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Bosnia and Herzegovina: Some more certainty

A significant speed-up of growth in Bosnia and Herzegovina is hard to expect this and the next two years. As in the Balkan region as a whole, sluggish growth appears to be the most probable post-crisis recovery prospect.

After the local elections in Republika Srpska in Bosnia and Herzegovina and the election in Serbia last year, there is somewhat more of stability. The party in power in the former, which lost the local elections, and the new coalition government and the new president in the latter seem less committed to an eventual break-up of Bosnia and Herzegovina than was perhaps the case before. This has yet to translate into better intra-state cooperation, but some modicum of certainty can be said to have been achieved. In addition, if Serbia starts negotiating with the EU, which seems more of a possibility now than ever before, that would put pressure on Bosnia and Herzegovina too to improve internal cooperation in order to enhance its chances to advance its relations with the EU. Finally, there are some initiatives to reform the Federation of Bosnia and Herzegovina, which is – next to Republika Srpska – the other entity (an awkward term for the two state-like polities that constitute Bosnia and Herzegovina). This entity consists of ten cantons and has proved to be rather hard to manage. So, there is a need to increase its efficiency in order to improve the overall decision making capacity of the country.

These cautiously encouraging political developments come at a moment when the economy is in recession and can expect only modest recovery this year and perhaps some speed-up of growth in the medium term. As most other small basically continental Balkan economies, growth depends to a large extent on the performance of the tradable sector. Domestic demand is constrained by relatively constrained fiscal and income policies and the persistently depressed labour market. Private and public transfers sustain consumption and imports, but foreign investments in industry and tradable services are rather limited. Bosnia and Herzegovina cannot rely too much on agriculture and the possibilities to expand tourism are limited. So, its comparative advantages are in industry, both in manufacturing and energy and mining as well as in forestry. However, in the crisis, and last year in particular, industrial production has taken a beating due to the decline in external demand and financing.

In the short run, some recovery of industrial production can be expected and if political stabilization takes hold, some increase in foreign investments is likely. Those do not necessarily have to come from the EU countries but from Turkey, Russia and countries in the Middle East. Especially useful would be investments in infrastructure because this is a mountainous and not all that well connected country. In fact, one country where structural funds and funds to support agriculture of the EU could play quite a significant role is Bosnia and Herzegovina. Also, regional cooperation is crucial for it and somewhat more relaxed relations around this country should prove supportive for its economic development and further political stabilization.

With all that, a significant speed-up of growth is hard to expect this and the next two years. As in the Balkan region as a whole, sluggish growth seems like the most probable post-crisis recovery prospect.

Table BA

Bosnia and Herzegovina: Selected Economic Indicators

	2008	2009	2010	2011	2012 ¹⁾	2013	2014 Forecast	2015
Population, th pers., mid-year	3842.3	3843.0	3843.1	3839.7	3843.0	3842	3842	3842
Gross domestic product, BAM mn, nom. ²⁾	24898	24202	24773	25666	26000	26700	27800	29200
annual change in % (real) ²⁾	5.6	-2.8	0.7	1.0	-0.7	0.8	2.0	3.0
GDP/capita (EUR at exchange rate)	3300	3200	3300	3400	3500	3500	3700	3900
GDP/capita (EUR at PPP)	6500	6200	6400	6600	6600	.	.	.
GDP by expend. approach, BAM mn, nom. ²⁾	26783	26378	26410	27240	.	.	.	.
annual change in % (real) ²⁾	4.9	-4.2	-0.6	2.0	.	.	.	.
Consumption of households, BAM mn, nom. ²⁾	21752	20927	21338	21918	21900	.	.	.
annual change in % (real) ²⁾	5.5	-4.6	0.1	-0.3	-2.0	1.0	1.0	2.0
Gross fixed capital form., BAM mn, nom. ²⁾	6744	5380	4779	5241	5400	.	.	.
annual change in % (real) ²⁾	15.9	-19.4	-11.8	7.0	0.0	6.0	5.0	5.0
Gross industrial production								
annual change in % (real)	7.3	1.5	3.7	6.4	-5.2	5.0	7.0	5.0
Gross agricultural production								
annual change in % (real)	9.1	3.9	-7.1	2.0	.	.	.	.
Construction output total ³⁾								
annual change in % (real)	16.9	-7.2	-12.4	-5.1	.	.	.	.
Employed persons, LFS, th, April	890.2	859.2	842.8	816.0	813.7	810	812	820
annual change in %	4.8	-3.5	-1.9	-3.2	-0.3	-0.5	0.2	1.0
Employees total, reg., th, average	705.6	697.6	695.7	691.2	688.0	692	692	699
annual change in %	2.9	-1.1	-0.3	-0.6	-0.5	0.5	0.0	1.0
Unemployed persons, LFS, th, April	272.0	272.3	315.1	310.9	316.6	313	312	311
Unemployment rate, LFS, in %, April	23.4	24.1	27.2	27.6	28.0	28.0	28.0	27.0
Unemployment rate, reg., in %, end of period	40.6	42.4	42.7	43.8	44.0	44.0	44.0	43.0
Average gross monthly wages, BAM	1113	1204	1217	1273	1290	1310	1350	1400
annual change in % (real, net)	8.4	5.6	-1.1	-1.4	-0.9	.	.	.
Consumer prices, % p.a.	7.5	-0.4	2.1	3.7	2.1	2.0	2.0	2.0
Producer prices in industry, % p.a. ⁴⁾	8.6	-3.2	0.9	3.7	1.5	2.0	2.0	2.0
General governm.budget, nat.def., % of GDP								
Revenues	44.0	43.0	43.8	44.2	43.5	43.5	44.0	44.0
Expenditures	46.2	47.5	46.3	45.5	46.5	46.0	46.5	46.0
Deficit (-) / surplus (+)	-2.2	-4.4	-2.5	-1.3	-3.0	-2.5	-2.5	-2.0
Public debt, nat.def., % of GDP ⁵⁾	30.8	36.2	39.6	40.7	43.1	43.0	44.0	45.0
Central bank policy rate, % p.a., end of period ⁶⁾
Current account, EUR mn ⁷⁾	-1771.3	-777.7	-719.3	-1141.9	-1200.0	-1300	-1400	-1500
Current account, % of GDP	-13.9	-6.3	-5.7	-8.7	-9.0	-9.5	-9.9	-10.1
Exports of goods, BOP, EUR mn ⁷⁾	3522.0	2920.2	3761.9	4347.2	2560.0	2700	3000	3300
annual growth rate in %	13.9	-17.1	28.8	15.6	-2.5	7.0	10.0	10.0
Imports of goods, BOP, EUR mn ⁷⁾	8344.6	6330.1	6994.1	7976.0	6720.0	7100	7600	8100
annual growth rate in %	15.4	-24.1	10.5	14.0	-2.5	5.0	7.0	7.0
Exports of services, BOP, EUR mn ⁷⁾	1131.9	1024.9	974.5	922.3	1520.0	1580	1640	1710
annual growth rate in %	6.6	-9.5	-4.9	-5.4	3.0	4.0	4.0	4.0
Imports of services, BOP, EUR mn ⁷⁾	467.7	461.7	407.4	378.6	410.0	420	440	460
annual growth rate in %	10.8	-1.3	-11.8	-7.1	-0.5	3.0	5.0	5.0
FDI inflow, EUR mn ⁷⁾	683.8	180.5	173.6	313.0	400.0	500	500	800
FDI outflow, EUR mn ⁷⁾	11.2	4.3	31.7	14.2	30.0	0	0	0
Gross reserves of NB excl. gold, EUR mn ⁸⁾	3218.9	3143.8	3267.6	3207.0	3150.0	3200	3200	3300
Gross external public debt, EUR mn	2168.0	2676.2	3215.4	3405.3	3700.0	4000	4000	4100
Gross external debt, % of GDP	17.0	21.6	25.4	25.9	27.8	29.4	28.2	27.5
Exchange rate BAM/EUR, average	1.9558	1.9558	1.9558	1.9558	1.9558	1.96	1.96	1.96
Purchasing power parity BAM/EUR	0.9982	1.0137	1.0071	1.0186	1.0227	.	.	.

1) Preliminary and wiiw estimates. - 2) According to ESA'95 (including non-observed economy, real growth rates based on previous year prices). - 3) According to gross value added. - 4) Domestic output prices. - 5) Based on IMF data. - 6) Bosnia and Herzegovina has a currency board. There is no policy rate and even no money market rate available. - 7) Converted from national currency with the average exchange rate. From 2012 BOP 6th edition, 5th edition before. - 8) Including investment in foreign securities.

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