

The World Bank in Bosnia and Herzegovina

Country Snapshot



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

April 2018

BOSNIA AND HERZEGOVINA	2017
Population, million	3.8
GDP, current US\$ billion	17.2
GDP per capita, current US\$	4,544
Life Expectancy at birth, years (2014)	76.6

At a Glance

- Bosnia and Herzegovina (BiH) needs to continue to implement the strong reform agenda, adopted in 2015, that is helping it move toward European Union (EU) integration.
- 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.
- Along with other development partners, the World Bank Group is providing financial and advisory support to ensure implementation of the country's reform agenda.
- The World Bank program focuses on making the public sector more effective and efficient, boosting private sector growth, and building resilience to natural shocks.

Country Context

The political system in BiH is complex, reflecting the provisions of the country's constitution established to end ethnic conflict, as well as subsequent changes to the system introduced under the guidance of the international community through the Office of the High Representative.

In July 2015, the Council of Ministers of BiH, Government of Republika Srpska (RS), and Government of the Federation of Bosnia and Herzegovina (FBiH) adopted a joint program of structural reforms known as the reform agenda. This reform agenda presents a rare window of opportunity for structural reforms in BiH, underpinned by a broad national consensus on the country's critical challenges and priorities and the sustained support of key development partners.

BiH's key economic challenge is the imbalance of its economic model: public policies and incentives are skewed toward the public rather than the private sector, consumption rather than investment, and imports rather than exports.

The country needs to shift to a business environment conducive to private investment that supports both vibrant small- and medium-sized enterprises and the growth of larger companies, facilitates export performance and productivity improvements, and generates much-needed private sector employment.

At the same time as addressing these imbalances in the economic model, the country must also ensure the sustainability and inclusiveness of future growth.

The World Bank and Bosnia and Herzegovina

The World Bank Group (WBG) Country Partnership Framework 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 analysis 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; and
- building resilience to natural shocks.

Key Engagement

Key financial reforms to banks in BiH are being given a boost by a new, EUR56.60 million loan. The Banking Sector Strengthening Project loan will help the country improve bank regulation and supervision, address weaknesses in the banking sector, establish a bank resolution framework, and enhance the governance and operations of the entity development banks.

The banking sector in BiH is still dealing with the aftershocks of the global financial crisis that weakened the country's financial system and institutions. Following average annual credit growth of 20% between 2004 and 2008, private-sector credit growth turned negative at the end of 2009.

WORLD BANK PORTFOLIO

No. of Projects: 12
Lending: \$577.79 Million
IBRD: \$342.12 Million
IDA: \$230.10 Million
GEF: \$5.58 Million

Growth then fell to an annual average of just 2-3% in subsequent years, with access to finance remaining a constraint for enterprise development and economic growth.

While the banking system in BiH remains broadly sound, significant pockets of vulnerability still exist, calling for a strengthened institutional, regulatory, and supervisory framework.

The project is designed to ensure that the activities proposed for the banking sector are fully aligned among the entities, creating a uniform environment for banks to operate in. This will provide stability, transparency, and predictability for banks and supervisors, creating a more stable and resilient financial sector that will benefit businesses and citizens alike.

Complementary technical assistance is also provided with the help of the World Bank Financial Sector Advisory Centre in Vienna and the British Embassy in Sarajevo.



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Recent Economic Developments

Growth reached an estimated 3% in 2017. Domestic demand remains the dominant driver of growth with consumption adding 3 percentage points, investment 0.8 percentage points, and imports 5.1 percentage points.

Improved external demand has supported exports growth, but a strong rise in imports is offsetting this momentum.

Unemployment remains high, although some improvements are observed in the labor market. The unemployment rate fell from 25.4% in 2016 to 20.5% in 2017, driven by a fall in activity rate and a slight rise in employment.

In 2017, revenues rose mainly due to stronger collection of indirect taxes while expenditure declined mainly because of continued restraint on current government spending. At the same time, sluggish capital spending reflected implementation delays.

Current expenditures are expected to remain on a downward path, driven by the commitment of the authorities to reduce the wage bill.

Total public debt in 2017 remained at 37% of GDP (external public debt was 27% of GDP) and consisted largely of concessional debt to international financial institutions.

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

The implementation of new labor laws in both BiH entities, and continuation of support schemes for first-time job seekers are expected to improve labor markets outcomes in the coming years, hence also supporting poverty reduction.

Economic Outlook

Supported primarily by consumption and to some extent by public investment, economic growth is projected to strengthen to about 4% by 2020.

As BiH's reform agenda advances, a moderate rise in exports is expected, but strong demand for imports implies that net external demand will continue to be a drag on growth.

Remittances are likely to remain stable, and together with progress on reforms, will underpin a gradual pickup in consumption, which will remain a major driver of growth.

Investments in energy, construction, and tourism will support investment growth generally, as well as job creation in those sectors. Because of these dynamics, real GDP growth is projected to build up gradually from 3% in 2017 to 3.2% in 2018 and up to 4% in 2020.

Achieving prudent, efficient, and effective fiscal policy, addressing persistent unemployment and continuing to safeguard the banking sector, will remain central to the BiH reform agenda.

Although external deficits continue to be moderate, on the fiscal side the tax burden is high, and public spending is inefficient, as evidenced by poorly-targeted benefits. Fiscal consolidation and provision of an effective safety net will not be effective if structural rigidities in spending are not addressed— especially the high public wage bill.

However, support from international partners can help the BiH authorities to deliver on their challenging reform agenda.

Without continued implementation of structural reforms, it would be difficult to address rigidities in public employment, pensions, and debt.

Project Spotlight

Better than Before - Rebuilding in Bosnia and Herzegovina



641,481 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% of the population), and the resulting heavy flooding caused estimated damages and losses equivalent to nearly 15% 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 to date:

- A total of 641,481 people in flood-affected areas benefited from emergency assistance, including agricultural goods (seeds, irrigation equipment, and greenhouses), and rehabilitated infrastructure. Half of project beneficiaries have been women.
- Infrastructure rehabilitation was conducted following "building back better" to ensure that the project supports investment in more resilient regional and local infrastructure.



CONTACTS

Sarajevo,
+387 33 251-500
Fra Anđela Zvizdovića
1/B/17, 71000
Sarajevo, Bosnia and
Herzegovina.

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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>