



# **Bosnia and Herzegovina Analytical Report**

June 2021

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# 1.0 Executive Summary

Over the past two months Bosnia and Herzegovina (BiH) has slithered back into the focus of diplomatic attention, mainly in relation to the appointment of a new High Representative, German politician Christian Schmidt. Schmidt was recently appointed by the Peace Implementation Council's Steering Board ambassadors, against Russian objections, to replace the outgoing High Representative, veteran Austrian diplomat Valentin Inzko, who served in this position for the last 12 years. The entire appointment procedure was filled with controversies – from the fact that Germany failed to consult with any of its Western allies before announcing Schmidt's candidacy, to the fact that the appointment ignored Russian objections. Given Russia's strong influence in Serbia and BiH's Serb-dominated entity of Republika Srpska, the EU's waning influence as well as upcoming elections in Germany, this appointment creates an opportunity for another east-West clash in the Balkans, which may have dangerous consequences for stability. Nevertheless, according to local and international sources Russia at this moment may prefer to avoid another escalation of its relations with the West, given the recent slight rapprochement between Russia, the EU and the US, as well as Russian expectations from the upcoming summit of Russian and American top leaders. Nevertheless, sources stress that this appointment gives Russia an opportunity to undermine regional stability and hurt Western interests in the Balkans, at any time it decides to do so, be it now or sometime in the future. Meanwhile, BiH is facing further escalation of political quarrels and zero-sum games within as well as among all main parties, which seem to be already gearing up for the next general elections, planned for October 2022. Regardless of intense diplomatic efforts undertaken by US and EU diplomats in recent months, these political quarrels have so far completely blocked the long-awaited reform of BiH's corrupt electoral system. Without this reform, however, the BiH electoral and political system could completely collapse, since Bosnian Croat and Serb leaders have already threatened to block and/or boycott the 2022 elections unless the State Parliament adopts reforms to their liking. This political quagmire, as well as the deepening social impact of COVID-19, is creating a context for further deepening of BiH's ongoing crisis. It remains to be seen whether the new High Representative will manage this crisis better than his predecessors, after he takes up his post on August 1.

## 2.0 Key Political Developments

### 2.1 Appointment of BiH's new High Representative risks a new geopolitical storm

On May 27, ambassadors of the Steering Board of the Peace Implementation Council (PIC SB) formally appointed German politician Christian Schmidt as the next High Representative in Bosnia and Herzegovina (BiH), after his candidature was put forward at the beginning of 2021. The PIC SB welcomed the appointment at the subsequent two-day PIC SB meeting, held online on June 1-2, while the Office of the High Representative (OHR) has “informed” the United Nations Secretary-General of the PIC SB’s decision. The appointment was made despite opposition from Russia, which in its June 3 statement stressed that the appointment procedure was “incomplete” and will be “illegitimate” without the endorsement of the UNSC. However, at this stage it is still unclear whether the United Nations Secretary-General António Guterres will put up this appointment for endorsement by the UNSC, as happened in most previous cases when new High Representatives were appointed<sup>[1]</sup>, or will just take note of the information. The later scenario seems to be the more likely option, given the fact that the US and EU are determined to avoid a likely Russian veto in the UN Security Council, diplomatic sources say. Even in the event of such a scenario, Russia would be able to initiate a resolution against this appointment, but that motion would certainly be vetoed by the US and European countries, which would effectively provide additional legitimacy to Schmidt’s appointment.

While it is clear that the West has options through which it can outvote and outsmart Russia in appointing a new High Representative in BiH, some Western diplomats and experts stress that it is not the legality or legitimacy of this move that is in question, since the exact legal procedure is not spelled out. According to them, what is much more important is the wisdom and cost-effectiveness of such a move, given the fact that Russia have several options for a diplomatic retaliation that could seriously hurt the Western position in BiH, and the stability of BiH itself.

## 2.2 Fears of Russian diplomatic reprisals

One of the most likely scenarios, if Russia decides to retaliate against the appointment of Schmidt, would be its blockade of the regular annual extension of the EU-led peacekeeping mandate (Althea) in BiH, which is due every November. The end of Althea's mandate is perceived as a much greater risk and threat for the continued supervision of the implementation of the Dayton peace accord than the closure of the OHR, which the EU and even the US has been considering doing for several years already.

Another, even more radical option would be for Russia to support Bosnian Serb leader Milorad Dodik in ignoring OHR's statements and actions, whose legitimacy Dodik has already questioned and challenged in his first reactions to Schmidt's appointment. The third - and most radical option - would be for Russia to open its "humanitarian centre" in the Serb-dominated entity of Republika Srpska, similar to the centre it opened in Serbia near the city of Nis in 2012, which US and NATO officials claim to be a cover for the main Russian military and intelligence base in the region. According to Russian and Bosnian Serb sources, Dodik has already reached a preliminary agreement with Moscow several years ago about the establishment of such a base in Republika Srpska and its location – close to the Banja Luka airport. The only reason why this agreement has not already been implemented is the fact that Moscow has neither money nor interest to do so, at least so far, sources say. Several western diplomats expressed concerns over what they see as the poorly prepared and poorly executed appointment of a new High Representative, which started with Berlin announcing Schmidt's candidacy without any consultations with its EU or US allies, and led to an appointment that could cause even greater controversy and a new escalation of geopolitical competition in the Balkans.

These concerns are even greater given the fact that most foreign diplomats and experts have no big expectations from Schmidt as BiH's new High Representative. Germany was one of the leading EU member countries insisting on the closure of OHR for the past several years, and strongly objecting to any use of OHR's executive powers. Therefore, it is highly unlikely that a German politician would stray too far away from the official position of his country and that he would use his executive powers unless really necessary, sources say. Furthermore, sources

claim that Schmidt is expected to “clean up” the OHR from some of its old staff, which the rest of the diplomatic community in BiH found to be increasingly problematic in recent years, due to their one-sided views and overblown egos. Schmidt is also expected to finally close down the OHR within the next four years, sources say.

## **2.3 Possible East-West Rapprochement may prevent Russian “nuclear option” in BiH**

According to senior Russian and Bosnian Serb experts, however, Moscow is not expected to respond in a harsh way to Schmidt’s appointment, at least for the time being. It is because Russian officials have been encouraged by the mild thawing of relations with the West over the past month. The first two meetings between US and Russian officials – including the May 19 meeting of the US Secretary of State Antony J. Blinken and Russian Foreign Minister Sergey Lavrov, as well as the May 23 meeting of the US National Security Advisor Jake Sullivan and the Russian Security Council Secretary Nikolay Patrushev – went relatively well, sources say.

Furthermore, on May 19 the Biden administration waived sanctions on a company and its CEO building Nord Stream 2[2] – a controversial gas pipeline between Russia and Germany - which in recent years became one of the main and most complicated disputes between the USA, Germany and Russia.

The project, which would take gas from the Russian Arctic under the Baltic Sea to Germany, is already more than 95 percent complete and could be finished as early as within the next couple of months. If/once finished, Nord Stream 2 will double Russia’s direct export capacity of natural gas to Germany as a first entry point to the EU to 110 billion cubic metres (bcm) per year.

Russian and Bosnian Serb sources said that the long-awaited rapprochement with the West is too important for Moscow to risk it for the sake of a region in which Russia has high stakes but little real interest, as it is too far from the area of Russian strategic interest – Belarus and Ukraine. As a result, they say that Moscow is not expected – at least for the time being – to go hard against Schmidt’s appointment. This notion was also reflected in the positions of Serbian President Aleksandar Vucic, who openly refused to come to Dodik’s aid over Schmidt’s appointment. Before and after his meeting with leaders of the main Bosnian Serb parties in Belgrade on June 2[3], Vucic said that the Bosnian Serb leadership is not in an easy situation, but stressed that they should not go against Germany and challenge their representative. Bosnian Serb and Serbian sources said Vucic’s position was additionally motivated by his

determination to distance himself as much as possible from Dodik, who has become a major burden, especially in his dealings with Western officials.

Abandoned by Vucic and possibly even Russia, Dodik seems to be facing probably the most difficult period, these sources say. His prolonged ignorance and abuse of inner-party relations in his SNSD has made Dodik almost completely detached from his own party. At the same time the young and eager mayor of Banja Luka, opposition leader Drasko Stanivukovic, is threatening to reveal years of the SNSD's corrupt activities in the management of Republika Srpska's administrative centre. Stanivukovic seems ready to use SNSD's dirty laundry to challenge Dodik or any other SNSD candidate for the position of the RS President in next year's general elections. Finally, Nenad Stevandic and his United Srpska party seems to be ready to leave Dodik's ruling coalition, in which case the SNSD would come very close to losing the current thin majority in the RS National Assembly.

In this situation, Dodik could decide to resign from his position in the BiH Presidency at the end of his rotation as the presidency chairman in July. By replacing weak and unconvincing Viskovic in the position of the RS Premier, Dodik could try to better prepare himself for the 2022 elections, which may very well prove to be his "to be or not to be" moment, especially if he and Stanivukovic end up running against each other.

However, local political sources warn that in the past Dodik has proven time and again that he is best when pressed against the wall, when he uses his nationalist rhetoric and political charisma to up the ante and bring the political fight back to the international community. Sources also warned that Dodik is ready to go all the way and push for unilateral secession of Republika Srpska, if nothing else then to force OHR to use executive powers to remove him from office. This scenario would offer Dodik a relatively easy way out, since he would immediately become a political martyr and as such would probably prevent any legal or political moves against him in the future.

## 2.4 BiH electoral reform going nowhere

Signs of Dodik's hardening positions could be seen already after his meeting with one of his main political allies, the leader of the main Bosnian Croat party, the Croat Democratic Union, HDZ, Dragan Covic on June 7. The two discussed electoral reform and agreed on joint positions, which represent a major hardening of their political stance towards the ongoing negotiations on BiH's electoral reform. Both leaders stressed they would not allow exclusion of ethnic characterisation from the BiH constitution, which the European Court of Human Rights, ECHR, ruled already in several cases to be violating the most basic human rights of BiH citizens. Dodik and Covic also stressed that they insist on the establishment of two electoral districts in BiH's other entity, the Federation, which most Bosniak parties strongly oppose. Dodik and Covic also said they were against the introduction of the possibility of early elections, and also against merging local and general elections into the same year, the two options that many local and international experts said would seriously improve the electoral system.

Results of the Dodik-Covic meeting on June 7 have confirmed claims by different local and international sources, who say that BiH's electoral reform is thoroughly stuck, because all main political parties (Bosniak SDA and SDP, Croat HDZ and Serb SNSD) seem to prefer keeping the existing corrupt electoral system, which in combination with their huge party infrastructure allows them to game this system.

After strong pressure from the US and EU, an inter-institutional commission was established, which should now help all key institutions engage in the reform. However, international officials say that all main parties show no political willingness for any kind of compromise, and they believe that this commission will only be used to drag out the process without any concrete results. So far, EU capitals and Washington proved to be not willing to deal with this issue from the higher levels, which would at least give a small chance for some kind of breakthrough. Diplomats in BiH express hope that EU capitals and Washington could "wake up" towards the end of the year, when they realize that BiH is approaching a new election year without any electoral reform in place on the one hand, and threats from Dodik and Covic that they would

block and/or boycott the 2022 elections unless the electoral system is amended in line with their demands on the other hand.

## 2.5 New blow for SDA leader

In the meantime, a political offensive aimed at toppling the leader of the main Bosniak Party of Democratic Action, SDA, Bakir Izetbegovic continues, with new claims questioning the diploma of his spouse, the director of the Sarajevo Kosevo hospital Sebija Izetbegovic. In the latest episode, one of the leading Bosniak doctors and an international expert in gynaecology, AsimKurjak, announced in local media that Sebijalzetbegovic never finished her specialization with him in Zagreb, as she claimed. According to her official CV and original documents (which were also published in local media), Sebija Izetbegovic has finished most of her specialization in Zagreb, during the war, under AsimKurjak's tutelage. However, Kurjaktold local media that she has never done that but that she only stayed at Zagreb hospital for a few weeks, after which she left for Turkey. If this claim of areputable doctor such as AsimKurjak proves to be right, her position at the helm of Kosevo hospital, as well as her continued career as a doctor could be ruined. That, in turn, could topple Bakir Izetbegovic, who in recent years put his own position as SDA leader as stake, as he gave full and unquestionable support to his wife, despite numerous complaints, criticism and claims that she is not fit for her positions.

Different local and international sources say that the latest claim from Dr Kurjak, is clearly part of a well-coordinated plan, which includes some of the leading Bosniak political, religious, academic and media figures, who are making maximum efforts to unseat Izetbegovic, now believed by them to be pushing the SDA party, Bosniaks, as well as Bosnia and Herzegovina into catastrophe and disappearance with his corrupt and inane politics.

These and similar political battles within and between Bosniak, Bosnian Croat and Bosnian Serb ethno-political blocs are expected to continue and even intensify in the course of this year, as all parties gear up for new elections. In this situation, many local and international officials and experts are curious regarding how the new High Representative will position himself in a difficult and toxic political environment such as the BiH one.

## 3.0 Socio-Economic Developments

### 3.1 Return to Growth

Economic damage caused by the pandemic in Bosnia-Herzegovina seems to be smaller than initially expected while this year economic growth should be higher than expected. According to the latest estimates by the Central Bank of BiH (CB BH), the Bosnian economy in this year should grow by 3.4 percent, instead of the initially projected 2.7 percent, and the same level of growth is expected to continue in 2022.<sup>[4]</sup> CB BH preliminary calculations also show that the BiH economy last year registered a 4.6 percent GDP contraction, which is somewhat better than 5.5 percent, which was the last IMF estimate.<sup>[5]</sup>

These results are based on industrial production, which has been recovering since the beginning of this year. In the Federation entity (FBiH) industrial production in April registered its first drop (of 0.1 percent) after five months of steady growth. Still, compared with April 2020, industrial production in FBiH was 25.44 percent higher.

In the Republika Srpska (RS) industry production in April registered growth of 4.9 percent, after a 2.5 percent drop in March, but when compared with April 2020, it was still higher by 27.2 percent. High growth on an annual basis is the result last year's lockdown which led to a significant decrease in industrial production.

While industrial production shows encouraging growth, foreign trade shows a less optimistic picture. After strong growth in February and March, BiH exports and imports in April registered 3.6 percent and 4.3 percent falls respectively, compared with the previous month. However, when compared with April 2020, export in April this year was bigger by 60 percent and imports 49.8 percent. This small drop in foreign trade during April could be explained as a consequence of the third wave of the pandemic, whose peak was at the beginning of April.

Optimistic forecasts for economic recovery in this year will still depend on the ability of BiH to return to normality and leave the pandemic behind. Yet, so far the vaccination rate in BiH is about six percent of the total population, well below the European average.<sup>[6]</sup> This situation is creating the possibility that BiH could be hit by another wave of the pandemic, which would demand another lockdown. As we can see in the UK, a country with one of the highest inoculation rates in the world, vaccines do not guarantee complete protection against new strains of virus.

In the meantime, experts believe that the reopening of air routes between BiH and Western Europe could provide a positive impulse for the country. This positive impulse is not so much focused on expectations of a great tourist year, as it is not likely for BiH to see a significant influx of foreign tourists in the near future, but on the BiH diaspora, which traditionally uses summer for visits, which also means an additional inflow of remittances, which could contribute to increasing consumption.

Experts are however still worried over high unemployment levels in the country. Latest annual survey about the labor market in BiH, which was carried out by the Agency for Statistics in BiH during 2020, shows that according to ILO standards the unemployment rate in 2020 was 15.6 percent.<sup>[7]</sup> More conservative estimates according to local standards puts the unemployment rate in March 2021 at 33.4 percent, a slight worsening compared to 32.4 percent in March 2020, just before the outbreak of the pandemic.<sup>[8]</sup>

One way or the other, experts stress that unemployment remains BiH's biggest and most difficult problem, and although post pandemic economic recovery may result in better macroeconomic indicators, solid growth of GDP, industrial production, or total banking assets, it does not mean that it will necessarily translate into significantly lower unemployment, especially among the younger population and those with lower qualifications. It shows that extremely high unemployment in BiH is not caused by the pandemic, but that it represents a major structural issue for which there is no simple cure nor vaccine which can change it overnight.

## 3.2 Statistical data

### Foreign trade

Month	BiH Export (mil. EUR)			Change (pct)	
	IV-2020	III-2021	IV-2021	IV-2021/ III-2021	IV-2021 / IV -2020
	355	589	568	-3,6	60,0

Source: Agency for statistics of Bosnia-Herzegovina

Month	BiH Import (mil. EUR)			Change (pct)	
	IV-2020	III-2021	IV-2021	IV-2021/ III-2021	IV-2021 / IV -2020
	578	905	866	-4,3	49,8

Source: Agency for statistics of Bosnia-Herzegovina

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	<b>BiH Export (mil. EUR)</b>			<b>Change (pct)</b>	
Period	Q1 2020	Q1 2021	Q4-2020	Q1-2021/ Q4-2020	Q1-2021 / Q1 -2020
	1.340	1.563	1.499	-4,1	11,9
Source: Agency for statistics of Bosnia-Herzegovina					

	<b>BiH Import (mil. EUR)</b>			<b>Change (pct)</b>	
Period	Q1 2020	Q1 2021	Q4-2020	Q1-2021/ Q4-2020	Q1-2021 / Q1 -2020
	2.187	2.245	2.328	3,7	6,4
Source: Agency for statistics of Bosnia-Herzegovina					

## Foreign Exchange Reserves

	Foreign exchange reserves (EUR billion)			Change (pct)	
Month	IV-2020	III-2021	IV-2021	IV-2021/III-2021	IV-2021 / IV-2020
	6.721.058	6.955.906	7.157.146	2,9	6,5
Source: Central Bank of BiH					

## Banking sector

	Total assets commercial banking sector in BiH (EUR billion)			Change (pct)	
Month	IV-2020	III-2021	IV-2021	IV-2021/III-2021	IV-2021 / IV-2020
	16,6	17,4	17,7	2,1	6,8
Source: Central Bank of BiH					

## Q1 2021

	Total assets commercial banking sector in BiH (EUR billion)			Change (pct)	
Period	Q1 2020	Q4-2020	Q1 2021	Q1-2021/ Q4-2020	Q1-2021 / Q1-2020
	25,69	26,16	26,45	1,1	2,9
Source: Central Bank of BiH					

## Inflation (CPI)

Inflation (CPI) in BiH in pct		
Month	IV-2021 /III - 2021	IV – 2021 /IV - 2020
	-0,3	0,9
Source: Agency for statistics of Bosnia-Herzegovina		

## Industrial production

Industrial production			
FBiH (pct)		RS (pct)	
IV-2021/ III-2021	IV-2021 / IV-2020	IV-2021/ III-2021	IV-2021 / IV-2020
-0,1	25,4	4,9	27,2
Source: Institute for Statistics of FBiH			
Source: Institute of Statistics - Republic of Srpska			

## Employment and Unemployment

Month	Number of employed in B&H			Change (pct)	
	III-2020	II-2021	III-2021	III-2021/ II-2021	III-2021 / III-2020
	830.421	808.884	810.947	0,3	-2,3
Source: Labour and Employment Agency of Bosnia – Herzegovina					

Month	Number of unemployed persons in BiH			Change (pct)	
	IV-2020	III-2021	IV-2021	IV-2021/III-2021	IV-2021 / IV-2020
	402.888	415.027	410.776	-1,0	2,0
Source: Labour and Employment Agency of Bosnia – Herzegovina					

## Wages

Month	Average net wages in BiH (EUR)			Change (pct)	
	III-2020	II-2021	III-2021	III-2021/ II-2021	III-2021 / III-2020
	485	490	504	2,9	3,9
Source: Agency for statistics of Bosnia-Herzegovina					

Month	Average net wages in FBiH (EUR)			Change (pct)	
	III-2020	II-2021	III-2021	III-2021/ II-2021	III-2021 / III-2020
	483	485	508	4,7	5,2
Source: Institute for Statistics of FBiH					

Month	Average net wages in RS (EUR)			Change (pct)	
	IV-2020	III-2021	IV-2021	IV-2021/III-2021	IV-2021 / IV-2020
	482	499	499	0,0	3,5
Source: Institute of Statistics - Republic of Srpska					

## Pensions

Month	FBiH number of pensioners			Change (pct)	
	V-2020	IV-2021	V-2021	V-2021 / IV-2021	V-2021 / V-2020
	424.964	425.390	424.833	0,0	1,9
Source: Federal pension and disability insurance institute					

Month	FBiH average pension (EUR)			Change (pct)	
	V-2020	IV-2021	V-2021	V-2021 / IV-2021	V-2021 / V-2020
	213	219	219	0,0	2,8
Source: Federal pension and disability insurance institute					

Month	RS number of pensioners			Change (pct)	
	IV-2020	III-2021	IV-2021	IV-2021/III-2021	IV-2021 / IV-2020
	267.413	269.980	270.335	0,1	1,1
Source: Fund for pension and disability insurance RS					

Month	RS average pension (EUR)			Change (pct)	
	IV-2020	III-2021	IV-2021	IV-2021/III-2021	IV-2021 / IV-2020
	201	207	207	0	3,0
Source: Fund for pension and disability insurance RS					

## Footnotes

[1] The Dayton peace accord did not spell out the exact legal procedure for the appointment, removal or replacement of a new High Representative, just as it did not spell out a procedure for formal closure of the Office of the High Representative (OHR). Over time, the process for the replacement of BiH's High Representative has been established through practice, where in all cases but one, the Steering Board of the Peace Implementation Council (PIC SB) would "designate" a new candidate for the position and then ask the United Nations Security Council to "endorse" the appointment. This practice was altered only in the case of the appointment of Christian Schwarz-Schilling (who served from January 2006 to July 2007), which was not endorsed by the UNSC. Western diplomats say this alteration in the procedures came as a result of an omission on the side of the UNSC. However, today, it is being used as proof that appointment of a new High Representative does not need UNSC approval.

[2] According to the Department of State, the company and its CEO – Nord Stream 2 AG and its chief executive, Matthias Warnig, a former East German intelligence officer – have been engaged in sanctionable activity. Nevertheless, it concluded that it is in the US national interest to waive the sanctions. For more details see: <https://www.icis.com/explore/resources/news/2021/05/21/10463483/topic-page-nord-stream-2>

[3] In addition to the Serb member of BiH Presidency, Milorad Dodik, RS President Zeljka Cvijanovic and RS Premier Radovan Viskovic – all from the ruling Alliance of Independent Social democrats, SNSD, the meeting also included leaders of the three main opposition parties, Mirko Sarovic from the Serb democratic Party, SDS, Branislav Borenovic from the Party of Democratic Progress, PDP, and Nenad Nesic from the Democratic National Council, DNS.

[4] <https://finance.yahoo.com/news/bosnias-central-bank-sees-gdp-120908938.html>

[5]

[https://www.imf.org/en/Publications/WEO/weo-database/2021/April/weo-report?c=963,&s=NGDP\\_RPCH,NGDP\\_D,&sy=2019&ey=2026&ssm=0&scsm=1&sc=0&ssd=1&ssc=0&sic=0&sort=country&ds=.&br=1](https://www.imf.org/en/Publications/WEO/weo-database/2021/April/weo-report?c=963,&s=NGDP_RPCH,NGDP_D,&sy=2019&ey=2026&ssm=0&scsm=1&sc=0&ssd=1&ssc=0&sic=0&sort=country&ds=.&br=1)

[6]

<https://www.klix.ba/vijesti/bih/neumoljiva-statistika-vs-hvalospjevi-politicara-koliko-je-cinjenicno-losa-reakcija-bih-na-koronu/210605055>

[7] Agency for statistics of Bosnia-Herzegovina (<http://bhas.gov.ba>)

[8] Labor and Employment Agency of Bosnia – Herzegovina (<http://www.arz.gov.ba>)