

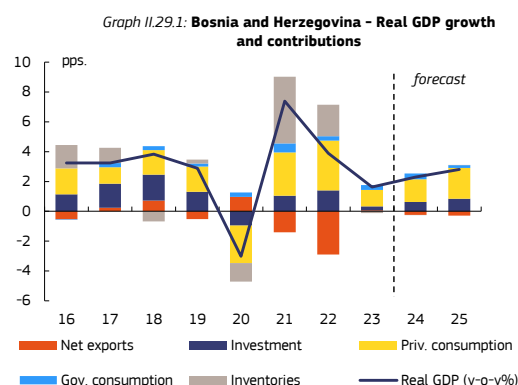
## 29. BOSNIA AND HERZEGOVINA

*Economic activity decelerated in 2023, due to weaker external demand and subdued private consumption amid high, albeit decelerating inflation. In 2024 and 2025, solid private consumption, supported by lower inflation, as well as strengthening external demand should support a moderate growth acceleration. The fiscal deficit is expected to remain limited, while the debt ratio is forecast to decrease further below the 30% mark.*

### Economic activity slowed in 2023, but is set to accelerate in 2024 and 2025

Economic growth decelerated from 3.9% in 2022 to around 1.6% in 2023, largely reflecting weaker external demand and softer private consumption, which was negatively affected by high inflation. Gross capital formation rose by 1.2% only, while the exports of goods and services dropped by 3.2% y-o-y, compared to an increase of 12.0% the year before. However, as a result of weaker domestic demand, imports also declined by 2.4%. At the same time, inflows of primary and secondary transfers were higher than a year before. This resulted in a reduction in the current account deficit from 4.3% of GDP in 2022 to 2.8% in 2023.

During the forecast period, 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, investment is expected to remain subdued, as a result of the frequent political stalemates, which are expected to persist, delaying structural reforms and impeding the business environment. External demand is projected to benefit from an improving global economy, which is expected to increasingly support economic activity. Overall, GDP growth is likely to accelerate in 2024 and 2025, but only at a moderate pace.



### Inflation is expected to decline further

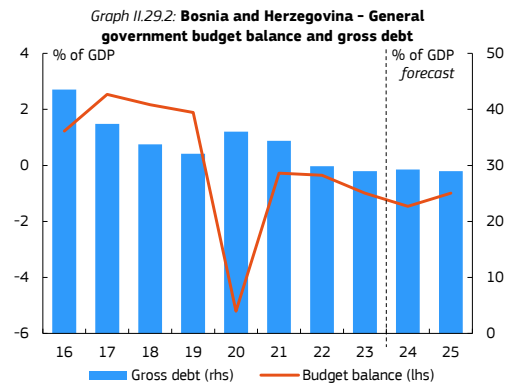
Inflation fell during 2023 and early 2024, starting from a high level of 14.1% y-o-y in January 2023 and dropping to 2.1% in February 2024. This brought average inflation in 2023 to 6.1%, compared to 14.0% in 2022. The main drivers were higher prices for food and non-alcoholic beverages, as well as prices for housing, electricity and household equipment. During the forecast period, headline inflation is projected to continue to decline, mainly benefitting from slowing price increases for imported commodities, such as energy. However, recent high gross wage growth, at 14% in 2023, might create some upward pressure for headline inflation.

### The labour market has been heating up amid high emigration and a shrinking labour supply

During 2023, employment was 1.4% higher than a year before, while the LFS unemployment rate dropped to 13.2% in 2023, compared to 15.4% 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 finances to remain under control

The general government accounts remained close to balance in 2022 and 2023, benefitting from stronger than expected revenue growth, while planned investment spending could not be implemented, mainly due to administrative hurdles and political stalemates. This trend is forecast to continue in 2024 and 2025. However, upcoming general elections in the autumn of 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 and on the upside

This outlook is subject to some downside risks, such as a further increase in political tensions, which could result in more delays with taking important decisions, such as complying with the conditions for starting negotiations for EU accession. However, growth could also be stronger, in particular in case the current political tensions could be overcome.

Table II.29.1:

### Main features of country forecast - BOSNIA AND HERZEGOVINA

	2023			Annual percentage change						
	bn BAM	Curr. prices	% GDP	04-19	2020	2021	2022	2023	2024	2025
GDP	48.7	100.0		2.8	-3.0	7.4	3.9	1.6	2.3	2.8
Private Consumption	33.3	68.5		1.8	-3.5	4.0	4.9	1.6	2.2	3.0
Public Consumption	9.3	19.1		1.3	1.5	2.9	1.5	1.7	2.0	1.0
Gross fixed capital formation	10.2	20.9		4.2	-4.2	4.8	6.6	1.2	3.0	4.0
Exports (goods and services)	21.3	43.8		8.0	-15.8	24.6	23.9	-3.2	3.0	4.1
Imports (goods and services)	28.4	58.4		3.9	-13.4	20.5	24.0	-2.5	2.6	3.6
GNI (GDP deflator)	48.5	99.7		:	-3.4	6.6	4.0	2.6	4.0	2.8
Contribution to GDP growth:		Domestic demand		2.8	-3.3	4.6	5.3	1.7	2.5	3.1
		Inventories		0.1	-1.2	4.5	2.1	-0.1	0.0	0.0
		Net exports		0.3	1.0	-1.4	-2.9	0.1	-0.2	-0.3
Employment				:	-6.9	-1.9	1.0	0.7	1.5	1.6
Unemployment rate (a)				:	:	17.4	15.4	13.2	12.8	12.2
Compensation of employees / head				:	:	:	:	:	:	:
Unit labour costs whole economy				:	:	:	:	:	:	:
Saving rate of households (b)				:	:	:	:	:	:	:
GDP deflator				:	0.1	4.9	12.2	5.0	1.9	1.7
Consumer price index				:	-1.1	2.0	14.0	6.1	2.2	2.0
Terms of trade goods				:	-0.2	8.8	-2.7	-0.3	-0.1	-0.1
Trade balance (goods) (c)				-30.0	-18.0	-18.3	-22.1	-22.4	-22.3	-22.3
Current-account balance (c)				-7.4	-2.8	-1.8	-4.3	-2.8	-2.8	-2.5
General government balance (c)				-0.1	-5.2	-0.3	-0.4	-1.0	-1.5	-1.0
Structural budget balance (d)				:	:	:	:	:	:	:
General government gross debt (c)				35.4	36.0	34.4	29.8	29.0	29.3	29.0

(a) as % of total labour force, (b) gross saving divided by adjusted gross disposable income, (c) as a % of GDP, (d) as a % of potential GDP.