



## **Weekly Briefing**

**Bosnia-Herzegovina economy briefing:  
BiH and Its Economic Development Outlook for 2021**  
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## **BiH and Its Economic Development Outlook for 2021**

*Bosnia and Herzegovina is heading for yet another insecure and challenging year (2021), in which it will have to find further ways and means to start recovering from the economic crisis caused by the coronavirus COVID-19 pandemic. After being seriously hit by the pandemic crisis, the measures taken by the authorities aimed at softening the impact of the pandemic are in the meantime being assessed by many as not effective as they were expected to be. In this briefing we will take an outlook on the possible economic developments in Bosnia and Herzegovina for the year 2021.*

### **General economic and significant sectors overview**

The International Monetary Fund (IMF) for the year 2021 projected the Real GDP (% change) at -6.5 and had projected the Consumer Prices (% Change) at -0.8. Inflation in Bosnia and Herzegovina has been negative in year-on-year terms since April 2020, as a consequence of a decline in transport, clothes and footwear prices, and the entity governments' decisions to restrict margins on certain products during the emergency situation. As a response to the corona crisis, the governments have adopted a set of measures aimed to mitigate the impact of the crisis on individuals and firms. Risks to the projection are weighted on the downside, related to the potential resurgence of the epidemic, a possibly slower-than expected recovery in the main export markets in the Eurozone, and uncertainty about progress in terms of implementation of the country's structural reform agenda. The economy sectors which took the hardest blow in 2020 were retail, manufacturing, transportation and accommodation. The unemployment rate in Bosnia and Herzegovina, among the highest in Europe even before the crisis, has moved up sharply due to the corona crisis and is unlikely to start falling quickly in 2021 without reforms.

Projection of investments, which were to contract by 13.3 % in 2020, for the 2021 are set to be increased by 9.6 %, and then further expanded by 12.9 % in 2022. Meanwhile, half of the foreign investors in the country have either cancelled or delayed investment plans for Bosnia and Herzegovina due to the corona crisis. According to data provided by the Foreign investment promotion agency of Bosnia and Herzegovina (FIPA), 40 % of investors have delayed plans for investments, while 10 % already completely cancelled them. Still, several projects are expected to progress in 2021. In the energy sector, in November 2020, Bosnia and Herzegovina and Serbia signed a joint statement on the launch of construction of three joint hydropower plants (HPP) on the Drina River. The deadline for construction of all the three plans — Buk

Bijela HPP, Foča HPP and Paunci HPP — is six years, with the projected investment that will reach € 200 million. The three HPPs will have a total capacity of 180 MW. Republika Srpska has set up a special company to build the Buk Bijela HPP and two other hydropower plants, while another company was set up to carry out the project. Serbia holds a 51 % stake in the company, HES Gornja Drina, while Republika Srpska owns the remainder. Turkish company Cengiz Insaat Sanayi ve Ticaret is expected to build a stretch of pan-European Corridor Vc that is estimated to cost around € 208 million. The Turkish company will build the 5.5 km stretch from Poprikuša to Nemile within 42 months. Bosnia and Herzegovinan car upholstery manufacturer Boxmark Leather, a unit of Austria's Boxmark Holding, launched the construction of a new production facility in the northeastern town of Lukavac in November 2020.

As the corona crisis severely negatively influenced the airline industry around the world, Sarajevo airport terminated its contact with Fly Bosnia and Herzegovina, set up in 2017, due to unpaid debts in November. However, the airline's owner, the Al Shiddi Group has since announced that it has leased three jets and will restart flights. Bosnia and Herzegovina and Herzegovina's two stock exchanges, the Sarajevo Stock Exchange (SASE) and the Banja Luka Stock Exchange (BLSE), will continue have tiny trading volumes in comparison to EU countries, with rare major events such as the initial public offerings, etc.

### **Budget and debt outlook**

The budget for Bosnia and Herzegovina has not been prepared yet. This is not a surprise as the Bosnia and Herzegovinian authorities are notorious for their huge delays in drafting budgets. The budget for 2020 was adopted at the end of July 2020. Meanwhile, the two entities have already drafted their budget frameworks for 2021. In the Federation of Bosnia and Herzegovina, the government adopted a budget framework setting the revenue at 8 billion BAM (little over € 4 billion), with the of 5.06 billion BAM (around € 2.6 billion). Republika Srpska adopted its budget plan for 2021 in mid-December, setting the spending at 3.795 billion BAM (little less than € 2 billion). Bosnia and Herzegovina's state-level government analyzed the sustainability of the country's public debt, which stood at 31.4 % of GDP in 2019, rose in 2020, and is expected to further rise 2021. Decline of the public debt is expected in the following two years. However, the fiscal council has not provided further details.

A new International Monetary Fund (IMF) deal is expected to be concluded in 2021, but so far politicians have failed to agree on the letter of intent needed to initiate the procedure for

the loan deal. Bosnia and Herzegovina's state-level government has not yet adopted the budget for 2021.

### **Macroeconomic outlook**

In the year 2020, due to the coronavirus (COVID-19) pandemic, Bosnia and Herzegovina faced its worst recession in 25 years. However, there are some indications that it could bounce back in 2021. The country will rely on domestic demand to start exiting the recession in 2021. The World Bank has projected that the country's economy will contract by 4% in 2020, but should return to 2.8 % growth in 2021, supported by sectors oriented to the domestic market. The European Bank for Reconstruction and Development (EBRD) expects that Bosnia and Herzegovina's economy will contract by 5% in 2020 and then expand by 3% in 2021. The IMF was significantly more pessimistic in its economic forecast for Bosnia and Herzegovina, setting the contraction at 6.5 % in 2020 due to the corona crisis. Although the economic growth in 2021 should be robust at 5 %, it will not fully compensate for the decline in 2020. In 2022, GDP should expand by 3.5 %, according to the IMF.

Bosnia and Herzegovina's central bank had a moderately pessimistic projection that the economy will contract by 4.6 % in 2020 and grow by 2.7 % in 2021. In 2022, it should speed up growth to 3 %. The central bank noted that the slow recovery will occur due to the severity of the second wave of the coronavirus and due to the lower than expected effect of the state aid. Private consumption is expected to contract by 5.3 % in 2020 and rise by 2.7 % and 2.2 % in 2021 and 2022 respectively. Government spending is seen rising by 4 % in 2020. The growth should slow down to 2.8 % in 2021 and to 0.7 % in 2022. Consumer prices turned to a decline in 2020, partly due to the low oil prices, and are expected to decrease by 0.8% by the end of the year, reversing the 0.7 % annual inflation in 2019. Consumer prices should turn to 0.4 % growth in 2021. Bosnia and Herzegovina's current account gap is predicted to expand to 4.4 % of GDP in 2020 from 3.6 % in 2019. It is expected to expand further to 6.1 % of GDP in 2021. Despite the corona crisis, Bosnia and Herzegovina's financial sector remains stable, although banks' net profit has declined.

### **Conclusions**

Following a sharp contraction this year, the economy is seen rebounding in 2021, as domestic demand revives and as the gradual easing of Covid-19 restrictions globally supports the external sector. That said, further waves of the virus and the subsequent renewal of

lockdown measures cloud the outlook. The worst hit sectors of the economy in 2020 were retail, manufacturing, transportation and accommodation. Significant budget input is awaited with the new International Monetary Fund (IMF) deal expected in 2021, but so far politicians have failed to agree on the letter of intent needed to initiate the procedure for the loan deal and state-level government has not yet adopted the budget for 2021. Public debt that stood at 31.4 % of GDP in 2019 was rising in 2020, and is expected to further rise 2021, only to start falling in the following two years.