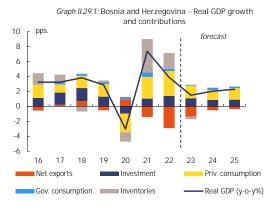
29. BOSNIA AND HERZEGOVINA

After a strong post-COVID-19 recovery, economic activity slowed down in the first half of 2023, reflecting weakening external demand and subdued private consumption amid high, albeit decelerating inflation. For the whole year of 2023, GDP growth is set to weaken to around 1½%. In 2024 and 2025, stronger private consumption, supported by lower inflation, as well as strengthening external demand should support a moderate growth acceleration. The fiscal deficit is likely to remain limited, while the debt ratio is forecast to decrease further below the 30% mark.

Economic activity slowed down in the first half of 2023, but is likely to accelerate slightly in 2024 and 2025

Economic growth slowed down from 3.9% in 2022 to 1.4% in the first half of 2023, largely due to weaker external demand and softer private consumption, which was negatively affected by high inflation in the first and second quarter of 2023 (13.3% and 10.2%, respectively). Gross fixed investment registered a 12% increase in the first half of 2023, although largely due to inventories and statistical discrepancies. Exports of goods and services dropped by 3.5% y-o-y, compared to an increase of 16.5% the year before. However, as a result of weaker domestic demand, import growth also stagnated, resulting in the same level of real imports as in the year



before. At the same time, inflows of primary and secondary transfers were higher than a year before. This resulted even in a slight reduction in the first half-year's current account deficit to 4.7% of GDP, compared to 4.9% a year before.

During the forecast horizon, domestic demand, in particular private consumption is projected to strengthen and to become the main driver of growth, benefitting from strong wage growth, decelerating inflation and solid employment increases. However, the frequent political stalemates are expected to persist, delaying structural reforms and impeding the business environment. As a result, investment is likely to remain subdued. External demand is also projected to increasingly support economic activity. Overall, GDP growth is set to accelerate in 2024 and 2025, but only at a moderate pace.

Inflation is forecast to continue declining, albeit from a high level

Inflation was on a declining trend in the first half of 2023, starting from a high level of 14.1% y-oy in January and dropping to 4.1% in September. This brought average inflation during the first nine months of 2023 to 7.6%, compared to 13.3% in the same period a year earlier. The main drivers were rising prices for food and non-alcoholic beverages, as well as prices for housing, electricity and household equipment. During the forecast period, headline inflation is projected to decline further, mainly benefitting from slowing price increases for imported commodities, such as energy. However, recent high gross wage increases, amounting to 14% during the first eight months of 2023, create some upward pressure for headline inflation.

The labour market is set to improve, but persistent emigration results in a shrinking labour force

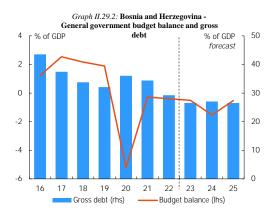
During the first eight months of 2023, employment was 1.3% higher than a year before, while the LFS unemployment rate dropped to 13.1% in mid-2023, compared to 15.7% a year earlier. The main job-creating sectors were trade and tourism. Anecdotal evidence points to a continued

outflow of qualified labour, starting to result in labour shortages in some sectors, such as construction. This could contribute to further wage pressures beyond productivity growth, impeding the country's competitiveness. During the forecast horizon, employment growth is projected to continue. Unemployment is also set to decline further, although a significant share of structural unemployment could limit the extent of this decrease.

Public finance to remain under control

The general government accounts remained close to balance in 2021 and 2022, benefitting from stronger than expected revenue growth, while planned investment spending could not be implemented, mainly due to administrative hurdles and/or political stalemates. This trend is forecast to continue in 2024 and 2025, although upcoming general elections in 2024 are expected to lead to some spending pressures and thus a higher deficit. Moderate deficits should support a continued, gradually declining debt ratio.

Risks are both, on the downside, but also on the upside



This outlook is subject to some downside risks, such as a more persistent inflation, impeding disposable income and consumption, or accelerating emigration. However, growth could also be stronger, in particular in case the recurring political stalemates could be overcome.

Table II.29.1:

Main features of country forecast - BOSNIA AND HERZEGOVINA

		Annual percentage change								
	bn BAM	Curr. prices	% GDP	04-19	2020	2021	2022	2023	2024	2025
GDP		45.6	100.0	2.8	-3.0	7.4	3.9	1.5	2.0	2.3
Private Consumption		31.0	67.9	1.8	-3.5	4.0	4.9	2.5	2.0	2.3
Public Consumption		8.6	19.0	1.3	1.5	2.9	1.5	0.5	1.5	1.0
Gross fixed capital formation		9.8	21.5	4.2	-4.2	4.8	6.6	5.0	4.0	4.:
Exports (goods and services)		21.1	46.2	8.0	-15.8	24.6	23.9	-1.0	4.3	5.3
Imports (goods and services)		27.8	60.9	3.9	-13.4	20.5	24.0	1.5	4.1	4.
GNI (GDP deflator)		45.0	98.8	:	-3.4	6.4	4.1	1.5	2.0	2.
Contribution to GDP growth:	[Domestic demand	d	2.8	-3.3	4.6	5.3	2.9	2.5	2.3
	1	nventories		0.1	-1.2	4.5	2.1	-0.3	0.1	0.0
	1	Vet exports		0.3	1.0	-1.4	-2.9	-1.4	-0.5	-0.4
Employment				:	-6.9	-1.9	1.0	1.3	1.4	1.0
Unemployment rate (a)				:	:	:	:	:	:	
Compensation of employees / head				:	:	:	:	:	:	
Unit labour costs whole economy				:	:	:	:	:	:	
Saving rate of households (b)				:	:	:	:	:	:	
GDP deflator				:	0.1	4.9	12.2	6.5	2.4	2.0
Consumer price index				:	-1.1	2.0	14.0	6.5	3.5	3.0
Terms of trade goods				:	-0.2	8.8	-2.7	0.0	-0.2	-0.
Trade balance (goods) (c)				-30.0	-18.0	-18.3	-22.1	-22.1	-22.7	-23.0
Current-account balance (c)				-7.4	-3.2	-2.4	-4.6	-4.5	-4.0	-3.
General government balance (c)				-0.1	-5.2	-0.3	-0.4	-0.5	-1.5	-0.
Structural budget balance (d)				:	:	:	:	:	:	
General government gross debt (c)				35.4	36.0	34.4	29.2	26.5	27.0	26.