

BOSNIA AND HERZEGOVINA

# Country Economic Memorandum

## Two Decades of Growth and Relative Success

Bosnia and Herzegovina has experienced a period of macroeconomic stability and growth over the last 20 years. The country became an EU member candidate and has transitioned from a low-income status in 1999 to an upper middle-income status by 2010, reflecting a steady growth trajectory.

During this period, there has been a visible shift in employment away from the traditional agricultural sector, indicative of the country's evolving economic landscape. This transition has been supported by prudent fiscal policies, which have contributed to maintaining a relatively low public debt ratio. BiH has made strides in improving its external current account deficit, reaching a record low of 2.5 percent of GDP in 2021.

While BiH has surpassed its regional peers in per capita real GDP growth, it's important to note that this trend is mainly influenced by significant outmigration rather than solely higher output growth rates, which have been stagnant over the past 15 years.

## Deep Challenges – Structural Reforms

Despite achievements, Bosnia and Herzegovina faces challenges in converging satisfactorily with the EU. Real GDP growth in BiH has consistently trailed behind its structural and aspirational peers, such as the Baltic countries, Slovakia, and Moldova. As measured by real per capita expenditure, living standards have remained at 40 percent of the EU27 average for the past 15 years. While some regional peers have made strides in narrowing this gap, BiH's progress has been limited.

BiH's current growth and energy model cannot sustain growth, with trend real growth expected to halve to 1.5 percent in two decades. To turn this situation around, BiH would need to implement deep structural reforms soon. Otherwise, the prospect of achieving BiH's transition to a fully functioning market economy and EU membership remains distant.

To reverse this trajectory, BiH should start broad structural reforms to advance a more private sector-led and productive economy while reducing dependence on coal.

**1999**

low-income country

**2010**

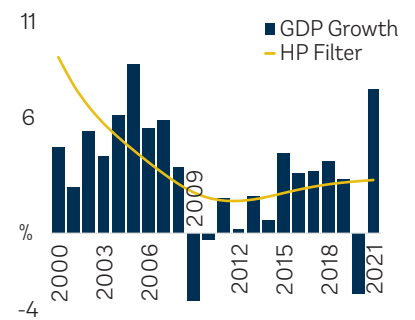
middle-income country

Current account deficit

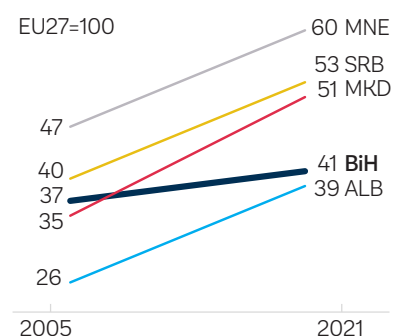
**2005** – 16% of GDP

**2021** – 2.5% of GDP

BiH's trend GDP growth has drifted downwards during the last 15 years...



Meanwhile, real per capita consumption in BiH has seen little convergence toward average EU27 level



These are the highlights from our latest Country Economic Memorandum

Access the full report [here](#).



# Charting The Path of Sustainable Growth

This report is intended to support governments by identifying the structural policies needed to overcome obstacles to economic growth. Its purpose is to propose actionable strategies to address these challenges, facilitating a smoother transition towards EU living standards.

The report offers 25 short- mid- and long-term measures, some of them listed below:

## 1. SOUND MACROECONOMIC MANAGEMENT AND DIGITALIZATION

**WHY** To improve fiscal policy dialogue, increase firms' efficiency and better inform planning in the labor market.

- HOW**
- Establish an independent Fiscal Body within the BiH Fiscal Council.
  - Promote digitalization in state, entity and Brčko District institutions.
  - Institutionalize central data sharing across governments on levels of staffing and remuneration practices.

## 3. UNLEASH FIRMS' PRODUCTIVITY POTENTIAL & EASE ACCESS TO FINANCE

**WHY** To reinitiate the transition to a market economy, raise the productivity of SOEs, enhance business entry and facilitate exports to the EU.

- HOW**
- Ensure a fair and equitable competitive environment for State-Owned Enterprises (SOEs) and private companies.
  - Reduce administrative barriers to business entry.
  - Facilitate exports to the EU by bolstering quality control at the BiH level to meet EU standards.
  - Develop policies and pilot financial instruments targeting specifically women-owned businesses.

## 2. LABOR MARKET DEVELOPMENT

**WHY** To improve coverage and targeting of social assistance, as well as incentives for work and enhance transparency in public sector hiring.

- HOW**
- Introduce Social Cards.
  - Reduce the tax wedge and revise unemployment benefits.
  - Reduce gap between good-quality public sector jobs vs. poor-quality private sector jobs.
  - Increase female labor force participation and introduce paid parental leave policies for men.

## 4. ENHANCE COMPETITIVENESS THROUGH ENERGY AND EXTRACTION POLICIES

**WHY** To increase renewable energy generation and expand availability, ensure power system reliability, comply with the EU directives, and ensure Just transition in coal-dependent regions.

- HOW**
- Strengthen existing grid infrastructure and add storage resources to ensure power system reliability.
  - Streamline licensing procedures for renewable energy production and expand the grid to expand renewable energy availability.
  - Implement an emissions trading system (ETS) or carbon tax to comply with EU energy directives.
  - Appoint the Nominated Electricity Market Operator to comply with EU energy directives.
  - Establish the power exchange and market coupling mechanisms to comply with EU energy directives.

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