



# Weekly Briefing

## **Bosnia-Herzegovina economy briefing:**

### **BIH- economy in 2019**

**Ivica Bakota**

#### **China-CEE Institute**

Kiadó: Kína-KKE Intézet Nonprofit Kft.

Szerkesztésért felelős személy: Chen Xin

Kiadásért felelős személy: Huang Ping

 1052 Budapest Petőfi Sándor utca 11.

 +36 1 5858 690

 [office@china-cee.eu](mailto:office@china-cee.eu)

 [china-cee.eu](http://china-cee.eu)

## **BIH- economy in 2019**

### **General indicators**

According to IMF estimates, nominal GDP of Bosnia and Herzegovina in 2019 was USD 20.106 billion (decrease from 2018), or GDP (PPP) of USD 49.79 billion (slight increase from 2018). In per capita figures, it is: USD 5748 or USD 14220 (PPP).

The World Bank predicts that the economy will grow 3.4% in 2019, which represents continuation of stable growth figures (above 3%) from 2015. BIH Foreign Trade Chamber in April 2019 published that unemployment rate (combined for RS and FBiH) is on record low, 15.7%. Average net salary is USD 825, confirming continuous increasing trend in the last three years.

Bosnia and Herzegovina was ranked 83rd on the Index of Economic Freedom, making some progress relative to the 91st place in 2018, and keeping above the global average, but still lagging behind fast-growing regional level. According to index, Bosnia and Herzegovina is "moderately free" country in terms of doing business.

According to the BIH Central Bank report published this year, total deposits in BIH banks were BAM 21.9 billion (EUR 11.20 billion) as of January 2019, which represents 61.15% of nominal GDP. In the first half of 2019, exports amounted to BAM 5.829 billion (EUR 2.98 billion), which is 0.1% less than in the same period of 2018, while imports amounted to BAM 9.779 billion (EUR 5.00 billion), or 4.5% more than in the same period of the previous year. Export continues to mainly rely on electricity, processed wood, metal ores (aluminum, iron, bauxite) and automobile parts (car seats). Main export partners are Germany, Italy, Austria and neighboring Croatia, Serbia and Slovenia. BIH import data also haven't changed much in the last year. Main import goods are fossil fuels (crude, motor oil), automobiles, etc. Main import partners include Germany, Croatia, Serbia, Italy, Russia, China and Turkey. Total import and export data are not yet available for 2019, but according to 2018, it was USD 10.21 billion and USD 6.21 billion respectively.

Public debt of Bosnia and Herzegovina in June 2019 was, according to central government, BAM 11.15 billion (EUR 5.6 billion), out of which the external debt amounted to BAM 8.2 billion (EUR 4.13 billion) and domestic was BAM 2.9 billion (EUR 1.5 billion). The share of public debt in gross domestic product (GDP) was 31.42%. BIH Federation participates with 59.91% in total public debt, while Republika Srpska with 47.97% (and Brčko District with 0.47%). Public debt increased by BAM 50.85 million (EUR 26.4 million) compared to the end

of 2018, or 0.46%. External debt was reduced by BAM 1.49 million, while domestic debt increased by BAM 52.34 million.

From miscellaneous figures, in the second quarter of 2019, the average price of new apartments sold in Bosnia and Herzegovina was BAM 1,606 KM (EUR 821.47) per square meter, slightly less than in 2018 (EUR 886), but with not yet obvious trends indicating stable decline in consumption. However, BIH real estate market registers significant differences in local prices, augmented also with current emigration trends and rural depopulation.

On the other hand, in the first seven months of 2019, 906,788 tourists visited the country, which is 11.7% jump from the previous year and not yet the most representative figure as the most arrivals of tourists are expected in the season from July to September and December (currently unavailable). Comparing to 2018, when 1,465,412 tourists visited Bosnia-Herzegovina, it is expected that 2019 will register a double-digit increase (more than 12% as in 2018), and finish a year with total around 3,500,000 overnight hotel stays with two-third of tourists coming from foreign countries.

In the first six months of 2019, foreign direct investment amounted to BAM 650.1 million KM (EUR 332.34 million).

### **Challenges**

Despite positive general indicators, BIH economy is still burdened with long-term problems for which in this year are not shown any signs of progress. Swelling administration, low score on Doing Business list, corruption, grey economy, inefficient tax system and low productivity are at the top of the list, while following four issues made most of the news in 2019.

**Non-performing SOE sector.** This year, the IMF mission in BIH has grappled with non-performing SOE sector and unsuccessful privatization in BIH. In a working paper on “State-owned Enterprises in BIH” is stated that out of 550 publicly owned companies in BIH, disappointingly few are squaring sustainable business. In general, SOEs own 40% of total business assets, employ about 11% of the total number of employees and account for only 10% of total turnover (added value), indicating that employees of BIH state-owned enterprises produce less added value than other countries in the region. The total debt of SOE sector is approximately 26% of GDP. However, despite lower productivity, average wages in SOE are 40% higher than in private sector.

These findings are confirming what Bosnian economists have warned as structural problem of Bosnian economy. Pervasive clientelism, or what Anto Domazet, professor at Sarajevo Faculty of Economics, calls Bosnian political capitalism is a system of privileges for the political class, which accompanied by corruption and organized crime through privatization,

allocation of public resources, procurement of public contracts and public employment creates an “inefficient and non-performing public sector and inert, stagnant economy that does not offer economic growth, creates unemployment, poverty and growing migration that call into question the economic viability of the country”. Failure of this ‘business model’ was seen in July when Aluminijski zavod Mostar, largest SOE in Herzegovina-Neretva Canton was shut down. The company that was once biggest exporter of aluminum was drawn to bankruptcy due to inefficient and conservative business policy (failed protectionism of the domestic market, monopoly, technological and market lag), but above all, because it was a source of illicit financing for its political campaigns and employment for political cadre and supporters.

**Hard to do Business.** Bosnia and Herzegovina is one of the last countries Europe in terms of "ease of doing business". With the gray economy accounting for a quarter of GDP (according to the European Commission's Progress report), poor protection of ownership rights and slow administration procedures, BIH is yet to make comprehensive reforms to attract foreign capital and investments. The World Bank in explaining poor position of Bosnia and Herzegovina on the Doing Business list outlines other categories BIH lacks, such as: starting a business (on average 40-60 days), obtaining building permits (can be extended up to several months), connecting to the electricity grid, registering ownership, access to finance, protecting small investors, paying taxes (big burden on small and medium size enterprises), foreign trade (taxes and barriers), contract realization and insolvency resolution (slow and corrupt judiciary). As a result, bad business environment contributes to the growth of the gray economy, unemployment and poverty, and according to many experts, such an economic situation prevents society from investing sufficiently in the acquisition and creation of knowledge.

**Brain drain and shrinking labor force.** That emigration from BIH is becoming serious and chronic problem was becoming obvious from indirect and non-official sources. Simple comparison with neighboring Serbia, North Macedonia and Kosovo indicated that depopulation trends in BIH are on 20-year peak, parallel decrease in employment and unemployment and increase of remittances provided substantial evidence in spite of central statistics failure to give accurate picture on BIH labor force. In 2019, BIH government endorsed a report, presented as part of the Strategy for Cooperation with Emigrants that stated 2017 data, according to which at least two million people originally from BIH currently live outside the borders of Bosnia and Herzegovina. In percentage it makes 56.6 % of current BIH population (estimated at 3.53 million). The World Bank has slightly lower estimates and believes that 44.5% of people originating from BIH (being born, excluding second and third generation of those only having parents or grand-parents born in BIH) reside outside of Bosnia and Herzegovina. This places Bosnia and Herzegovina in 16th place in the world in terms of emigration in and population

drain.

This problem is augmented with the fact that neither local nor federal or RS government is keen to establish an accurate number of people leaving the country, discrepancy between different methodologies tackling the number of non-resident people is also politically exploited. There are, however, warnings from international institutions (including the World Bank, UN, EU) and BIH non-governmental sector, which translated in the statement issued by the FBIH government earlier this year are still rendered a bit vaguely as a “serious trend of leaving Bosnia and Herzegovina, not only for (pursuing) higher education, but also for other employment opportunities”. Therefore, acknowledging rather than dealing problems with depopulation and shrinking labor force are main challenges BIH is currently facing.

**Insufficient transport infrastructure.** BIH has only 130 kilometers of motorway built since the end of the war (also the total length of BIH motorways), and for the last five years no new motorways have been built in the full length. Dire circumstances regarding the road infrastructure is usually justified by the harsh conditions on the ground (mountainous terrain), but also with the frequent alteration and delay of previously agreed construction plans and projects. The main construction project is building motorway along Corridor VC (Samac, Zenica, Sarajevo, Mostar, Ploce), which is built in about sixty kilometers long section between Zenica and the town of Tarcin (Sarajevo outskirts towards Mostar). Currently, there are also shorter sections in Herzegovina and less than a dozen kilometers around the Zenica bypass. The border bridge (with Croatia) near Svilaj is in the final stages of construction, but it will be idle for some years because the connecting motorway has not been built. The tunnel through Prenj Mountain is also challenge for federal government to implement within the next years.

Republika Srpska built motorway connecting Banja Luka with Gradiska and sections of Banja Luka- Doboje motorway (part of the future Banja Luka-Belgrade motorway). Both entities, RS and FBIH this year made agreement to construct circular Sarajevo-Belgrade motorway, however this plan is still in initial phase and it might take several years before the implementation. Besides roads and motorways, BIH remains one of the least developed regional countries in terms of railway infrastructure, and only progress has been registered in air transportation (extension of passenger terminal at Sarajevo Intl Airport).