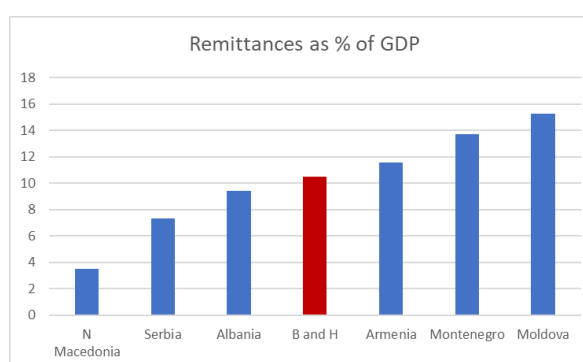
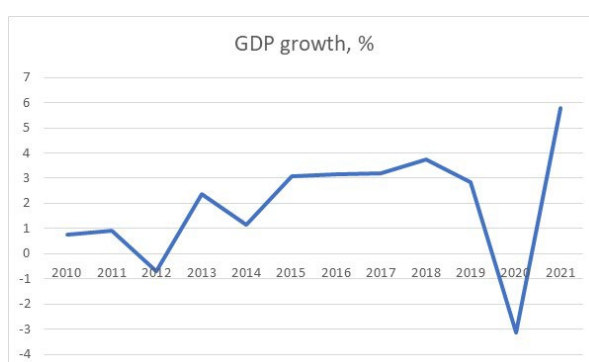


BOSNIA AND HERZEGOVINA Country brief

Economic Overview

A complex institutional set up leads to economic fragmentation

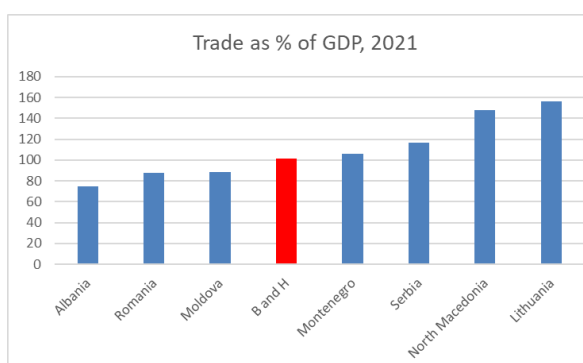
Bosnia and Herzegovina has a very complicated and decentralized government structure, which makes governance difficult. Leaving aside the contraction and rebound following the COVID-19 pandemic in 2020-21, the economy expanded at an accelerated rate during 2010-2019. However, the average annual growth of around 2% over this period is rather modest for what could be expected for a country at its income level. Services represent around 60% of GDP and employment. Tourism is still recovering from the impact of the pandemic but has become increasingly important. Agriculture remains a significant sector, accounting for around 10% of employment. The labour market is characterised by low employment and activity rates, with migration bringing large remittances inflows.



Source: IMF, World Bank

Regulatory changes would facilitate further integration in the world economy

Given the small size of the economy, openness and regional cooperation are important for economic dynamism. In addition, Bosnia and Herzegovina enjoys a favorable geographic position as a transit point. However, the quality of infrastructure is low and regulatory shortcomings constrain economic activity and lead to comparatively low trade openness. Raw materials and low added value goods dominate exports. Participation in global value chains is limited, restricted to assembling final products.

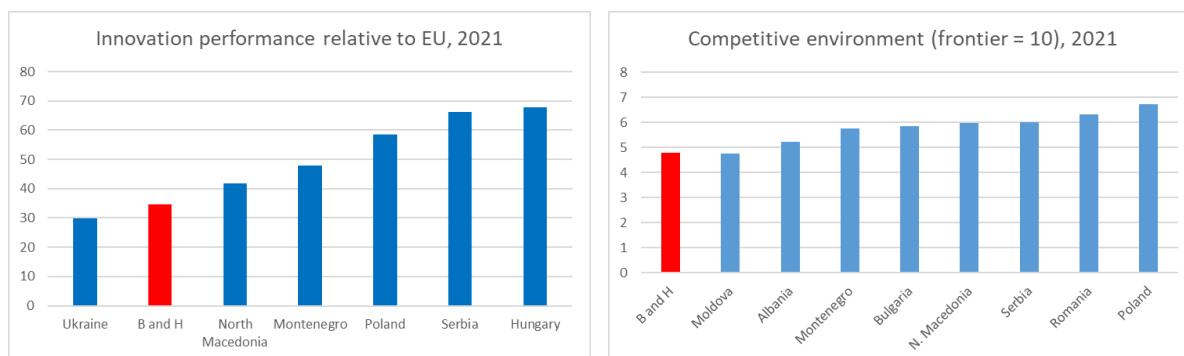


Source: World Bank Development Indicators

A difficult business environment and low productivity

Regional comparisons of the business environment are pretty unfavourable, given the complexity of the institutional set up and regulatory deficiencies. While informal activities are widespread, the public sector has a significant influence on the economy, accounting for around one quarter of total

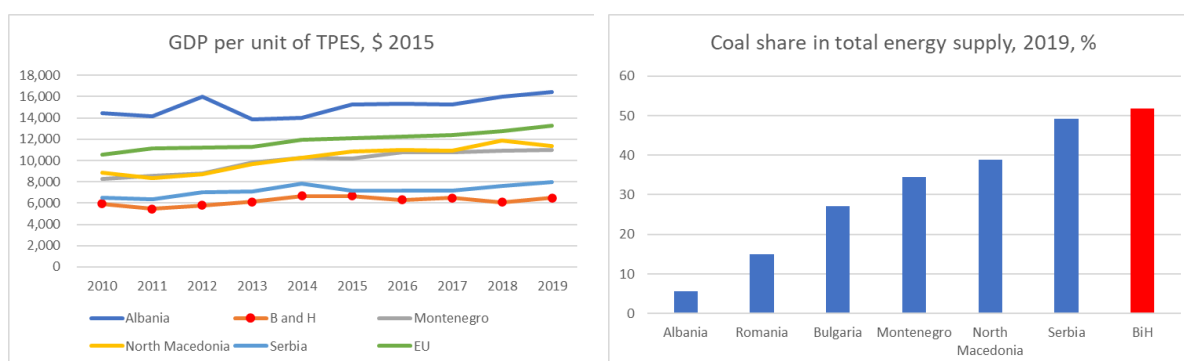
paid employment. SMEs are a major source of employment but have to cope with a challenging context and the competition created by the informal economy. Innovation performance vis-à-vis the EU is low and has deteriorated in recent years.



Source: EU Innovation Scoreboard, EBRD

Reliance on coal creates health and environmental problems

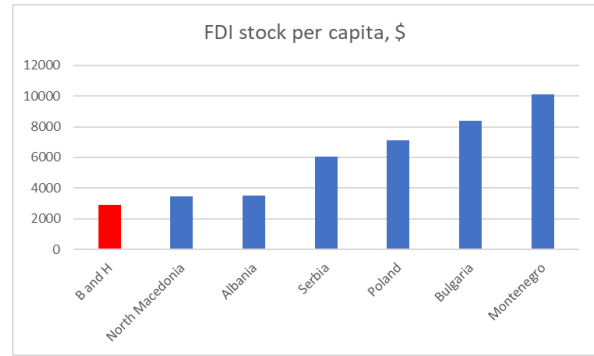
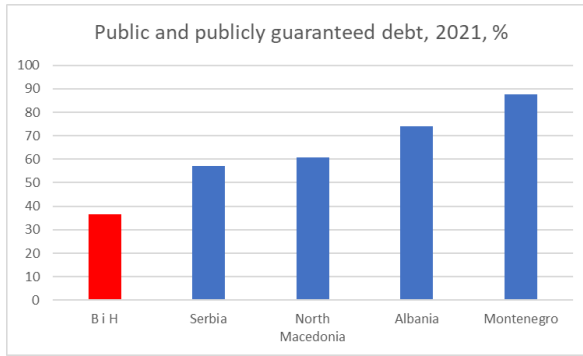
Energy efficiency is the lowest in the West Balkans region while the energy mix is a source of environmental problems. Coal accounts for around half the total energy supply, playing a key role in energy generation. This is a source of air pollution, with large emissions of sulphur dioxide. Moving away from coal poses challenges, given the importance of local mining. While solar and wind power are negligible, hydropower accounts for around one third of electricity generation, with renewables representing close to 40% of energy consumption. Waste management remains problematic.



Source: IEA; SDG UNECE database

Public finances make possible increasing investment, but private engagement is limited

Support provided in response to the COVID-19 crisis boosted public debt, which nevertheless remains moderate, being by far the lowest among West Balkan countries as percentage of GDP. While imbalances have been comparatively constrained, public expenditures in relation to GDP are large. The ability to attract external private financing is limited, with the country displaying the lowest FDI stock per capita in dollar terms, although it has been able to raise debt funding. By contrast, net ODA is significant, representing an annual average of 2.3% of gross national income over the last five years.



Source: World Bank, UNCTAD