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CHARACTERISTICS OF PERSONAL CONSUMPTION IN BOSNIA AND HERZEGOVINA

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Abstract

Personal consumption represents one of the most important components of aggregate demand. Calculations of GDP by expenditure approach includes consumption that makes the biggest GDP component in the most countries. As a part of aggregate demand and GDP consumption has multiplier effects on employment, investments and savings. Financial crisis that hit the world economy in 2007-2008 has caused consumption decrease that had negative, short- or long-term, consequences. For that reason there is consensus about the need of consumption increase and re-growth of world economy. According to IMF and EUROSTAT data Bosnia and Herzegovina is at the bottom of the European countries by consumption and standard of living, components that show slow improvement due to significant income decrease, high unemployment rate and small FDIs. The aim of this work is to show characteristics of personal consumption in Bosnia and Herzegovina regarding changes of personal consumption values and its share in GDP. This paper will give insight into changes of consumption values and its impacts on GDP in the period 2007-2015 with the reference to the countries of region and EU.

Keywords: consumption, GDP, expenditure approach

1. INTRODUCTION

Personal consumption or household final consumption represents one of the most important components of aggregate demand. This consumption also makes the biggest GDP component when calculating GDP by expenditure approach. As a significant part of aggregate demand and GDP household final consumption has multiplier effects on employment, investment and savings. Due to its importance personal consumption is an interesting topic for different researches from various perspectives and for discussing correlations between consumption and other macroeconomic aggregates. The aim of this work is to show characteristics of personal consumption in Bosnia and Herzegovina regarding changes of personal consumption values and its share in GDP, size of household final consumption and structure of expenditures in household final consumption. According to IMF and EUROSTAT data Bosnia and Herzegovina is at the bottom of the European countries by consumption and standard of living. These two components show slow improvement in Bosnia and Herzegovina due to significant income decrease, high unemployment rate and small FDIs.

1.1. Literature review

J.M. Keynes gave special theoretical contribution to the development of dynamical and contemporary consumer theory by formulating macroeconomic consumption function. Theoretical basis for studies of consumption can be found in the works of economists of neoclassical economic school who tried to explain consumer behaviour. (Denona Bogović, 2002, p.623) Easily said consumption can be defined as the total value of goods and services purchased by household (Wonnacott, Wonnacott, 1990, p.38) or that is consisted of household expenditures on goods and services (Mankiw, 2016, p.27) The behaviour of aggregate consumption has always been of central importance to macroeconomists and that importance survived in one form or another through the many changes in macroeconomic theory. (Deaton, 1992, p.37) Due to importance of personal consumption and its relation with economic movements many economic studies are focused on characteristics of consumption and its changes and trends. In all economies the expansion of output is the sum of the growth of consumption plus investment plus net exports of goods and services. (Lardy, 2006, p.1) Related to this national Agencies and statistical offices worldwide today collect and process data on households budget and its allocation on certain goods and services during certain period of time. Many studies indicate the correlation between size and structure of personal consumption and achieved level of country's development. Among other things that is addressed also in the following conclusions of the study Denona Bogović (2002):

- 1) the biggest relative share of consumption in GDP and low value of GDP per capita indicate lower level of economic development of the country, with dominant primary sector
- 2) at the high level of economic development share of consumption in GDP is around 60%, while value of consumption per capita rises rapidly. (Denona Bogović, 2002, p.626).

Some studies like Wilson (1991) are discussing whether consumption is cause or consequence of GDP behaviour. However, the conclusion is that larger household wealth is associated with higher personal consumption. (Slacalek, 2009, p.1) In small and undeveloped countries like Bosnia and Herzegovina income and utility of consumption are very important. The consumer allocates their consumption over time so as to maximize a stable individualistic utility function that provides basis for almost all modern work on the determinants of consumption and saving decision. (Carroll, Summers, 1991, p.305)

1.2. Background of research

Research of consumption characteristics in Bosnia and Herzegovina is made for the period 2007-2015 as well as comparison to similar values of the countries in the region. The aim of this work is to show size and structure of personal consumption as one of the most important elements of GDP and macroeconomic indicator. Different changes at markets and financial crisis that hit world and Bosnia and Herzegovina economy have affected personal consumption. This work is to show changes of personal consumption during relevant period and what changes have affected the change of personal consumption mostly. Previous researches are done based on consumer behaviour, their habits and marketing aspects of markets of different products.

1.2.1. Model and Data

The aim of this paperwork is to show characteristics of personal consumption in Bosnia and Herzegovina and its changes during certain period of time. To show the mentioned secondary data from various sources are used, especially data from national agencies for statistics and financial institutions, World Bank and EUROSTAT data. Since we observe household final consumption in Bosnia and Herzegovina the most data we have collected from Agency for Statistics of Bosnia and Herzegovina and Central Bank of Bosnia and Herzegovina Reports. We mostly used data from the Household Budget Survey and Report on Gross Domestic Product by expenditure approach for Bosnia and Herzegovina. The Household Budget Survey is a national household based survey conducted every four years in BiH focusing on final consumption expenditure of household. The collected data are related to household expenditure for food and beverages, housing, furniture, clothing and footwear, health, transportation, communication, recreation and leisure, culture and education as well as household income and investment and social inclusion of household members. Gross Domestic Product by expenditure approach defines as total domestic final consumption corrected by external trade balance with the rest of the world. The main components of GDP by expenditure approach are household final consumption expenditure, final consumption of non-profit institutions serving households, final consumption of general government, gross capital formation, export and import of goods and services. The subject of our interest are data on household final consumption expenditures in the period from 2007 to 2015. Based on single data and facts we get general conclusions using

inductive method. Using analysis we disaggregate complex data on integral parts to get final conclusion on characteristics of personal consumption in Bosnia and Herzegovina. Because of concise work it was necessary to abstract certain data that have or could have impact on subject of this research. Connecting secondary data with values of specific indicators conclusions of economic situation and characteristics of household final consumption are made.

2. PERSONAL CONSUMPTION AND ITS TREND IN BOSNIA AND HERZEGOVINA IN THE PERIOD 2007-2015

According to IMF and EUROSTAT data Bosnia and Herzegovina is at the bottom of the European countries by its consumption and standard of living. These components also show slow improvement due to significant income decrease, high unemployment rate and small FDIs. In small and open economy like in the case of Bosnia and Herzegovina economy, foreign trade and capital movements inside and outside of the country are free of limitations. In these conditions any personal demand in the lack of domestic production is replaced by import. (Kausmović, Mehuljić Kalajdžić, 2013, p.410) The aforementioned also worsens economic indicators in Bosnia and Herzegovina. Data in the Table 1 shows change of some macroeconomic indicators for Bosnia and Herzegovina that confirm low economic development level and bad economic situation in the country.

Table 1

Macroeconomic indicators trend for Bosnia and Herzegovina (%)

	2007	2008	2009	2010	2011	2012	2013	2014	2015
GDP	+5,7	+5,5	-2,9	+0,8	+0,9	-0,9	+2,4	-1,1	+3,1
E.R.*	+1,5	+2,4	-0,5	-0,6	-0,6	-0,2	-0,1	+0,1	+0,2
U.R.**	-2,1	-5,6	+0,7	+3,1	+0,4	+0,4	-0,5	0	+0,2
A.R.N.S.***	+5,9	+11,1	+5,5	-1,1	-1,4	-0,8	-0,8	+0,1	-0,5
I.P.****	FBIH8,6	FBIH 7,9	-3,3	+1,6	+5,6	-5,2	+6,4	+0,1	+3,1
	RS1,4	RS16,8							
CPI	+1,51	+7,4	-0,4	+2,1	+3,7	+2,1	-0,1	-0,9	-1,0

Notes: *E.R-employment rate, **U.R. – unemployment rate, ***A.R.N.S – average real net salaries, ****I.P. – industrial production

Source: World Bank data and Annual Report of the Central Bank of Bosnia and Herzegovina, different editions

Personal consumption in Bosnia and Herzegovina makes a very big portion of the GDP. Therefore, it is necessary to monitor all data relevant to final household consumption. In order to provide statistically comparable data Agency for Statistics of BiH conduct The Household Budget Survey (HBS). The HBS is a national household based survey conducted every four years in BiH focusing on final consumption expenditure of household. The collected data are related to household expenditure for food and beverages, housing, furniture, clothing and

footwear, health, transportation, communication, recreation and leisure, culture and education as well as household income and investment and social inclusion of household members. The purpose of the HBS is to get data on the size and structure of household final consumption, their living conditions, living standard and poverty. In the Table 2 it can be seen data on size of consumption per capita and its share in GDP.

Table 2

Size of household final consumption per capita and its share in GDP

	Consumption per capita (\$)	% of GDP
2007	3,724.21	82,30
2008	3,931.33	82,83
2009	3,753.05	80,47
2010	3,759.57	81,66
2011	3,761.13	81,40
2012	3,736.28	80,88
2013	3,740.49	79,71
2014	3,827.97	80,99
2015	3,625.89	78,66

Source: World Bank data, World Bank Open Data 2007-2015, made by author

Comparing data in this two tables it can be seen that in 2007 and 2008 presented indicators for Bosnia and Herzegovina are not so bad. In 2007 Bosnia and Herzegovina economy continues to grow without worsening macroeconomic indicators. Increase of household final consumption was financed by increase of salaries and supported by employment rate increase. Share of household final consumption in GDP in 2007 was 82,30%. At the beginning of 2008 financial crisis that hit the world did not yet show effects in Bosnia and Herzegovina whose domestic economy was still relied on domestic consumption. During 2008 consumption per capita as well as share of consumption in GDP increased, that was stimulated by large increase of salaries (especially in the public sector), large amounts of new loans and received remittances from abroad. At the end of 2008 the banking sector of Bosnia and Herzegovina has suffered a strong impact by spreading the effects of global financial and economic crisis due to withdrawal of deposits and worsened conditions for foreign borrowing. This had effect on decrease of availability of loans and decrease of personal consumption. But due to large increase of salaries in public sector at the end of 2008 there was increase of consumption per capita and its share in GDP that was 82,83%. During 2009 indicators in Bosnia and Herzegovina have changed a lot due to recession movements. Affected by decrease of employment and slowdown of economy (decrease of industrial production of -3,3%) and slowdown of salaries increase consumption also decreased what can be seen in the Table 2. In 2009 the prices indicated by CPI index decreased for -0,4 that was the first decrease after few years. The highest fall was in the category of transportation caused by fall of oil prices, food and beverages and education. In 2010 there was a light increase of consumption, consumption per capita and its share in GDP.

Unfortunately, the larger increase was not possible due to decrease of real salaries (of -1,1%) and increase of unemployment (+3,1%) that had affect on decrease of disposable income and purchasing power of population. During 2011 and 2012, after short recovery at the begining, stagnation and slowdown of economic movements continued. The fall of industrial production and salaries also continued as well as increase of unemployment that had affect on low purchasing power of the population and decrease of household final consumption. While disposable income and purchasing power of the population decreased prices have risen. In 2010, 2011 and 2012 the CPI index has risen for 2,1%, 3,7% and 2,1% respectively. The prices of transporation, food and beverages, alcoholic beverages and tobacco have especially risen. During 2013 and 2014 there was a light recovery of the economy. Consumption and consumption per capita have almost stagnated in 2013, while in 2014 there was certain increase of aforementioned indicators. Other economic indicators also shown stagnation or light recovery. Floods that hit Bosnia and Herzegovina in 2014 had significant impact on household consumption in Bosnia and Hrezgovina that in 2014 was, due to mentioned, mostly determined by expenditures for existential needs. In this period prices measured by CPI index started to decrease. Due to slow recovery of the economy and salaries stagnation the household final consumption could not grow significantly and its share in GDP is reduced as it can be seen in Table 2.

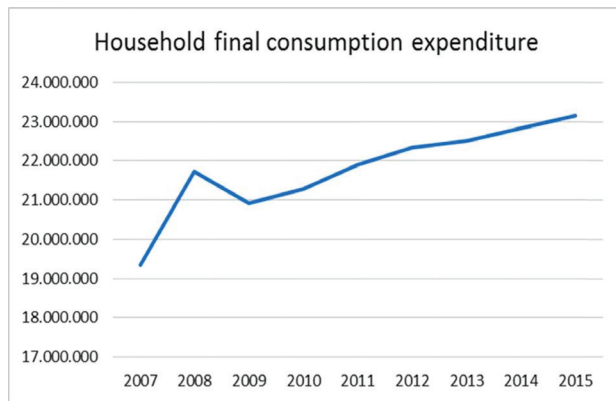


Figure 1 Household final consumption in Bosnia and Herzegovina 2007-2015
 Source: Agency for Statistics of BiH, Annual Reports of national accounts, GDP by expenditure approach, various editions, made by author

Trend of household final consumption expenditures is shown in the Figure 1. It can be seen increase of consumption in 2008 caused by large increase of salaries and decrease of unemployment. In the period from 2009 to 2015 the consumption in general has stagnated or has risen very little. The larger grow was not possible due to bad situation in Bosnia and Herzegovina economy, stagnation of incomes and decrease of employment rate, poor living standard

and purchasing power. During this period prices have also changed as it can be seen from the CPI index in the Table 1. After few years of constant increase of the prices, for the last four years there was decrease of prices in Bosnia and Herzegovina, that is characterized as deflation movements. As prices changed also expenditures for certain goods changed as well as their share in household final consumption. The mentioned can be seen in the Table 3.

Table 3

Expenditures structure in household final consumption (%)

COICOP	2007	2008	2009	2010	2011	2012	2013	2014	2015
01	33,72	35,03	34,52	32,92	32,99	33,34	33,27	32,49	32,25
02	5,69	5,13	5,84	6,91	7,28	7,87	8,34	8,81	9,31
03	5,16	5,07	4,57	4,44	4,51	4,28	4,40	4,63	4,69
04	14,35	13,44	14,58	14,61	14,47	14,48	14,49	14,15	14,21
05	8,10	7,74	6,34	6,25	5,97	5,95	5,89	6,18	6,12
06	4,37	4,52	4,74	4,48	3,92	3,99	3,91	4,00	4,09
07	8,89	9,08	8,75	9,32	9,67	9,48	9,36	9,52	9,13
08	2,83	2,93	3,06	3,03	3,19	3,18	3,13	3,12	3,02
09	5,13	5,26	4,82	4,64	4,75	4,56	4,63	5,00	4,93
10	1,35	1,35	1,44	1,42	4,16	1,44	1,41	1,43	1,43
11	7,10	6,71	6,74	7,09	7,17	7,12	7,03	6,93	7,32
12	7,38	7,55	7,82	7,83	7,85	7,73	7,88	7,58	7,68

Notes: 01-Food and beverages; 02-Alcoholic beverages, tobacco and narcotics; 03-Clothing and footwear; 04-Housing, water, electricity and other fuels; 05-Furnishings, household equipment and routine household maintenance; 06-Health; 07- Transport; 08-Communication; 09-Recreation and culture; 10-Education; 11-Restaurants and hotels; 12-Miscellaneous goods and services.
Source: Agency for Statistics of BiH, Annual Reports of national accounts, GDP by expenditure approach, various editions, made by author

When observing data during this period of time the structure of expenditures has not changed significantly. Expenditures for certain categories have changed as prices of these goods and services changed. It can be seen from the Table 3 that the largest share in household final expenditures are of food and beverages (it is over 30% of expenditures in observed period) and housing, water, electricity and other fuels. According to this and other data from the Table 3 it can be said that the largest share of household final consumption and its expenditures are consumption and expenditure for existing needs. One thing that is even more worrying is that a large amount of consumption is financed by consumer credits and credit card borrowing due to low purchasing power and low living standard. The Table 5 shows bank receivables from household by type of borrowing.

Table 4

Bank receivables from household by type of borrowing(%)

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Bank loans	81,8	93	91	91	82,3	81,8	82,1	81,1	90,6
Consumer loans	68,5	68,3	67,3	81,8	78,6	78,5	80	ND*	ND
Credit cards	7,7	6	5	7	7	7,4	7,3	7,9	7,4

Notes: ND-no data available

Source: Central Bank of Bosnia and Herzegovina, Report on financial stability, various editions, made by author

The largest part of receivables is from bank loans and thereat from loans for general consumption. It can be seen that loans for general consumption make 60 percent of total bank loans to households. Data on loans for general consumption in the period 2014-2015 are not available but it can be addressed that receivables from bank loans are still the highest. Having in mind bad economic situation in the country and poor living standards it can be assumed that consumer loans still make the largest share of total bank loans to households. When taking into account receivables from credit cards, it can be seen that those receivables have also risen. Population of Bosnia and Herzegovina uses aforementioned types of borrowing to finance its expenditures and obligations.

When comparing data for Bosnia and Herzegovina with the data on countries of the region (some of those countries are on the same economic development level as Bosnia and Herzegovina) and EU it is seen that Bosnia and Herzegovina is significantly in unfavorable position regarding consumption and its share in GDP. The following Figure 2 shows consumption movements and its share in the countries of the region and in EU in comparison to Bosnia and Herzegovina.

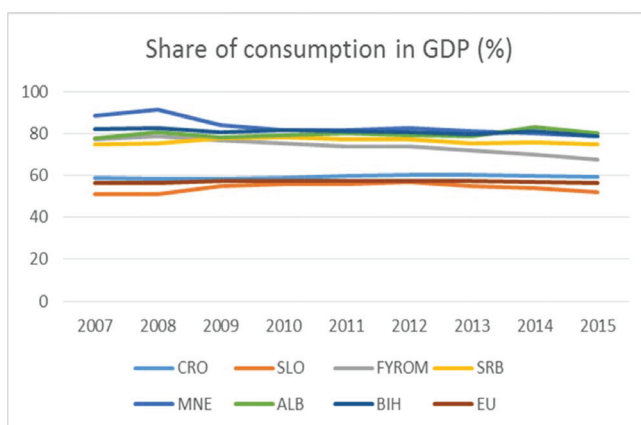


Figure 1 Share of consumption in GDP (%)

Source: Agency for Statistics of BiH, World Bank Open Data, EUROSTAT, made by author

It can be seen from the Figure that household final consumption share in GDP in Bosnia and Herzegovina is similar like in other countries that are on the similar economic development level with around or above 80% of consumption in GDP. This is confirmation that high share of household final consumption in GDP is characteristic of countries at low level of economic development with poor living standard and purchasing power, where the most expenditures for consumption are for existing needs. The same can be seen when using data on structure of consumption by purpose in the Table 5.

Table 5
Structure of consumption by purpose (2014)

	01*	02	03	04	05	06	07	08	09	10	11	12
EU	12,4	4,0	4,9	24,5	5,4	3,9	13	2,5	8,4	1,1	8,3	11,6
CRO	29,5	3,3	6,7	16,3	4,5	3,0	13	5,5	5,9	1,1	2,7	8,5
SLO	15,4	5,6	5,2	18,6	5,2	3,9	16,2	3,3	8,5	1,3	6,9	10
SRB	25,7	6,9	3,3	22,1	3,8	4,2	12,6	4,6	6,2	1,3	2,2	7,1
ALB	44,3	3,6	5,1	10,2	5,4	4,8	6,8	3,3	3,1	4,2	3,2	6
FYROM	37,2	3,0	5,1	15	3,9	3,4	5	3,4	3,5	0,3	2,9	4,0
MNE	25,7	5,9	5,3	17,2	10,7	2,8	10,9	5,3	4,6	1,5	2,0	5,7
BIH	32,5	8,8	4,6	14,1	6,2	4	9,5	3,1	5	1,4	6,9	7,6

Notes: Categories of consumption by purpose are explained in the Table 3

Source: Agency for Statistics of BiH, EUROSTAT, Croatian Bureau of Statistics, State Statistical Office of the Republic of Macedonia and Institute of Statistics Albania

It can be seen from the Table 5 that expenditures for recreation and other needs other than existing needs make one significant part of final household consumption in countries of higher economic development level. In countries at low economic development these expenditures are still considered to be expenditures for luxury that are not available to the population with poor purchasing power and low living standard.

3. CONCLUSIONS

According to data of macroeconomic indicators represented in this paperwork it can be seen that Bosnia and Herzegovina is country at low economic development level. The consumption makes more that 70 percent of GDP that also indicate poor economic development. The highest amounts of household final consumption expenditures are for basic existing needs. Low level of salaries and their stagnation for the longer period of time as well as high unemployment rate have affected weakening of purchasing power and poor consumption and in the end low domestic demand. In the time of the highest impact of financial crisis the most countries in the world tried to increase the consumption to recover economies. Hence, the consumption is often characterized as one of driving forces of economy but provided that industrial production, employment

and salaries are increased and GDP should rise 5 percent per year. In the case of Bosnia and Herzegovina these indicators are way from necessary values. Poor domestic consumption and demand in Bosnia and Herzegovina are still limiting factors of economic activity in Bosnia and Herzegovina and risk of domestic macroeconomic environment. One additional problem is that in the case of Bosnia and Herzegovina, one significant part of domestic consumption and demand is satisfied from the foreign trade deficit (import) that even more jeopardize small open economy like.

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