

ANALYSIS OF THE MACROECONOMIC INDICATORS OF BOSNIA AND HERZEGOVINA

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ABSTRACT

In this paper, I will try to present, analyze and explain, as clearly as possible, the movement of the economic trends in Bosnia and Herzegovina in the period from 2007. to 2013. The structure, condition and characteristics of the economic trends will be discussed through the following macroeconomic indicators: the growth rate, the general government budget, the consumer prices growth rate, the balance of payments, the current accounts balance, the trade balance, the public debt. The real picture of the economic developments in Bosnia and Herzegovina and its future prospects will be presented on the basis of these macroeconomic indicators.

Keywords: GDP, growth rate, general government budget, consumer prices, balance of payments, current account balance, trade balance, public debt.

INTRODUCTION

Bosnia and Herzegovina (BH) received its statehood with the Dayton Peace Agreement in 1995. The Agreement consists of the twenty-four documents, upon which BH operates. BH emerged from the war torn and with numerous economic problems. The further course of its reconstruction and recovery went along with the wholehearted support of the international community, formed of the United States, Europe, Russia and other developed countries. Each of them was pursuing their own interest through the provided assistance.

METHODOLOGY

The financial data of the macroeconomic indicators were used for the research purposes of this paper. The data for the research were used from the Central Bank of BH, the BH Statistics Agency, the Directorate for Economic Planning, and the Ministry of Finance and Treasury. The analysis of the macroeconomic indicators will be presented according to the following financial indicators:

Growth Rate (% of GDP)

Gross domestic product comprises of the total value of the goods and services produced in an economy in a given period of time. The GDP can be measured as a nominal one and a real one. The nominal GDP is the value of the production of goods and services at current prices and the real GDP shows the value of the production of goods and services at constant prices. The methodology for the calculation of the GDP in BH uses the approach by production, income and expenditure. The three different approaches to calculate the GDP will yield the three different aspects of the overall economy.

General Government Budget (% of GDP)

The general government, as defined by the OECD, comprises of the central government, the local government and the extra budgetary funds. The total amount of the government expenditures is a part of this concept, which is financed with the tax revenues or by borrowing. The total expenditure at the level of the general government is equal to the expenditures of the general government for the following categories: intermediate consumption, compensation for the employees, subsidies, social benefits and social transfers in kind, other current transfers, property income, capital transfers, adjustment for the changes in the net equity of households in the reserves of the pension funds, gross capital formation and acquisitions of the non-financial non-productive assets. The total expenditures of the general government also include the taxes on income and wealth, as well as all other taxes on production, which the government is obliged to pay.

Consumer Prices Growth Rate

The growth rate of consumer prices is a valid indicator of the inflation trend. It is measured by the price index in a way of the ratio between the price of a specific basket of goods and services in a given time t and the price of the same basket of goods and services in any other chosen period 0 . This raises two important questions: a) what period one should choose as the base period, and b) what goods and services one should select for the shopping basket. In order to calculate the Consumer Prices Index in Bosnia and Herzegovina, a list of products, which consists of 599 products, is to be used. Each month, over 21,000 prices are being collected from the previously defined sample of the outlets at twelve geographic locations.

Balance of Payments (% of GDP)

Balance of payments is a summary of the transactions of the national economy with the foreign countries in a given period of time (usually, it is a period of one year, but it can be given for other periods: e.g. semi-annually, quarterly, and monthly). On one side, there is the item of deduction, or a debit, and on the other side, there is the item of proceeds. This indicator is of the key importance for the national economy, because it allows for a snapshot view of the national income, national expenditure and the position of the national economy in the world. Thus, the indicator of the balance of payments (% of GDP) shows the trends in the international competitiveness position of the country, i.e. its national economy.

Current Account Balance

The current account balance of the balance of payments is an indicator that reflects the results of the economic policy. The state of the current account balance represents a significant source of information for the economic policy makers. It tells about the inflows or outflows on the grounds of the exchange of goods, services, income and current transfers between the residents and the non-residents, but also about the creation of the liabilities or receivables from abroad on the grounds of the above stated transactions. The current account tells whether a country has a current account deficit, i.e. when it is spending more than it earns, and, on the grounds of that, it

is a net borrower, and the difference must be covered by loans from abroad, or it has a current account surplus, when the country earns (produces) more than it consumes, and, therefore, it is a net creditor in relation to the foreign countries.

Trade (Goods) Balance

The trade balance is the ratio of all payments for the imports of goods (products) in a country, and all the payments for the exports of goods (products) from a country in a given period (generally, one year). If the value of the imports coincides with the value of the exports, then it can be said that the trade (goods) balance is good, i.e. that it is in balance. However, if the value of the imports is greater than the value of the exports, then the trade balance is in deficit, and if the value of the imports is less than the value of the exports, then the trade balance is in surplus. The trade balance is part of the wider sub-balance - the current balance.

Public Debt (% of GDP)

Public debt is the sum of all liabilities in relation to the borrowed funds which a country accepts as its own, and arranges for their payback. The public debt consists of the external and the internal debt. The liabilities may be based on the credit funds of the international financial institutions (IMF, WB, EB, and other), and the funds in respect of borrowings for the old foreign currency savings, war claims, and general liabilities. It should be noted here that the foreign debt from the borrowing runs from Bosnia and Herzegovina to the Entities (the Republic of Srpska and the Federation of Bosnia and Herzegovina) and the Brcko District.

ANALYSIS-RESULTS

Growth Rate (% of GDP)

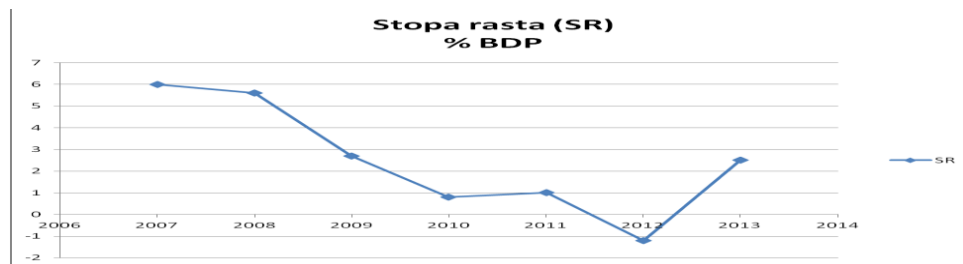


Figure 1: The growth rate of the economy of Bosnia and Herzegovina in 2007-2013

Source: Statistics Agency of BH

The growth rate of BH (Figure 1) was fairly balanced and with a positive sign, until the occurrence of the global financial crisis. However, with the occurrence of the global financial crisis, the economy of Bosnia and Herzegovina entered into a recession in 2009, because there had been a general decline in the economic activity. In 2010 and 2011, a weak economic growth was felt, although it had a positive sign, and in 2012, the BH economy went back into the recession again. The positive trend in 2013 in Bosnia and Herzegovina (2.5%) was achieved despite the unfavourable developments in the environment, mostly due to the recovery of the electricity production (following the encountered problems in the previous year), the growth of

the manufacturing industry, tourism, retail, and public works, which, to a large extent, were funded from the foreign credit funds.

General Government Budget (% of GDP)

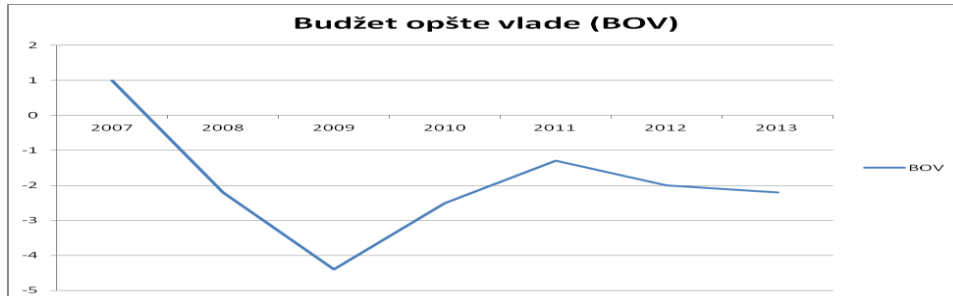


Figure 2: General Government Budget in 2007-2013
Source: Central Bank of BH

It should be noted that the general government budget in 2008 and 2009 (Figure 2) was affected by the economic crisis, which had, to some extent, affected the scope and structure of the public expenditure. Yet, it must be emphasized here that the public expenditure in BH, expressed as a percentage of the GDP, is at an extremely high level. If we bring the Wagner's Law in this research, according to which the countries which have a higher level of the economic development also have a higher public expenditure, based on the expansion of the government activities, aimed at ensuring the necessary quantity and quality of the public services and the public service in general, then the amount of the public expenditure of BH requires a more extensive study.

Consumer Prices Growth Rate (% of GDP)



Figure 3: The growth rate of consumer prices in BH for 2007-2013
Source: Statistics Agency of BH

* Numbers from 1 to 7 on the abscissa show the period from 2007 to 2013

Figure 3 shows the trends in the consumer prices growth rate, on the basis of which the level of inflation is calculated. The average trend of the movements in the consumer prices in Bosnia and Herzegovina has the oscillating dynamics, and it had its highest level in 2008 and 2011, while in 2009 and 2013 a deflationary movement of -0.4 and -0.1% was recorded. The main impact on the growth of the consumer prices in 2008 and 2011 was exercised on the following products: oil

and oil derivatives, alcoholic beverages, tobacco and cigarettes, as these are the excise goods from which the lack of the quality financial resources in the budget is being compensated for, through a continuous increase of tax. If we look at the inflation rate in 2013, as compared to the one in 2012, on the grounds of the consumption, it can be observed "that the year of 2013 ended with the drop of the prices in the following sectors: food and non-alcoholic beverages per 3.8%, clothing and footwear per 1.2%, furnishings, home appliances, household equipment and household maintenance per 0,4%, transport per 0,6%, health per 1,6% "

Balance of Payments (% of GDP)

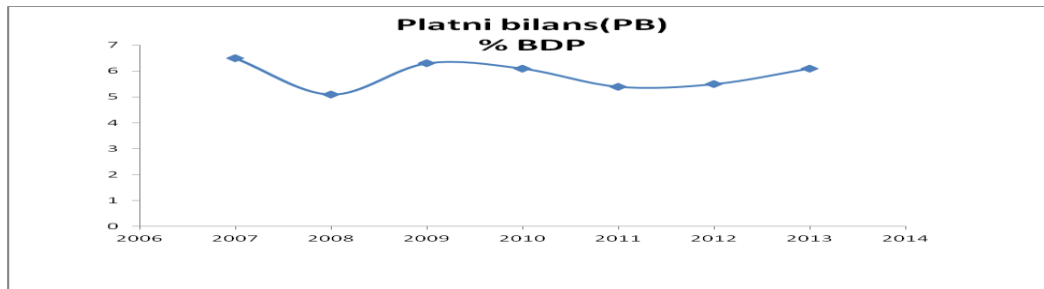


Figure 4: Balance of payments in 2007-2013

Source: Central Bank of BH

Participation of the rate of the balance of payments of Bosnia and Herzegovina (Figure 4) in the GDP is fairly balanced. Certain disorders, i.e. the growth of the percentage of the balance of payments in the GDP occurred in 2009 and 2010, following a major financial crisis. Already in 2011 and 2012, the percentage of the participation approached the level of that from 2008, and in 2013, its highest level was recorded.

The balance of current account (% of GDP)

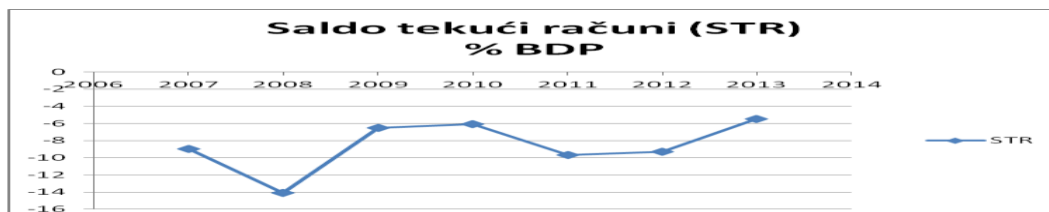


Figure 5. Current account balance for 2007-2013

Source: Central Bank of BH

In the observed period, the balance of the current account balance (Figure 5) is constantly in the red. The biggest amount in the red for the current account was in 2008, and in 2009 and 2010 it already had a significant increase; in 2011 and 2012 it came to the level it had in 2007. In 2013, it reached its maximum in respect to all the years in the given period.

Trade Balance (% of GDP)

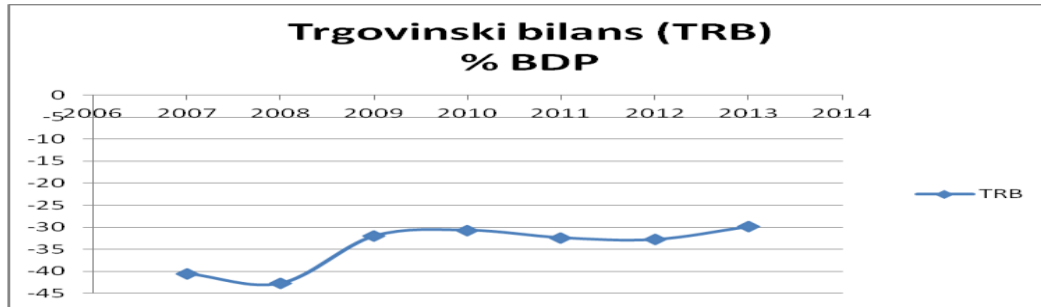


Figure 6. The trade balance for 2007-2013
Source: Foreign Trade Chamber of BiH

The percentage rate of the trade balance in the GDP (Figure 6) shows a different trend from year to year. The highest level was recorded in 2008, and all until 2013 it showed a sustained recovery, i.e. a reduction in the negative sign; however, the deficit is still not even close to the desirable one. The causative agent for this situation in the foreign trade balance is the structure of the traded products, which mainly tends to be that of the export of products of the low added value, while the structure of the imports shows that mainly the goods of the more added values are being imported. It is necessary, and indispensable, that the government and the institutions of Bosnia and Herzegovina provide their maximum attention and support to the development of the existing and the new exporting products, as well as to continuously perform the adequate promotion of the exports from Bosnia and Herzegovina.

External Debt (% of GDP)

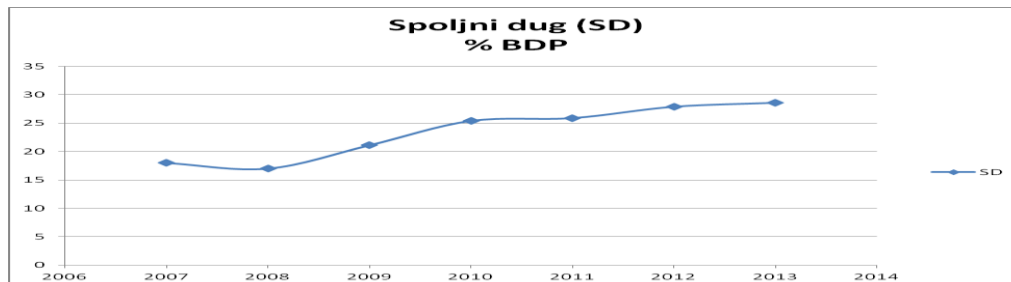


Figure 7. The external debt of Bosnia and Herzegovina in 2007-2013
Source: Ministry of Finance and Treasury of BH

The external debt of Bosnia and Herzegovina (Figure 7) shows a steady growth trend. The inability of the authorities to create a high-quality and competitive economy led to a continuous growth of the imports of various goods and services, even those which the country has in its own production such that can meet all the domestic needs (e.g. dairy products, organic agricultural products). Namely, the arrangements with the IMF, WB and other financial institutions have led to an increased level of indebtedness, since the funds from these financial arrangements should be used for the repayment of the existing loans, and only then for the development of the economy (should there be anything left?).

CONCLUSION

Bosnia and Herzegovina is the least competitive country in the South-Eastern Europe. According to the Global Competitiveness Index (GCI) 2011-2012, Bosnia and Herzegovina is ranked at the position 100, out of the 142 countries of the world. It is at the last place in relation to the countries of the Balkans (Serbia is ranked 95, Croatia 76, Albania 78, etc.).

The main macroeconomic challenges in Bosnia and Herzegovina in the future period reflect in the following: high level of public expenditure, high budget deficit, high current account deficit, negative balance of payments, negative current account balance, negative trade balance, high public debt.

If Bosnia and Herzegovina is to reduce or eliminate the negative indicators in the future, it is necessary to focus the activities on the reduction of the public expenditure through the reductions in the public sector, i.e. by reducing the number of employees in the public sector in relation to the real sector, creating space for the influx of foreign investments, and then to work on removing the key disparities that are present in relation between the production and consumption.

Bosnia and Herzegovina must provide space for the private sector investments, which primarily includes the reduction of the public sector, with the obligation to form a functional regulator that will have the required independence.

Directing the savings deposits of the population in the new investments, through the creation of a more favourable legal framework for the creation of the small and medium-sized enterprises, would lead to the reduction in the number of the unemployed as compared to the number of the employed.

It is necessary to harmonize the tax legislation, reduce the tax burden and work specifically to reduce the quasi-fiscal burdens in the entire territory of Bosnia and Herzegovina.

It is also necessary to work tirelessly on reducing and eliminating the corruption in all spheres of the society, and especially in the state sector. Corruption and crime have permeated all levels of society, and especially so in the bureaucratic-party level in the public administration at the entity levels and at the level of the joint bodies of Bosnia and Herzegovina.

In order to have the economy of Bosnia and Herzegovina achieve the desired recovery, it is necessary to undertake the following steps:

- support domestic production, and especially the export-oriented companies;
- develop significant potentials in the field of food production;
- provide full support to developing considerable potentials in the energy sector;
- take measures to increase the consumption of the local products;
- restore, renew and develop old and create new tourist facilities;
- continue with the privatization process, especially in the enterprises where the state has a majority in the control package;

- work on the development of the competitiveness of the state and elimination of the administrative barriers for the investors from abroad.

However, the most important precondition is the political stability, because without it, it is not possible to put any of the above mentioned macroeconomic features in a state of recovery and progress.

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