

Bosnia and Herzegovina

Growth slows down while external imbalances remain large

General Information



GDP	USD16.6bn (World ranking 111, World Bank 2016)
Population	3.52mn (World ranking 132, World Bank 2016)
Form of state	Emerging Federal Democratic Republic
Head of government	Denis ZVIZDIC (Chairman of the Council of Ministers)
Next elections	2018, presidential and legislative



Strengths

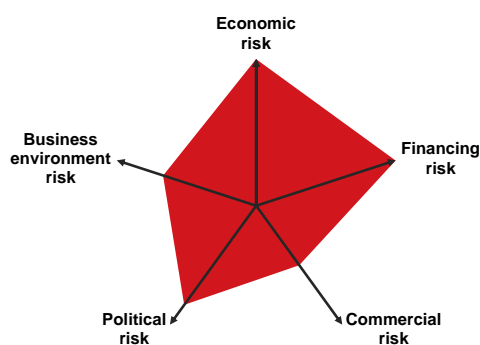
- A currency board has helped to provide a stable exchange rate and fairly low inflation
- Foreign exchange reserves currently cover more than seven months of imports

Weaknesses

- Persisting ethnic-nationalistic pressures. Highly ethnically fragmented government hinders efficient policymaking
- Widespread poverty and high unemployment
- Small manufacturing base concentrated on low-value-added products
- Continued large current account deficits
- High external debt burden
- High vulnerability to external shocks, including natural disasters

Country Rating

D4



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
Germany	13% 1	14% Serbia
Italy	13% 2	13% Croatia
Slovenia	13% 3	12% Germany
Croatia	11% 4	10% Italy
Austria	9% 5	9% Slovenia

By product (% of total)

Exports	Rank	Imports
Leather	8% 1	6% Leather
Furniture	6% 2	5% Refined Petroleum Products
Miscellaneous Hardware	5% 3	5% Plastic Articles
Non-Edible Agricultural Prod.	5% 4	4% Miscellaneous Hardware
Basic Inorganic Chemicals	5% 5	4% Crude Oil

Source: UNCTAD, Chelem (2016)

Economic Overview

Moderate growth in 2017-2019

Real GDP growth decelerated from +3.2% in full-year 2016 to +2.8% y/y in Q1 and +1.7% y/y in Q2 2016. In the first half of 2017, robust growth was recorded in manufacturing (+3.7% y/y), financial services (+3.9% y/y), trade, transportation, accommodation and food services (+4.9% y/y) and other private-sector services (+4.6% y/y) while construction (-1.5% y/y) and business-related services (-3.2% y/y) contracted. EH forecasts full-year growth of about +2.4% in 2017, followed by similar rates in 2018 and 2019.

Consumer price inflation has returned to moderate positive territory in 2017, and we expect an annual average of +1.2% in 2017, followed by slightly above +2% in 2018-2019.

Structural weaknesses persist

The economic structure is weak. The relatively small manufacturing base is concentrated on low-value-added products and the economy is dependent on emerging Eastern European markets, which account for around 50% of exports. Services account for about 65% of GDP, industry for 27% and agriculture for 8%. Meanwhile the economy is classified as an upper middle income economy by the World Bank with GNI per capita of USD4,880 in 2016. However, unemployment is large at 25% and 17% of the population lived below the national poverty line in 2011.

Moreover, the economy is highly vulnerable to external shocks, for example revealed by the 2008-2009 global economic crisis which pushed the economy into recession as well as by the severe adverse effects of the 2014 natural disaster on the economy (sharp growth slowdown, markedly rising twin deficits and external debt).

Subsequent IMF financial support packages have been in place since 2009. The latest follow-up facility was agreed in September 2016, however, it went quickly off track as the authorities failed to introduce agreed reforms and no disbursement has been made to date. This has increased already high external liquidity and debt risks, reflected in ongoing large current account deficits (over -4% of GDP) and high external debt (over 78% of GDP).

On the positive side, current FX reserves are adequate (USD6bn in Sept. 2017), providing over 7 months of import cover, supporting the currency board and limiting exchange rate, transfer and convertibility risks. The fiscal position is also adequate, with low fiscal deficits and moderate public debt.

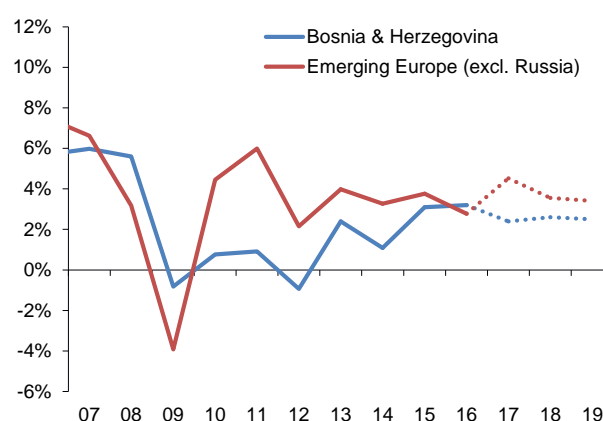
Overall, however, Bosnia and Herzegovina will remain highly dependent on international transfers in the foreseeable future and is still far from attaining self-sustaining growth.

Key economic forecasts

	2016	2017e	2018f	2019f
GDP growth (% change)	3.2	2.4	2.6	2.5
Inflation (% , yearly average)	-1.1	1.2	2.1	2.2
Fiscal balance (% of GDP)	0.4	-1.0	-1.0	-1.1
Public debt (% of GDP)	44.7	43.0	42.0	41.0
Current account (% of GDP)	-4.5	-4.7	-4.6	-4.4
External debt (% of GDP)	78.2	79.0	78.5	78.0

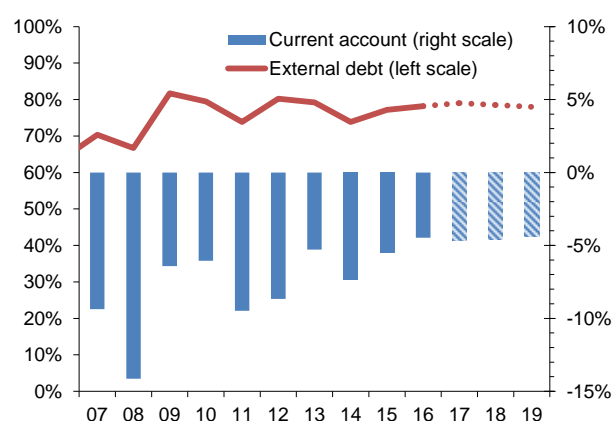
Sources: National statistics, IMF, IHS, Euler Hermes

Real GDP growth (%)



Sources: National statistics, IMF, IHS, Euler Hermes

Current account and external debt (% of GDP)



Sources: IMF, Euler Hermes

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