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# Länderbericht

Country office Bosnia and Herzegovina (Sarajevo)



## Demographic Development in Bosnia and Herzegovina

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### Consequences of the Significant Decrease and Aging of the Population

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The shrinking population is not a novelty in Bosnia and Herzegovina (BiH). Political and economic shortcomings are the main reasons driving emigration, especially of qualified workforce. The Bosnian-Herzegovinian diaspora (citizens living abroad) is proportionally one of the largest in the world. Additionally, an aging population due to declining birth rates is a growing concern. These two factors together have led to an estimated decline in the population by an average of 25,000 people per year during the period 2013 - 2020.<sup>1</sup> The last census in 2013 counted around 3.5 million residents.<sup>2</sup> Projections suggest a 55% population decline by 2070.<sup>3</sup> The remaining approximately 1.56 million people<sup>4</sup> are likely to face a drastically changed societal structure. This poses significant challenges to the labor market and social systems, particularly the pension, healthcare, and education systems. Addressing these challenges effectively requires sustained political will over an extended period to secure Bosnia and Herzegovina's future in the face of the expected drastic demographic changes. Initial steps in this direction have been taken, and more are planned. However, successful mitigation of the challenges of demographic change requires both the implementation of planned measures and the adoption of additional far-reaching actions.

### Current Situation

Life expectancy in BiH was 67 years in 1999 and had already increased to 77 years by 2021.<sup>5</sup> The fertility rate reached the necessary level for population maintenance, with 2.1 children per woman, for the last time in 1970.<sup>6</sup> However, by 2022, it had decreased to only 1.2 children per woman.<sup>7</sup> The Bosnian War (1992 - 1995) further contributed to population decline due to death, displacement, and emigration.<sup>8</sup> The post-war years have been marked by unfavorable

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<sup>1</sup> Hadžić et al., The effects of population changes on the provisions of public services in Bosnia and Herzegovina, 2022, S.4, abgerufen am 25.05.2022.

<sup>2</sup> STATISTIKA.BA, abgerufen am 22.05.2023. <http://www.statistika.ba/?lang=en#>

<sup>3</sup> Hadžić et al., The effects of population changes on the provisions of public services in Bosnia and Herzegovina, 2022, S.5, abgerufen am 25.05.2022.

<sup>4</sup> Ebd. S.4.

<sup>5</sup> Agency for Statistics of Bosnia and Herzegovina, Average Age of Deaths, 2023, abgerufen am 25.05.2023. <https://bhas.gov.ba/Calendar/Category/14>

<sup>6</sup> Hadžić et al., The effects of population changes on the provisions of public services in Bosnia and Herzegovina, 2022, S.4, abgerufen am 25.05.2022.

<sup>7</sup> Ebd. S.4, abgerufen am 25.05.2022.

<sup>8</sup> Vgl. Kadušić et al., The demographic aging of population in Bosnia and Herzegovina. Causes and consequences, Revija za geografiju Nr. 11, 2016, S. 46-47.

economic, political, and social factors for population development.<sup>9</sup> In 2007, BiH experienced negative population growth for the first time.<sup>10</sup> At this juncture, declining birth rates intersected with an increasing proportion of elderly population segments and correspondingly rising mortality rates.

Especially for young educated individuals from BiH, emigration to foreign countries is highly attractive as they seek better living conditions abroad. According to Forbes magazine, BiH had the world's second-largest diaspora percentage in 2020. Consequently, 34% of all citizens do not reside in BiH.<sup>11</sup> Low wages, lack of prospects due to high unemployment, and the perception that the political system is stagnant and incapable of future improvement contribute to a "brain drain," the emigration of qualified workforce.<sup>12</sup> For many, going abroad offers a chance at a standard of living that they cannot achieve to the same extent in BiH. Another important factor is the ability to financially support family members who remain in BiH with money earned abroad. Solving these problems necessitates forward-thinking and long-term strategies. Simultaneously, other pressing issues appear more urgent in the present. Politicians who address or at least promise to address the immediate concerns of the population tend to gain voters' support. Compounding the situation, BiH's government structure and party landscape are characterized by various blockades and their extensive use. These blockades arise because the interests emphasized by the three constituent peoples often seem incompatible. Additionally, a veto right against the decisions of others exists in the parliament.

## Outlook

As the last census in Bosnia and Herzegovina was conducted in 2013, many of the available data on the current population rely on estimates and projections. In 2013, the Western Balkan state had a population of around 3.53 million residents.<sup>13</sup> In the previously mentioned scenario of a 55% population decline by 2070, an increase in the average age from 42 to 54 years can be expected.<sup>14</sup>

Consequently, the total number of people in working age and children and adolescents under 19 would each decrease by about two-thirds.<sup>15</sup> Demographers like Aleksandar Čavić express concern. It is expected that the pension and healthcare systems will reach their limits long before 2070.<sup>16</sup>

The administration of the pension system in BiH is the responsibility of the two entities, the Federation of Bosnia and Herzegovina (FBiH) and Republika Srpska (RS). In 2016, RS integrated the pension system into its entity's budget, and the same happened in the FBiH in 2020. This allows costs to be covered from other revenue sources when contributions from the working population are insufficient. Following the general demographic trend, the number of individuals receiving pensions and benefits in both entities increased from around 644,000 in 2014 to 702,000 in 2021.<sup>17</sup> This represents an 11.8% increase during this period, interrupted only by the higher mortality rates of the Covid-19 pandemic.<sup>18</sup> This was accompanied by a 27.9% increase in pension benefits from 2.6 to 3.6 billion Convertible Marks (fixed exchange

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<sup>9</sup> Vgl. Ebd. S. 42.

<sup>10</sup> Vgl. Ebd. S.42.

<sup>11</sup> Vgl. Katarina Buchholz, The World's Biggest Diasporas, Forbes 11.11.2022, abgerufen am 25.05.2022.

<https://www.forbes.com/sites/katharinabuchholz/2022/11/11/the-worlds-biggest-diasporas-infographic/?sh=4604b8f4bde4>

<sup>12</sup> Vgl. UNFPA BiH, proMENTE and Ipsos, Survey on youth emigration in Bosnia and Herzegovina, abgerufen am 17. 11.2021.

[https://ba.unfpa.org/sites/default/files/pub-pdf/effects\\_of\\_population\\_changes\\_eng\\_final.pdf](https://ba.unfpa.org/sites/default/files/pub-pdf/effects_of_population_changes_eng_final.pdf)

<sup>13</sup> STATISTIKA.BA, abgerufen am 22.05.2023. <http://www.statistika.ba/?lang=en#>

<sup>14</sup> Hadžić et al., The effects of population changes on the provisions of public services in Bosnia and Herzegovina, 2022, S.5, abgerufen am 25.05.2022.

<sup>15</sup> Vgl. Ebd. S.5.

<sup>16</sup> Vgl. Bosnia Daily, 06.03.2023, S.6.

<sup>17</sup> Hadžić et al., The effects of population changes on the provisions of public services in Bosnia and Herzegovina, 2022, S.5, abgerufen am 25.05.2022.

<sup>18</sup> Ebd. S. 5.

rate: 1 Euro = 1.96 BAM).<sup>19</sup> By 2031, it is expected that both entities combined will need to provide for over 800,000 retirees,<sup>20</sup> representing a 13.5% increase from 2022.<sup>21</sup>

On the other side of the generational contract (a pension system funded by contributions from the currently working population), 42% of the workforce were already over 50 years old in 2018.<sup>22</sup> Over the next ten years, a reduction of around 92,000 working-age individuals is expected.<sup>23</sup> In the mentioned period, this will be offset by a decrease in unemployment, resulting in a likely slight increase in employment from 836,000 to 919,000, though less than in previous years.<sup>24</sup> Forty years later, it is expected that there will be only 680,000 individuals of working age in the entirety of BiH.<sup>25</sup> The impact of the aforementioned brain drain is significant, albeit difficult to quantify due to a lack of surveys. Another problem is widespread undeclared work and the consequent absence of taxes and contributions.<sup>26</sup> Of the working-age population outside the labor market, the vast majority (approximately 0.93 million) are female.<sup>27</sup> Integrating them into the labor market will require further political and social reforms. Coupled with the country's generally weak growth rates over the last decade, the prospects for the households of both entities to sustain the growing expenses of the pension system without reforms are poor. These reforms must reduce pension system costs and increase household revenue. The integration of new workers into the labor market is particularly crucial in this regard.

BiH's healthcare system features a complicated and decentralized structure, particularly within the Federation.<sup>28</sup> There are eleven different ministries and insurances in the Federation alone. Conversely, RS has a centralized healthcare system. The incompatibility of different insurance funds and strict payment requirements result in the actual insurance coverage of BiH being estimated to be substantially below the official 85.9%.<sup>29</sup> Furthermore, around 30% of healthcare expenses are covered by private payments from patients,<sup>30</sup> not including corruption-related payments. The system is already in a precarious situation even without demographic change. In terms of numbers, total expenditures for the entire state increased from 1.54 to 2.24 billion BAM between 2009 and 2019.<sup>31</sup> An even more drastic increase in inflation-adjusted per capita spending of 60.4% from 781.9 BAM to 1,254 BAM is expected during the period 2022 - 2031.<sup>32</sup> This would require a state subsidy of 3.78 billion BAM for the healthcare system in 2031.<sup>33</sup> The fundamental problem of demographic change also has dramatic implications for BiH's healthcare system. The number of those using the system is rising while the number of those financing it is declining. Alongside urgently needed organizational simplification, addressing the reality of demographic change requires reducing costs and increasing revenue. Hadžić et al. suggest that a long-term growth rate of 6 - 7% per year in GDP (Gross Domestic Product) is needed to address this.<sup>34</sup>

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<sup>19</sup> Ebd. S. 5.

<sup>20</sup> Ebd. S. 82.

<sup>21</sup> Ebd. S. 82.

<sup>22</sup> Ebd. S. 56.

<sup>23</sup> Ebd. S. 83.

<sup>24</sup> Ebd. S. 56.

<sup>25</sup> Ebd. S. 5.

<sup>26</sup> Vgl. Ebd. S. 87.

<sup>27</sup> Ebd. S. 56.

<sup>28</sup> Vgl. Ebd. S. 63.

<sup>29</sup> Ebd. S. 63.

<sup>30</sup> Ebd. S. 63.

<sup>31</sup> Ebd. S. 6.

<sup>32</sup> Ebd. S. 7.

<sup>33</sup> Ebd. S. 7.

<sup>34</sup> Ebd. S. 69.

Another aspect of demographic development concerns BiH's education system. Combining elementary schools, secondary schools, and universities, the number of students between 2010/11 and 2021/22 decreased by 26%, from 602,621 to 447,491.<sup>35</sup> A further reduction to around 350,000 students is expected by 2031/32.<sup>36</sup> Nevertheless, annual expenditures are expected to increase by 24.3%, from 1.550 billion in 2019 to 1.928 billion in 2030, leading to a significant rise in per capita spending.<sup>37</sup> Simultaneously, a decrease of 8,525 teachers is anticipated by 2031.<sup>38</sup> Additional investments will be necessary to improve the quality of educational offerings and thus the training of future workers.

## Potential Solutions

Demography has far-reaching effects on nearly all aspects of life. Changes in the population structure towards fewer young, less employable, and more elderly individuals pose enormous challenges to the pension, healthcare, and education systems, as well as the job market. Proactive and long-term actions are crucial to halt the current downward spiral. This requires a high level of political will, even across party lines. Furthermore, conducting a new census as a reliable data foundation is important. Due to lack of preparation and insufficient financial resources, it remains unclear when the next census will be conducted.

Some measures have already been taken or are planned in some of the mentioned problem areas. Initial steps include pension system reforms in both entities. In its fourth extraordinary telephone session, the new Council of Ministers of the state of Bosnia and Herzegovina adopted a comprehensive program for economic reforms. Many of the aforementioned solutions are present in the so-called ERP BiH 2023-2025.<sup>39</sup> It includes various packages of measures to improve BiH's labor market conditions, such as better integration of young people into the job market<sup>40</sup>, stronger alignment of the job market with the EU<sup>41</sup> and improved labor protection measures and unemployment insurance<sup>42</sup>. Additionally, plans include reforming the distribution of the tax burden<sup>43</sup>, reducing the tax burden on employers<sup>44</sup> and creating a more favorable environment for small businesses<sup>45</sup>. Measures to better tailor the education system to the demands of the job market are also planned in both entities, with a much more extensive scope in the FBiH.<sup>46</sup> The challenges of low female employment rates and a threatened healthcare system due to demographic changes are also identified.<sup>47</sup>

This exemplifies that there is an awareness within the government circles of BiH of the significant challenges posed by demographic development. Initial steps have also been taken to counteract the potential consequences of an aging, shrinking society. Whether these measures achieve their goals and whether the planned reforms are implemented or again dissipate amidst the internal conflicts of the country remains to be seen. Even in the most favorable case of the successful implementation of this package of measures, many more of a similar nature will be needed to equip BiH for the challenges of demographic change.

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<sup>35</sup> Ebd. S. 73.

<sup>36</sup> Ebd. S. 74.

<sup>37</sup> Ebd. S. 76.

<sup>38</sup> Ebd. S. 80.

<sup>39</sup> Economic Reform Programme of Bosnia and Herzegovina 2023-2025, abgerufen am 10.05.2023.

<http://www.dep.gov.ba/naslovna/Archive.aspx?pageIndex=1&langTag=en-US>

<sup>40</sup> Vgl. Ebd. S. 65.

<sup>41</sup> Vgl. Ebd. S. 64.

<sup>42</sup> Vgl. Ebd. S. 64-65.

<sup>43</sup> Vgl. Ebd. S. 73.

<sup>44</sup> Vgl. Ebd. S. 73.

<sup>45</sup> Vgl. Ebd. S. 76.

<sup>46</sup> Vgl. Ebd. S. 62-63.

<sup>47</sup> Vgl. Ebd. S. 62, 64.

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