

BOSNIA AND HERZEGOVINA

Table 1	2020
Population, million	3.3
GDP, current US\$ billion	19.3
GDP per capita, current US\$	5892.7
School enrollment, primary (%gross) ^a	
Life expectancy at birth, years ^a	77.3

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent WDI value (2018).

Following a sharp contraction of 4 percent in 2020, economic activity is expected to expand by 2.8 percent in 2021. As the world recovers from the COVID-19 crisis and with the implementation of the Economic Reform program, growth is expected to gradually recover. The ongoing crisis highlights the need to implement long-delayed structural reforms to achieve faster recovery. Addressing persistent unemployment and countering the increase in layoffs that occurred during the pandemic is critical to reducing poverty.

Key conditions and challenges

BiH has enjoyed macroeconomic stability over the last decade. However, pre-pandemic the pace of growth has been below that of peer countries in Europe and below what is needed to converge to EU living standards. BiH has not developed the foundations for sustainable economic growth as its economic model remains out of balance.

The economy is driven by consumption, rather than production. Investment is low, and the economy is inward-looking. Poverty rates have not improved according to the latest data available from 2015 and many people do not have a formal job – or, indeed, any job at all – which could cause many people to grow old in poverty.

The pandemic has highlighted the challenges of BiH's complex institutional set-up. Disbursing fiscal support to households and businesses has been slow, which has weighed heavily on economic activity and could delay the recovery in 2021. Pressures from frequent elections in combination with slow implementation of structural reforms continue to hold back the country's ability to return to growth. The immediate priority for BiH is to control the pandemic and to minimize its economic and social impact. Addressing persistent unemployment and minimizing layoffs remain an important challenge and will be key to curbing emigration.

Recent developments

Real GDP growth is projected at -4.0 percent in 2020 due to a slowdown in most productive sectors, a weaker external environment and high political uncertainty. In 2020 growth was positive in Q1 but after the introduction of a lockdown and containment measures in Q2 the economy faced a sudden stop as domestic and external demand dropped.

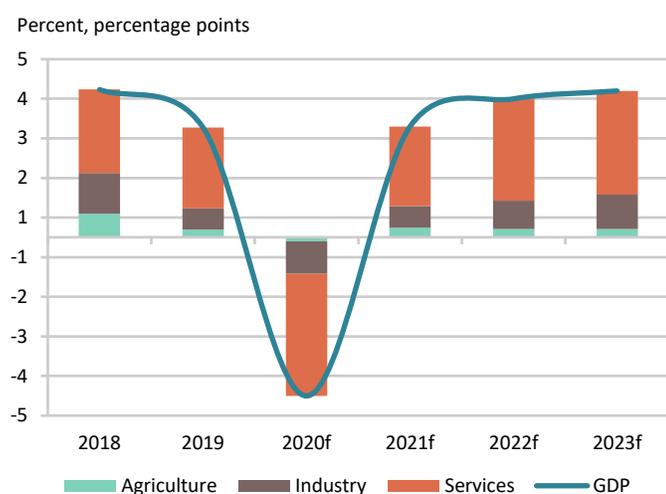
By Q4 2020, economic activity had somewhat improved, but growth remained in negative territory.

Unemployment has recently worsened. According to official estimates, the number of people in paid employment decreased approximately 1 percent y-o-y in November 2020, while the number of unemployed increased by about 3 percent in the same period. Deeper labour market effects have been prevented by wage subsidy programs in both entities and other policy measures targeting affected economic sectors aimed to safeguard potential job losses.

As the economy has fallen into recession and with low oil prices deflation has returned. In December the consumer price index was down 1.6 percent year-on-year (y-o-y).

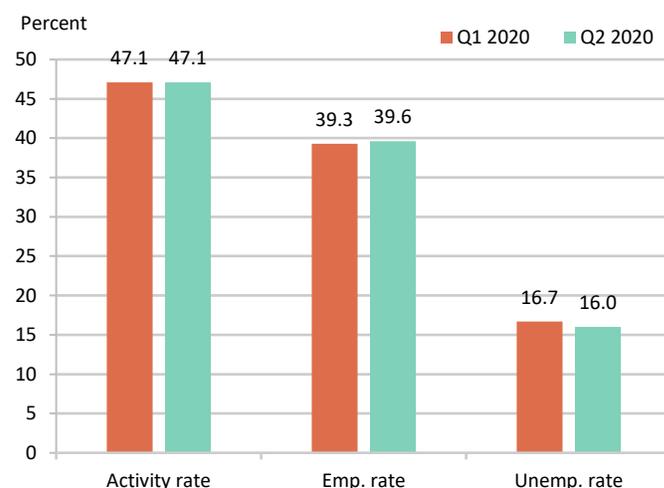
In 2020, a fiscal deficit of 5.5 percent of GDP is expected, down from a surplus of 1.9 percent in 2019. In 2020, revenues fell mainly due to the slump in tax revenue collection, while expenditures rose mainly as a result of higher spending on public wages, goods and services and social benefits.

FIGURE 1 Bosnia and Herzegovina / Real GDP growth and contributions to real GDP growth



Sources: BiH Agency for Statistics (BHAS), World Bank staff estimate.

FIGURE 2 Bosnia and Herzegovina / Labor market indicators, 2020



Sources: LFS Q1 and Q2 2020 report, World Bank staff calculations.

The current account deficit is estimated to have worsened slightly in 2020 due to a drop in the services balance and remittances. Total public debt, consisting largely of concessional debt, has increased and is estimated at 40.6 percent of GDP, while the total external debt is estimated at 72 percent of GDP.

Even during the pandemic, the financial sector has been broadly stable. On average, banks are sufficiently capitalized and liquid, but their profitability is eroding.

The latest available poverty data using the national poverty line is for 2015 and the poverty rate was estimated at 16 percent, very close to the 15 percent estimated for 2011.

The slowdown in the economy and the consequent loss of people's employment and earnings have negatively affected household welfare in 2020. Estimates show that many of those who may have been affected were not covered by social protection programs before the crisis.

Outlook

The outlook is marked by the implementation of measures to combat the pandemic. Authorities are currently focused on securing vaccines. As the pandemic

subsides the Socio-Economic Program is expected to gain needed attention, mainly through the return of announced investments in energy and infrastructure. Consumption will continue to drive growth, resulting in strong growth of imports. Remittances will recover in the medium term, and, together with progress on reforms, will underpin a gradual pickup in consumption and finance a significant part of the trade deficit. Monetary policy anchored to the Euro will continue to support local currency stability. Safeguarding the banking sector will continue to be important in particular as the full impact of moratoria is yet to be assessed. Authorities have adopted budgets and secured funds to ensure necessary liquidity through credit lines via entity development banks to support affected businesses. As BiH does not have access to international markets, support from IFIs will be critical. As revenues recover BiH's fiscal deficit will return to surplus over the medium term. A stronger push on the capital investment program will need to remain a high priority for the authorities' economic programs. Planned investments in energy, infrastructure, and tourism will also support job creation in those sectors after the crisis.

As the pandemic loses force and the economy gradually recovers in 2021, improvements in labor market participation and

employment will remain key for growth to translate into poverty reduction.

There are several risks to the outlook but the main risk is a prolonged pandemic which could lead to lower growth rates in 2021 than projected. In addition, the challenging political environment will affect the implementation of the adopted socio-economic program. The main external risk for BiH remains slow growth in the EU and political tensions in the region.

TABLE 2 Bosnia and Herzegovina / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	3.1	2.9	-4.0	2.8	3.5	3.7
Private Consumption	2.4	2.8	-4.5	2.8	3.7	3.8
Government Consumption	0.9	2.6	0.5	4.6	3.0	3.0
Gross Fixed Capital Investment	6.3	2.9	-25.8	3.4	4.5	6.3
Exports, Goods and Services	5.9	-0.3	-8.5	2.0	3.5	4.2
Imports, Goods and Services	3.2	0.2	-13.4	3.0	3.7	4.5
Real GDP growth, at constant factor prices	3.7	2.8	-4.0	2.8	3.5	3.7
Agriculture	9.1	2.9	-1.5	3.4	3.0	2.9
Industry	3.8	1.9	-3.0	2.0	2.6	3.2
Services	3.2	3.1	-4.7	3.1	3.9	4.0
Inflation (Consumer Price Index)	1.4	1.2	-0.5	0.7	0.7	0.8
Current Account Balance (% of GDP)	-3.7	-3.2	-3.7	-4.0	-4.7	-5.4
Net Foreign Direct Investment (% of GDP)	2.2	2.9	2.1	3.5	3.6	3.5
Fiscal Balance (% of GDP)	2.5	1.9	-5.5	-2.3	-0.9	0.9
Debt (% of GDP)	36.4	34.6	40.6	39.9	39.3	39.4
Primary Balance (% of GDP)	3.8	2.8	-4.2	-0.9	0.0	1.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.