

# BOSNIA AND HERZEGOVINA

**Table 1** **2023**

Population, million	3.2
GDP, current US\$ billion	24.1
GDP per capita, current US\$	7514.9
School enrollment, primary (% gross) <sup>a</sup>	87.9
Life expectancy at birth, years <sup>a</sup>	75.3
Total GHG emissions (mtCO <sub>2</sub> e)	22.9

Source: WDI, Macro Poverty Outlook, and official data.  
a/ WDI for School enrollment (2023); Life expectancy (2022).

*Real GDP growth rose 2.7 percent in Q1 2024, from 1.6 percent in 2023 due to the modest economic expansion in the European Union (EU) and a deceleration in investment growth. Upcoming municipal elections are expected to lead to a widening fiscal deficit to 1.7 percent of GDP in 2024, yet public debt remains around 36 percent of GDP. Living standards are stagnant, in part due to an anemic labor market.*

## Key conditions and challenges

Bosnia and Herzegovina (BiH) has been granted permission by the European Council to begin accession talks in March 2024, pending the implementation of necessary reforms. To meet the economic criteria for EU membership, BiH must tackle internal market fragmentation by bolstering nationwide regulatory and supervisory bodies, improving the transparency and efficiency of the large public sector, and reducing the footprint of state-owned enterprises.

BiH's economy has shown macroeconomic stability and resilience over the past, including during the COVID-19 pandemic. This resilience is attributed to three economic anchors: the currency board (which ties the BiH mark to the euro), the state-wide collection of indirect taxes through ITA, and the prospects of EU membership. Despite macro stability and resilience, real income growth has averaged only 2 percent per annum from 2009 to 2023, leading to stagnant living standards, with real per capita consumption remaining at just 40 percent of the EU27 average. Achieving faster convergence with the EU27 remains difficult due to low investment rates and a growth model that depends on private consumption. The need for structural reforms is even more critical given the challenges of a declining population and the likely slowdown in total factor productivity over the long term. In addition, the introduction of the EU Carbon

Border Adjustment Mechanism in 2026 is expected to further challenge BiH's export competitiveness by 2030.

To achieve sustained long-term growth of 3-4 percent, reforming the economy and the energy system is crucial. However, the pace of reform remains slow due to lack of consensus on country level policies that would bring BiH closer to EU membership; furthermore, frequent elections, widespread corruption, and the fragmented division of responsibilities between the two entities and cantons also contribute to the slow pace of reforms. Overcoming these obstacles is vital for BiH to move towards a more prosperous future.

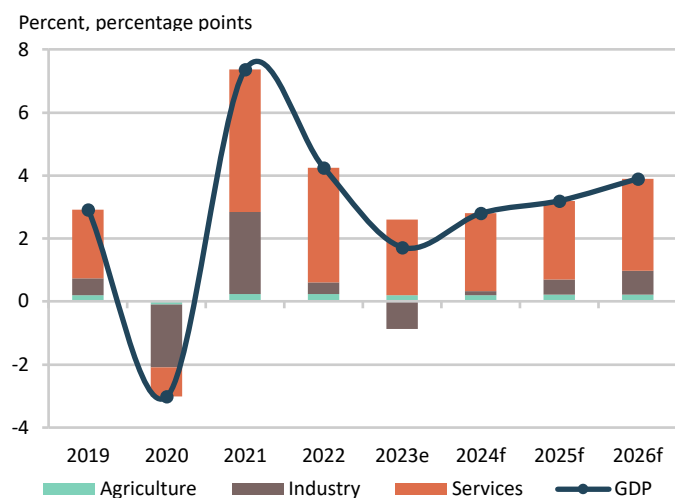
## Recent developments

In Q1 2024, real GDP growth rose 2.7 percent, discontinuing the sharp slowdown in 2023. The pick-up in output growth is largely due to a recovery in private consumption fueled by an increase in minimum wages and a tightening labor market. Stronger retail sales volumes in the first half of 2024 suggest robust private consumption outcomes during this period.

Inflation reached 1.8 percent in July 2024 y/y, compared to 4.0 percent the year before, marking a drop in transport prices and a slowdown in utility prices. As a result, inflation from January to July 2024 decelerated to 1.9 percent from 12.2 percent during the same period the year before.

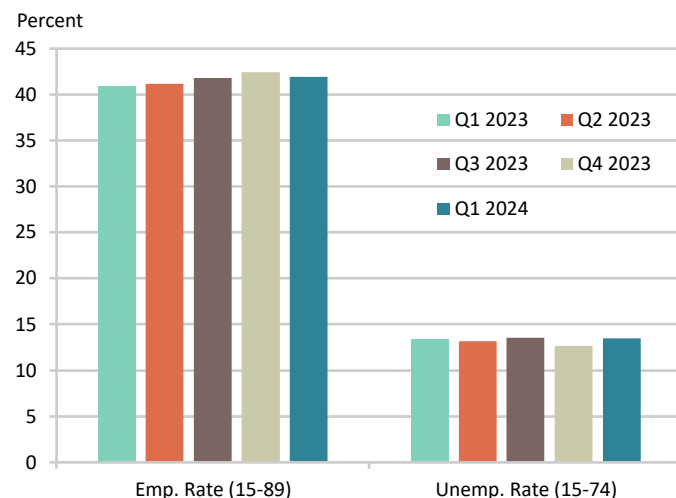
The labor market showed mixed signals. The employment rate rose to 41.9 percent in Q1 2024, up from 41.5 percent in 2023,

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



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

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



Sources: LFS 2023 - 2024 report, and World Bank staff calculations.

whereas the unemployment rate increased to 13.5 percent, a 0.3 percentage point increase compared to the previous year. Economic vulnerability to shocks in BiH remains high—according to the 2023 Life in Transition Survey, 40 percent of the population report being unable to save, running into debt, or not being able to cover basic household expenses for longer than 1 month in case of loss of their main income source.

Higher government spending and smaller revenues (in GDP terms) contributed to a consolidated fiscal deficit of 0.9 percent of GDP in 2023, which followed a surplus of 0.5 percent of GDP the year before. The deficit in 2023 was driven by an estimated 16 percent increase in subsidies, social benefits and transfers in FBiH, and an 11 percent increase in RS. Nevertheless, public debt remains relatively low at around 36 percent of GDP.

Meanwhile, the current account deficit improved to 2.8 percent in 2023. It was almost fully financed by net foreign direct investment inflows, and other investments, mainly foreign loans.

## Outlook

An improvement in the EU economic landscape, coupled with higher private consumption and investment driven by construction activities, is set to raise real GDP growth in BiH to 2.8 percent in 2024, and 3.2 percent in 2025. Inflation is expected to decelerate to half a percent by 2026 barring any further external shocks. By 2026, real output growth is projected to rise to 3.9 percent fueled by strengthened exports and private consumption stemming from improved economic conditions in the EU and tightening labor markets in BiH. The current account deficit is expected to widen to around 3.6 percent of GDP due to higher imports of consumer goods.

In the last quarter of 2024, policymakers are focused on the municipal elections leaving little space for economic reforms. Several structural challenges hinder stronger output growth. Productivity is affected by the large footprint of state-owned enterprises, which employ a sizable

portion of the educated labor force. Population aging, driven by outmigration, also dampens productivity and burdens public service delivery, particularly in health. The economic activity rate remains low at around 48 percent compared to the EU average of 75 percent, with women's participation at roughly 37 percent. Gender discrepancies in employment remain particularly stark at the lower levels of education. Thus, creating conditions to activate the female labor force would benefit economic growth. Furthermore, the sharp rise in minimum wages, in January of 2023 and 2024, may impact external competitiveness, which could also be affected by the EU's Carbon Border Adjustment Mechanism, considering that two-thirds of BiH's electricity production comes from coal-fired thermal power plants. In addition, a lack of digitalization and unified databases and registries hampers regulatory compliance and business operations. Finally, geopolitical risks pose a threat of exacerbating domestic political frictions, undermining the much-needed push for structural reforms.

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

(annual percent change unless indicated otherwise)

	2021	2022	2023	2024e	2025f	2026f
<b>Real GDP growth, at constant market prices</b>	7.3	3.8	1.6	2.8	3.2	3.9
Private consumption	4.0	3.0	2.0	2.5	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	0.2	5.8	8.3	2.2
Exports, goods and services	5.0	9.9	-6.0	1.0	3.0	4.0
Imports, goods and services	8.0	12.0	-3.0	3.0	3.9	2.0
<b>Real GDP growth, at constant factor prices</b>	7.4	4.2	1.7	2.8	3.2	3.9
Agriculture	3.4	3.5	3.1	3.0	3.2	3.2
Industry	10.0	1.4	-3.4	0.5	2.0	3.2
Services	6.8	5.5	3.6	3.6	3.6	4.2
<b>Inflation (consumer price index)</b>	2.0	14.0	6.1	2.0	0.9	0.4
<b>Current account balance (% of GDP)</b>	-1.8	-4.3	-2.8	-3.2	-3.8	-3.6
<b>Net foreign direct investment inflow (% of GDP)</b>	3.3	3.0	3.2	3.2	3.1	3.1
<b>Fiscal balance (% of GDP)</b>	-0.3	0.5	-0.9	-1.7	-0.2	-0.4
<b>Revenues (% of GDP)</b>	43.2	46.0	44.8	43.9	45.4	45.2
<b>Debt (% of GDP)</b>	37.8	35.8	36.3	35.8	35.2	34.3
<b>Primary balance (% of GDP)</b>	0.3	1.2	-0.2	-1.0	0.4	0.2
<b>GHG emissions growth (mtCO2e)</b>	-1.4	-2.7	-2.2	0.4	1.8	2.5
<b>Energy related GHG emissions (% of total)</b>	88.7	88.9	88.8	88.7	88.5	88.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.  
Notes: e = estimate, f = forecast.