

# BOSNIA AND HERZEGOVINA

**Table 1** **2023**

Population, million	3.2
GDP, current US\$ billion	24.2
GDP per capita, current US\$	7563.4
School enrollment, primary (% gross) <sup>a</sup>	87.8
Life expectancy at birth, years <sup>a</sup>	75.3
Total GHG emissions (mtCO <sub>2</sub> e)	24.5

Source: WDI, Macro Poverty Outlook, and official data.  
a/ WDI for School enrollment (2022); Life expectancy (2021).

*Driven by the drop in exports, real output growth halved to 1.9 percent in 2023 compared to the previous year. Slower private consumption helped rein in inflation, which stood at 6.1 percent in 2023 as food prices remained high. Upcoming municipal elections may double the fiscal deficit in 2024, yet public debt remains moderate. EU leaders have announced the commencement of accession negotiations upon the fulfillment of membership criteria.*

## Key conditions and challenges

To initiate EU accession negotiations, Bosnia and Herzegovina needs to address four key reforms within the identified 14 priorities. Specifically, legislation concerning the prevention of money laundering, conflict of interest, and the law on courts requires immediate attention. In parallel, meeting the economic criteria for EU accession necessitates addressing internal market fragmentation. This involves strengthening country-wide regulatory and supervisory institutions, enhancing transparency and efficiency of the oversized public sector, and reducing the footprint of state-owned enterprises.

Bosnia and Herzegovina has shown macroeconomic stability and resilience over the past decades, including during the COVID-19 pandemic. This resilience is attributed to three economic anchors: the currency board (which ties the Bosnia and Herzegovina mark to the euro), the state-wide collection of indirect taxes through ITA, and the prospects of EU membership which guide the reform agenda.

Despite these achievements, real income growth has averaged around 2 percent from 2009 to 2023, resulting in stagnant living standards, with real per capita consumption around 40 percent of the EU27 average. Faster convergence with the EU27 had proved challenging due to low investment rates, and a growth model heavily reliant on private consumption.

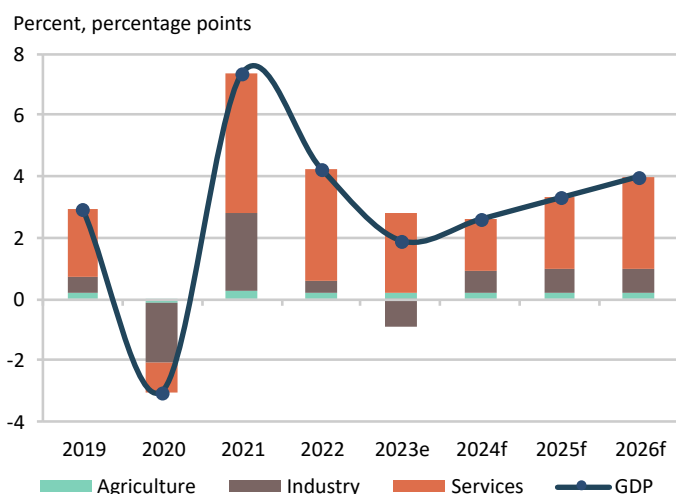
The necessity for structural reforms has become even more apparent considering the challenges posed by a declining population and deceleration in total factor productivity in the longer run. Adding to these challenges is the gradual introduction of the EU CBAM (2026) which is expected to adversely impact Bosnia and Herzegovina's export competitiveness from 2030 onwards.

To ensure sustained longer-term trend growth between 3 and 4 percent, the implementation of economic and energy structural reforms is paramount. However, the pace of reform implementation remains sluggish due to political frictions, the disruptive influence of frequent elections, and fragmented responsibilities between entities and cantons. Addressing these impediments is essential for Bosnia and Herzegovina to chart a trajectory towards a more prosperous and resilient economic future.

## Recent developments

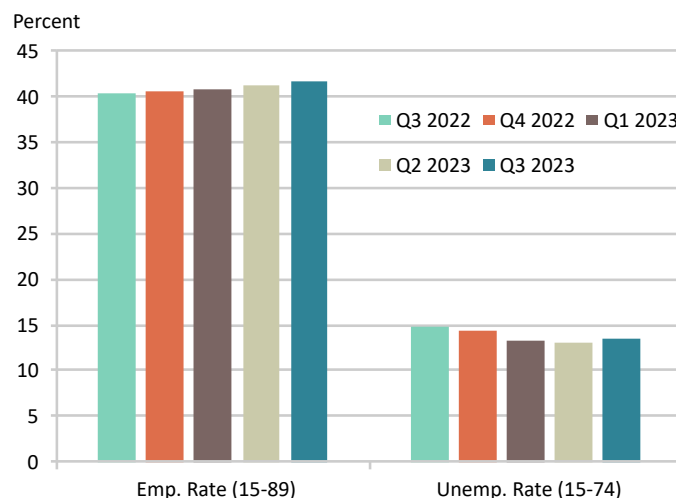
In 2023, real GDP growth slowed in line with the timid growth in the EU. Real output growth halved to 1.9 percent compared to 2022, driven by a 6 percent decline in exports and nearly stagnant investments, which rose a mere 1.6 percent after growing 18 percent in 2022. The lower exports and stagnant investment were offset in part by stronger government consumption. Inflation slowed to 6.1 percent in 2023, from 14 percent the year before. This

**FIGURE 1 Bosnia and Herzegovina / Real GDP growth and contributions to real GDP growth**



Sources: BiH Agency for Statistics (BHAS) and World Bank staff calculations.

**FIGURE 2 Bosnia and Herzegovina / Labor market indicators**



Sources: LFS 2022 – 2023 report and World Bank staff calculations.

deceleration resulted from a drop in transport prices and a deceleration in prices of housing, water, electricity, and gas, offsetting high food prices which grew at 10.7 percent in 2023 compared to 22.3 percent in 2022.

Despite the considerable growth slowdown, labor market indicators showed an improvement. The overall employment rate increased to 41.8 percent in Q3 2023 compared to 40.3 percent in Q3 2022, while the unemployment rate shrunk to 13.6 percent, a 1.2 percentage points decline from Q3 2022. This reduction in unemployment, observed for individuals with both low and high levels of education, occurred alongside a higher economic activity rate, which rose 1.5 percentage points to 48.3 percent.

Higher government spending contributed to a fiscal deficit of 0.9 percent of GDP in 2023, almost twice as large as the year before. The deficit was driven by an estimated 16 percent increase in subsidies, social benefits and transfers in the Federation of Bosnia and Herzegovina, and an 11 percent increase in the same spending items in Republika Srpska. Nevertheless, public debt in Bosnia and Herzegovina remains relatively low at around 35 percent of GDP.

Meanwhile, the current account deficit widened to 4.7 percent in 2023, or 3.9 percent of GDP after adjusting for net capital account inflows. The external deficit was 80 percent financed by FDI inflows, mainly into the foreign-owned banking sector.

## Outlook

Against the backdrop of an expected improvement in the EU economic landscape, real GDP growth in Bosnia and Herzegovina is set to increase to 2.6 percent in 2024, and 3.3 percent in 2025. This growth is underpinned by higher exports facilitated by strengthened foreign demand and an uptick in private consumption supported by stronger real incomes as inflation further decelerates to low single digits. By 2026, real output growth is projected to accelerate to 4 percent fueled by exports and private consumption stemming from improved economic conditions in the EU, and tightening labor markets in Bosnia and Herzegovina. Despite the upswing in exports of goods and services from 2024 to 2026, the CAB is expected to deteriorate to over 5 percent of GDP due to higher

imports of consumer goods in line with robust growth in private consumption.

The attention of policy makers is currently on the municipal elections in 2024 and meeting the legislative requirements for initiating EU accession negotiations. Hence, there appears little space for economic structural reforms in 2024.

The upcoming elections will likely further widen the fiscal deficit to 1.7 percent of GDP in 2024. Nonetheless, the fiscal stance should be firmly on track toward an overall balanced outcome, and primary surpluses, by 2025-26 leaving the consolidated general government debt hovering around 36 percent of GDP.

The outlook is clouded by downside risks. These risks entail a possible escalation of market disruptions and uncertainty stemming from the war in Ukraine as well as the volatility in the Middle East and Red Sea, an important trade route. These factors could reignite inflationary pressures and adversely impact the fragile recovery in the EU, affecting the demand for Bosnia and Herzegovina exports. Finally, geopolitical conditions pose a risk of exacerbating domestic political frictions, undermining the much needed push for economic structural reforms.

**TABLE 2 Bosnia and Herzegovina / Macro poverty outlook indicators**

(annual percent change unless indicated otherwise)

	2021	2022	2023e	2024f	2025f	2026f
<b>Real GDP growth, at constant market prices</b>	7.3	3.8	1.9	2.6	3.3	4.0
Private consumption	4.0	3.0	2.0	2.3	2.8	3.2
Government consumption	6.1	2.7	4.1	4.6	1.5	3.7
Gross fixed capital investment	33.9	18.1	1.6	7.6	5.8	1.7
Exports, goods and services	5.0	9.9	-6.0	4.0	5.0	6.0
Imports, goods and services	8.0	12.0	-3.0	6.0	4.0	3.0
<b>Real GDP growth, at constant factor prices</b>	7.4	4.2	1.9	2.6	3.3	4.0
Agriculture	3.4	3.5	3.1	3.0	3.2	3.2
Industry	10.0	1.4	-3.4	2.8	3.2	3.2
Services	6.8	5.5	3.8	2.5	3.3	4.4
<b>Inflation (consumer price index)</b>	2.0	14.0	6.1	2.7	1.0	0.5
<b>Current account balance (% of GDP)</b>	-2.4	-4.5	-4.7	-4.8	-5.4	-5.2
<b>Net foreign direct investment inflow (% of GDP)</b>	3.3	3.0	3.2	3.4	3.9	3.9
<b>Fiscal balance (% of GDP)</b>	-0.3	0.4	-0.9	-1.7	-0.2	-0.4
<b>Revenues (% of GDP)</b>	43.2	39.9	39.4	39.3	39.7	38.6
<b>Debt (% of GDP)</b>	37.8	35.8	36.2	36.2	35.9	35.3
<b>Primary balance (% of GDP)</b>	1.0	1.2	-0.1	-0.9	0.5	0.4
<b>GHG emissions growth (mtCO<sub>2</sub>e)</b>	4.3	-2.3	-1.7	0.4	1.9	2.6
<b>Energy related GHG emissions (% of total)</b>	87.0	86.7	86.4	86.2	86.0	85.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast.