at PPP) <sup>2)</sup>	9,620	10,060	9,920	.	.	.	.	.
Consumption of households, BAM m, nom. <sup>2)</sup>	24,639	25,633	24,919	12,218	13,058	.	.	.
annual change in % (real)	1.8	2.2	-2.7	-2.4	7.2	3.1	3.0	3.5
Gross fixed capital form., BAM m, nom. <sup>2)</sup>	7,610	8,129	7,779	3,673	3,726	.	.	.
annual change in % (real)	8.1	5.8	-3.0	-6.2	2.2	1.7	6.0	5.0
Gross industrial production								
annual change in % (real)	1.6	-5.3	-6.4	-9.1	13.2	7.0	4.5	3.0
Gross agricultural production <sup>3)</sup>								
annual change in % (real)	21.5	-8.4	-1.0	.	.	.	.	.
Construction output total								
annual change in % (real)	0.4	-2.0	0.2	-1.9	3.3	.	.	.
Employed persons, LFS, th, average <sup>4)</sup>	822.4	802.9	1,173.1	1,154	1,126	1,180	1,190	1,210
annual change in %	0.8	-2.4	.	.	-2.4	1.0	1.2	2.0
Unemployed persons, LFS, th, average <sup>4)</sup>	185.5	149.4	221.0	225	256	240	235	228
Unemployment rate, LFS, in %, average <sup>4)</sup>	18.4	15.7	15.9	16.4	18.6	16.9	16.5	15.9
Reg. unemployment rate, in %, eop	34.7	32.8	33.6	34.3	32.4	.	.	.
Average monthly gross wages, BAM	1,363	1,421	1,476	1,463	1,520	1,550	1,580	1,610
annual change in % (real, gross)	1.7	3.7	5.0	4.8	3.8	4.0	1.2	1.0
Average monthly net wages, BAM	879	921	956	947	980	1,000	1,020	1,040
annual change in % (real, net)	1.9	4.2	4.9	4.6	3.4	3.5	1.1	0.9
Consumer prices, % p.a.	1.4	0.6	-1.1	-0.6	0.1	1.3	1.0	1.2
Producer prices in industry, % p.a.	3.5	0.1	-1.2	-1.3	2.7	1.8	1.5	1.6
General governm.budget, nat.def., % of GDP								
Revenues	43.0	42.5	42.1	.	.	41.0	40.5	41.0
Expenditures	40.8	40.6	47.4	.	.	43.0	41.0	40.8
Deficit (-) / surplus (+)	2.2	1.9	-5.3	.	.	-2.0	-0.5	0.2
General gov.gross debt, nat.def., % of GDP	34.2	32.8	36.6	.	.	39.5	39.0	38.0
Stock of loans of non-fin.private sector, % p.a.	5.5	6.7	-2.5	0.4	2.1	.	.	.
Non-performing loans (NPL), in %, eop	8.8	7.4	6.1	6.7	5.7	.	.	.
Central bank policy rate, % p.a., eop <sup>5)</sup>	.	.	.	.	.	.	.	.
Current account, EUR m <sup>6)</sup>	-559	-504	-657	-297	-302	-430	-550	-650
Current account, % of GDP	-3.3	-2.8	-3.8	-3.5	-3.4	-2.3	-2.8	-3.2
Exports of goods, BOP, EUR m <sup>6)</sup>	5,327	5,205	4,818	2,269	2,933	5,240	5,490	5,650
annual change in %	11.5	-2.3	-7.4	-12.3	29.3	8.7	4.8	3.0
Imports of goods, BOP, EUR m <sup>6)</sup>	9,172	9,277	8,034	3,815	4,539	8,560	9,200	9,570
annual change in %	7.1	1.1	-13.4	-17.2	19.0	6.5	7.5	4.0
Exports of services, BOP, EUR m <sup>6)</sup>	1,959	2,117	1,229	601	660	1,380	1,680	1,780
annual change in %	10.0	8.0	-42.0	-38.5	9.8	12.5	22.0	6.0
Imports of services, BOP, EUR m <sup>6)</sup>	624	689	457	205	220	530	590	630
annual change in %	5.7	10.4	-33.7	-29.6	7.4	16.0	10.5	6.0
FDI liabilities, EUR m <sup>6)</sup>	507	388	364	241	396	380	.	.
FDI assets, EUR m <sup>6)</sup>	16	111	68	12	20	15	.	.
Gross reserves of CB excl. gold, EUR m <sup>6)</sup>	5,835	6,311	6,942	6,506	7,107	.	.	.
Gross external debt, EUR m	11,284	11,486	11,365	.	.	11,750	11,650	11,550
Gross external debt, % of GDP	66.0	63.6	64.9	.	.	63.8	60.8	57.5
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). From 2020 wiiw estimates. - 3) Based on UN-FAO data, wiiw estimate in 2020. - 4) Until 2019, the LFS survey was carried out once a year in April and according to census 1991. From 2020 continuous quarterly survey based on census 2013 and according to EU + ILO definition. - 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.