

*Mario Holzner*

## **Bosnia and Herzegovina: the EU, 1 state, 1 republic & 1 federation**

Once again the political setting of Bosnia and Herzegovina (B&H), obtruded in 1995 by the international community in Dayton, Ohio, is proving to be a stumbling block towards political normalization of the country. However, no realistic alternative to a weak central state and the division of the country into two Entities (Republika Srpska, RS and the Federation of B&H, FBiH) controlled by the High Representative of the International Community in B&H, who is at the same time the EU's Special Representative in B&H, is in sight. Paradoxically it is also the EU who criticizes in its 2004 Stabilization and Association Process (SAP) report the fact that the government at the state level remains underdeveloped while tensions between state and Entities still affect government business and reform. By the end of 2003 the European Commission (EC) published a Feasibility Study which reviewed B&H's readiness to open negotiations on a Stabilization and Association Agreement (SAA) with the EU. The study identified 16 key reform areas which should be addressed effectively in order to start negotiations. However, the 2004 EC SAP report found only moderate progress achieved so far. Political confrontation in the wake of the local elections in October 2004 might further impede the reform process.

Despite the political obstacles, the economic situation has been improving very much in comparison to 2003 when economic growth was only mediocre. In January to May 2004 industrial production grew by 15% in FBiH and by 10% in RS year-on-year. For the same period FBiH exhibits an export growth rate of 18%, while imports grew only by 8% (in euro terms). This will help reduce the enormous B&H current account deficit of about 30% of GDP, which is the highest among the SEE countries.<sup>1</sup> However, registered unemployment rates remain fairly stable above 40%.<sup>2</sup> An improving external position alone will not help reduce unemployment substantially. In the first four months of 2004 turnover in retail trade in FBiH increased by as much as 33% compared to the same period in 2003. However, FBiH's price development in the first five months of 2004 is near deflationary levels. This might indicate that much of the increase in domestic demand was satisfied by imports. Government consumption will not be the impetus for a reduction of unemployment as government spending has been constantly reduced over recent years. Though FDI inflows are increasing, their level is still low. B&H producers will face a further reduction of tariff protection in the years to come. The country will have to increase its competitiveness and productivity and thus might experience a rather jobless growth in the short term.

---

<sup>1</sup> The IMF believes the current account deficit in GDP to be much lower due to missing inclusion of estimates of the Non-Observed Economy (NOE) in GDP and various other deficiencies of B&H statistics. Including the NOE in GDP would decrease the current account deficit figure to some 20% of GDP in 2003, which is still much higher than in the other SEE countries.

<sup>2</sup> Again, household surveys show a much lower figure for the unemployment rate, also due to the shadow economy. This figure is about half of the registered unemployment rate.

Table BA

## Bosnia and Herzegovina: Selected Economic Indicators

	1997	1998	1999	2000	2001	2002	2003 <sup>1)</sup>	2004 forecast	2005 forecast
Population, th pers., mid-year	3651	3700	3725	3781	3798	3828	3862	.	.
Gross domestic product, BAM mn, nom.	6116	7559	8990	10050	10960	11650	12170	12800	13500
GDP annual change in % (real)	37.0	15.6	10.0	5.5	4.5	5.5	3.5	5	5
GDP/capita (EUR at exchange rate)	857	1045	1234	1359	1475	1556	1611	.	.
GDP/capita (EUR at PPP - wiiw)	.	.	4830	5210	5500	5860	6030	.	.
Gross industrial production annual change in % (real) <sup>2)</sup>	.	23.3	12.1	9.3	-2.0	11.5	3.8	6.5	6
Reg. employees, th pers., end of period	.	651.3	630.9	640.6	625.6	637.7	634.0	.	.
annual change in %	.	.	-3.1	1.5	-2.3	1.9	-0.6	.	.
Reg. unemployed, th pers, average	.	398.5	409.3	421.2	422.2	441.9	459.6	.	.
Reg. unemployment rate in %, average	.	38.0	39.3	39.7	40.3	40.9	42.0	42	41
Average gross monthly wages, BAM	.	454	503	541	652	660	733	.	.
Federation BiH	.	507	551	626	652	710	773	.	.
Republika Srpska	.	256	314	387	444	528	612	.	.
Retail prices, % p.a.	.	.	3.7	4.8	3.1	0.4	0.6	0.6	0.5
General government budget, BAM mn									
Revenues	.	.	57.7	53.7	49.7	48.0	46.7	.	.
Expenditures	.	.	65.5	60.7	53.1	50.3	46.3	.	.
Deficit (-) / surplus (+)	.	.	-7.8	-7.0	-3.4	-2.3	0.4	.	.
Current account, EUR mn	.	-703	-1031	-956	-1363	-1839	-1844	-1870	-1950
Current account in % of GDP	.	-18.2	-22.4	-18.6	-24.3	-30.9	-29.6	-28.6	-28.3
Gross foreign reserves, EUR mn	74	145	443	522	1379	1260	1422	.	.
General government foreign debt, EUR mn	.	.	1915	2074	2261	2194	2054	.	.
Exports of goods, BOP, EUR mn	.	597	781	1274	1268	1169	1321	1430	1520
annual growth rate in %	.	.	30.7	63.2	-0.5	-7.9	13.1	8.2	6.3
Imports of goods, BOP, EUR mn	.	3400	3875	4120	4576	4692	4786	4960	5160
annual growth rate in %	.	.	14.0	6.3	11.1	2.5	2.0	3.6	4.0
Exports of services, BOP, EUR mn	.	378	370	391	421	403	430	.	.
annual growth rate in %	.	.	-2.0	5.5	7.8	-4.3	6.8	.	.
Imports of services, BOP, EUR mn	.	186	212	214	227	254	262	.	.
annual growth rate in %	.	.	14.2	0.7	5.9	12.1	3.1	.	.
Average exchange rate BAM/USD	1.73	1.76	1.83	2.12	2.19	2.08	1.73	.	.
Average exchange rate BAM/EUR (ECU)	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96
Purchasing power parity BAM/USD, wiiw	.	.	0.46	0.47	0.48	0.48	0.48	.	.
Purchasing power parity BAM/EUR, wiiw	.	.	0.50	0.51	0.52	0.52	0.52	.	.

Notes: BAM: ISO-Code for the convertible mark in Bosnia and Herzegovina.

1) Preliminary. - 2) Based on weighted averages for the Federation of Bosnia and Herzegovina and Republika Srpska.

Source: IMF, CBBH, ASBH, wiiw forecasts.