

The World Bank in Bosnia and Herzegovina

Country Snapshot



An overview of the World Bank's work in Bosnia and Herzegovina

April 2020

BOSNIA AND HERZEGOVINA	2019
Population, million	3.5
GDP, current US\$ billion	20.1
GDP per capita, current US\$	5,732
Life Expectancy at birth, years (2014)	77.1

At a Glance

- Bosnia and Herzegovina (BiH) has been significantly affected by the COVID-19 pandemic. The World Bank is responding rapidly to support relief efforts through an emergency operation that provides financing for medical equipment and social assistance to those most in need. Dialogue with the authorities is ongoing to define priorities for the World Bank's support to economic recovery and enhanced resilience.
- The World Bank's overall support to BiH focuses on strengthening the efficiency of the public sector, boosting private sector growth, and building resilience to natural shocks.
- The country's economic model needs to be rebalanced by shifting the engine of growth and job creation to the private sector, while reducing the public sector footprint.

Country Context

The citizens of Bosnia and Herzegovina (BiH) aspire to a future of rising living standards, good jobs, better infrastructure and public services, a healthy, sustainable environment, and membership in the European Union (EU). However, BiH is far from achieving these objectives, and the country faces the additional challenge of a rapidly declining population—arguably its most valuable resource.

Every year thousands of people emigrate to seek a better quality of life elsewhere, something the country cannot afford. Creating the incentives for people to stay, however, requires that the country meet their aspiration for a better quality of life. The current crisis created by the pandemic has only heightened the need to address the country's considerable shortcomings.

BiH's current development path will not create the opportunities that its population needs. The country has made significant progress in maintaining macroeconomic stability by posting fiscal surpluses and declining debt levels, but it is not enough. Although economic growth has been stable in recent years at around 3 percent, it is simply too low to underpin a path to shared prosperity. Should BiH continue to grow at the same rate, it would take more than 100 years for the country to reach the living standards observed in the EU.

To achieve higher, more sustainable, and equitable growth, interventions will be needed along four pillars: (i) rebalanced growth, (ii) investments in physical capital, (iii) stronger human capital, and (iv) natural resource management.

The World Bank and Bosnia and Herzegovina

The World Bank Group (WBG) Country Partnership Framework (CPF) for 2016–20 provides analysis, advice, and financing to accelerate the implementation of reforms designed to promote economic growth. To design this new strategy, a systematic diagnostic (SCD) was carried out to clarify the challenges that BiH faces on the road to growth and prosperity and to identify possible solutions.

The fundamental conclusion is that BiH can attain sustainable growth that will benefit broad groups of society only if it takes decisive steps to make the public sector leaner and more efficient and to unleash the growth and job-creating potential of the private sector. Through the strategic framework, the WBG supports reforms in three areas:

- increasing public sector efficiency and effectiveness
- creating conditions for accelerated private sector growth
- building resilience to natural shocks

An SCD update undertaken before the outbreak of the COVID-19 pandemic identified an unfinished economic transformation, stalled structural reforms, and adverse demographic trends (outward migration, aging population).

The issues identified remain relevant, and their urgency will likely be higher in a post-pandemic scenario. The SCD update will help inform the Bank's new CPF for BiH for the period 2021–25.

Key Engagement

Mitigating the Impact of the COVID-19 Pandemic

The World Bank welcomes policies and measures that support the private sector and livelihoods in BiH. The actions put forward in BiH to address the COVID-19 crisis broadly reflect what many countries around the world are doing to support the business community.

Without prompt support, there may be lasting damage as otherwise healthy firms are closed and the related jobs are permanently lost.

WORLD BANK PORTFOLIO

No. of Projects: 7

Lending: \$383.77 Million

IBRD: \$295.40 Million

IDA: \$88.37 Million

The objective in supporting businesses in the short term is to address the immediate liquidity challenges for fixed costs, such as salaries and rent; extend or defer loan repayment schedules for a period of time; provide partial credit guarantees, credit insurance mechanisms, and export financing; limit firm closures/bankruptcies (particularly in cases where more productive firms may be at greater risk of closure); and prevent widespread layoffs.

It is important that this type of support is immediate, transparent, and time-bound; where feasible, it should also direct scarce resources to the most affected parts of the economy, while avoiding financial instability.

In the recovery phase, policies should be geared toward supporting growth-oriented enterprises, promoting the reallocation of resources to more efficient companies, and avoiding measures that might keep non-viable firms alive, thus diverting resources away from viable firms that may be facing financial constraints.

As firms start to work again, policies should focus on restoring credit flows to boost investment, reactivating trade flows and value chain participation, redirecting fiscal support from emergency measures to temporary job creation programs, and revamping/creating support programs for small and medium enterprises that are focused on promoting firm and productivity growth.

The World Bank team is engaging with the authorities to think through the details of and rationale for each of the policy options and support instruments.

Recent Economic Developments

Growth is estimated at 2.8 percent in 2019 and is expected to slow down in 2020 to -3.2 percent due to COVID-19. As the world recovers from the unfolding crisis, and with the implementation of the economic reforms package, growth is expected to rebound.

The ongoing crisis highlights the need to accelerate the implementation of structural reforms.

Translating growth into improvements in the labor market will be important to reducing poverty. A prolonged pandemic and political disagreements are the main risks to growth.

Economic Outlook

The outlook is marked by the COVID-19 pandemic and measures that have been implemented to combat it. Growth is projected at -3.2 percent in 2020, a significant revision from the pre-crisis projection of 3.4 percent for the year.

The authorities are responding with measures to address the challenges stemming from the slowdown in trade, services, transport, manufacturing, and tourism.

As the situation improves and implementation of the socioeconomic program accelerates, investments are expected to increase and a moderate rise in exports in the medium term is projected. Consumption will continue to drive growth, resulting in a strong commensurate growth in imports.

Remittances will decline in 2020 but are likely to increase again and stabilize at 8 percent of GDP in the medium term. Together with progress on reforms, remittances 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 be important. The authorities have announced the creation of two funds: solidarity and guarantees to ensure the necessary liquidity and the introduction of a credit line via the development bank to support businesses most affected by the crisis.

As BiH does not have access to international markets, support from international financial institutions will be critical. BiH's fiscal deficit is expected to return to a surplus over the medium term, owing to expected strong revenue collection.

A stronger push on the capital investment program after COVID-19 will be needed, and better targeting and higher coverage from social assistance programs will need to remain a high priority for the country's economic programs.

Planned investments in energy, infrastructure, and tourism will also support job creation in those sectors after the crisis. Since poverty is strongly associated with unemployment and inactivity, the expected slowdown in all sectors of the economy due to the COVID-19 outbreak and the associated potential loss of people's employment and earnings will likely have a short-term effect on poverty rates.

As growth recovers, improvements in labor market participation and employment will remain key if that growth is to translate into poverty reduction.

Increasing agricultural productivity will also be critical, as the majority of the poor are employed in agriculture in rural areas and the sector is one of the least productive among all Western Balkan countries.

Project Spotlight

Better than Before - Rebuilding in Bosnia and Herzegovina



Over 800,000 people have benefited from rehabilitated infrastructure and flood protection in affected areas since the 2014 floods.

In May 2014, unprecedented rainfall in BiH affected more than 1 million people (25 percent of the population), and the resulting heavy flooding caused estimated damages and losses equivalent to nearly 15 percent of the country's GDP.

In a country where one-fifth of the workforce is employed in agriculture, river floods

inundated newly plowed fields and ravaged 81 municipalities, severely disrupting the economy and imperiling livelihoods.

The World Bank participated in a systematic recovery needs assessment, led by the BiH authorities and supported also by the EU and the United Nations. The assessment provided a basis for developing effective rehabilitation measures for infrastructure and services in the affected areas.

In response to the crisis, the Bank promptly met the Government's request to provide financial support for emergency goods and the rehabilitation of high-priority infrastructure by approving US\$100 million from the WBG's Crisis Response Window. The project was declared effective within a record two and a half months after approval.

Key project results:

- Over 800,000 people in flood-affected areas have benefited from emergency assistance, including agricultural goods (seeds, irrigation equipment, and greenhouses) and rehabilitated infrastructure. Half of the project beneficiaries have been women.
- Infrastructure rehabilitation was conducted following the "Building Back Better" program to ensure that the project supports investment in more resilient regional and local infrastructure.



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The "Country Snapshot" is a bi-annual update, highlighting the country's recent developments, economic outlook and major overview of the World Bank's partnership with the country. You can find the latest updates at <http://www.worldbank.org/bosniaandherzegovina>