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**COUNTRY
REPORT**

**Bosnia-
Herzegovina**

May 2018



European Union
European Social Fund

ΕΡΑνεΚ 2014-2020
OPERATIONAL PROGRAMME

COMPETITIVENESS • ENTREPRENEURSHIP • INNOVATION



Partnership Agreement 2014 - 2020

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1. General information

1.1 Geography

- Area: 51,210 km²

1.2 Population

- Total Population: 3,516,816
- Natural Increase: -0.5%
- Urban Population: 39.9%
- Population of main cities: Sarajevo (369,534) ; Banja Luka (150,997) ; Tuzla (80,570) ; Zenica (73,751) ; Mostar (65,286)
- Ethnic Origins: Bosnian about 50.11%, Serb about 30.78%, Croat about 15.43%, Other about 3.68%.
- Religion: Muslim 50.7%, Serbian Orthodox Christian 30.75%, Roman Catholic 15.19%, Agnostic or Atheist 1.1%, Others 2.26%

1.3 Language

- Official Language: Bosnian, Croatian, Serbian
- Business Language(s): English

1.4 Government

- Bosnia and Herzegovina is a parliamentary republic.
- As a 'compound' State, it is in line with the General Framework Agreement for Peace in Bosnia and Herzegovina (Dayton, Paris, 1995).
- It consists of two entities: the Federation of Bosnia and Herzegovina (51% of territory, majority of Croats and Bosnians) and the Republic of Srpska (49% of territory, Serbian majority).
- Another 'sub-entity' is the District Brcko that was the subject of disputes and international arbitration.
- Thus, Bosnia and Herzegovina has two entities plus the Brcko District.
- Current Political Leaders:
Chief of State: Mladen Ivanic (since 17 November 2016) - Bosnian Serb Party of Democratic Progress (PDP)
Head of Government: Denis Zvizdic (since 31 March 2015) - Party of Democratic Action

1.5 Currency

- Bosnian Mark (BAM)

Exchange Rate on May 04, 2018: 1 BAM = 0.5113 EUR, 1 EUR = 1.9558 BAM

2. Economy

2.1 General Overview

Since 1995, Bosnia and Herzegovina has been ruled under the Constitution that resulted from the Dayton Peace Agreement, which ended the inter-ethnic conflict of 1992-1995.

The conflict destroyed much of the Bosnian economy and infrastructure, increased unemployment and decreased production.

In 2005, Bosnia and Herzegovina began negotiations for its EU accession. The Stabilization and Association Agreement (SAA) with the EU was ratified and entered into force on 1 June 2015.

In February 2016, Bosnia and Herzegovina formally submitted its application to join the EU, however little progress has been made in this regard and the country is yet to receive an official candidate status, which was granted to Albania and Macedonia (FYROM) in 2014 and 2015.

In its post-conflict transition, major political, social and economic changes have been accomplished, particularly in banking, foreign direct investment and tourism.

GDP has followed an irregular pace in recent years, at a rate of 2.14% in 2013 (up from -1.2% in 2012), then 1.1% in 2014, 3% in 2015 and 2% in 2016. Growth was expected to have reached 3% in 2017 both according to Central Bank of BiH and World Bank estimates (2.5% according to the IMF World Economic Outlook).

The global economic crisis did not spare the country, despite the low level of integration of the Bosnian economy to international markets. The crisis highlighted the fragility of the country's public finances, manifested by the weight of public spending and the intensification of the current deficit following a reduction in remittances from the Bosnian global diaspora.

The economic structure is weak. The relatively small manufacturing base is concentrated on low-value-added products and the economy is dependent on emerging Eastern European markets, which account for around 50% of exports.

Bosnia and Herzegovina continues to receive EU and IMF macro-economic financial help packages and programs. In September 2016, the IMF passed a new three-year EUR 550 million loan to help the Government with its reforms. After disbursing EUR 79.2 million, the IMF decided to release another tranche of EUR 74.6 million in February 2018 (payouts were frozen in 2017) stating that the county has made progress in lowering internal and external imbalances and enhancing growth potential.

The domestic political complexities (likely to be exacerbated by general elections which are scheduled to take place in October 2018) as well the international situation, indicate modest growth during the forecast period.

The growth rate is expected to reach 3.2% in 2018 according to the World Bank (down from its initial forecast of 3.7%) and accelerate slightly to 3.4% in 2019 and 3.5% in 2020.

In particular, corruption and the high level of unemployment (20.5% in 2017, according to Labor Force Survey and IMF World Economic Outlook) are major hurdles to the country's economic development. Another major challenge is the current account deficit, as the country imports far more than it exports and has a large public sector. In addition, agriculture has largely been privatized thus increasing the net import of food products.

Main Indicators	2015	2016	2017	2018 (e)	2019 (e)
GDP (billions USD)	16.17	16.57	17.46e	18.56	19.45
GDP (Constant Prices, Annual % Change)	3.0	2.0	2.5e	2.6	2.7
GDP per Capita (USD)	4,187	4,298	4,540e	4,837	5,076
Inflation Rate (%)	-1.0	-1.1	1.8e	1.2	1.6

Table 1: Main Economic Indicators. Source: IMF – World Economic Outlook Database 2016

Strengths

- A currency board has helped to provide a stable exchange rate and fairly low inflation
- Foreign exchange reserves currently cover more than six months of imports

Weaknesses

- Persisting ethnic-nationalistic pressures. Highly ethnically fragmented government hinders efficient policymaking
- Widespread poverty and high unemployment
- Small manufacturing base concentrated on low-value-added products
- Main export destinations are other emerging Eastern European countries
- Continued large current account deficits

- High external debt burden
- High vulnerability to external shocks, including natural disasters

Structure of the Economy

The agricultural sector accounts for 7.8% of GDP (CIA World Factbook 2017 estimates) and nearly 20% of total employment, with wheat, fruits, vegetables, livestock and poultry being the main agriculture products.

The industry sector represents 26.8% of GDP (2017 estimates) and is estimated to have grown at a rate of 3% in 2017.

Bosnia and Herzegovina mainly produces raw material such as steel, coal, iron ore, lead, zinc and aluminum.

Additionally, wood is an important sector and export commodity.

Other important production sectors are mineral and chemical products, machinery, mechanical appliances, textile and footwear. However, the industry has been shrinking since the end of 2008 due to the global financial crisis and the subsequent fall in both domestic and European demand.

Although its production capacities have now been restored since the end of the Yugoslav Wars (1995-2001), the Bosnian economy continues to endure considerable structural difficulties.

Lastly, the service sector contributes 65.4% of GDP (2017 estimates). The most important service sector of the economy is trade, followed by business services, transport and construction.

Breakdown of Economic Activity By Sector	Agriculture	Industry	Services
Employment By Sector (in % of Total Employment)	18.0	30.4	51.7
Value Added (in % of GDP)	7.7	28.1	64.2
Value Added (Annual % Change)	7.6	4.4	2.0

Table 2: Economic Activity by Sector. Source: World Bank, 2016.

2.2 Taxation

- Company Tax : Profit Tax: 10%
- Withholding Taxes: Dividends: 5%, Interest:10%, Royalties: 10%
- VAT: 17%
- Social Security Contributions Paid By Employers: In the Federation of Bosnia and Herzegovina, the employer contributes 10.5% of the employee's gross salary to social security. In the Brcko District, the employer contributes 6% of the employee's gross salary to social security if the entity selected to follow the Federation of Bosnia and Herzegovina laws. If the entity is adhering by the Republic of Srpska, there is no employer contribution to social security.
- In the Republic of Srpska, the employer does not contribute to social security.

3. Trade Relations

3.1. General Overview

Bosnia and Herzegovina is open to foreign trade and is expanding its global partner network.

Its trade-to-GDP ratio is 88% (World Bank, latest estimates).

Custom duties are relatively low for most products, but various non-tariff barriers are in place. Anti-dumping and countervailing duties are sometimes imposed to protect the local industry if the price of merchandise is below the domestic market price or if it is subsidized.

Bosnia and Herzegovina seeks to attract higher foreign investment through Free Trade Zones within the country that allow investors to invest capital in specific areas, transfer their profits and re-transfer capital. Custom duties and tariffs are not payable on imports into these zones. Furthermore, equipment (except passenger vehicles, slot and gambling machines) imported as part of share capital is exempt from custom duties.

Bosnia and Herzegovina's trade balance is structurally in deficit, which reached EUR 3.62 billion in 2017 (EUR 3.44 billion in 2016) (Agency for Statistics of Bosnia and Herzegovina). Nonetheless, exports grew at a higher rate than imports in 2017 (17.4% as opposed to 12.2%), which helped improve coverage of imports by exports (61% in 2017 as opposed to 58.3% in 2016).

The country's main export partners were Germany (14.4%), Croatia (11.6%), Italy (11%), Serbia (9.9%) and Slovenia (8.8%) in 2017. Its main suppliers were Germany (11.6%), Italy (11.4%), Serbia (11.2%), Croatia (10.1%) and China (6.5%).

Foreign Trade Indicators	2012	2013	2014	2015	2016
Imports of Goods (<i>million USD</i>)	10,019	10,295	10,990	9,000	9,130
Exports of Goods (<i>million USD</i>)	5,162	5,687	5,891	5,100	5,327
Imports of Services (<i>million USD</i>)	506	498	526	483	485
Exports of Services (<i>million USD</i>)	1,725	1,768	1,832	1,640	1,702
Imports of Goods and Services (<i>Annual % Change</i>)	0.6	-0.3	7.7	0.7	7.0
Exports of Goods and Services (<i>Annual % Change</i>)	0.0	7.8	4.2	6.8	9.5

Table 3: Foreign Trade Indicators. Source: World Bank, 2015.

Main Customers (<i>% of Exports</i>)	2017
Germany	14.4%
Croatia	11.6%
Italy	10.9%
Serbia	9.8%
Slovenia	8.8%
Austria	8.1%
Turkey	3.7%
Montenegro	3.2%
Netherlands	2.3%
Hungary	2.3%

Table 4: Main Customers (% of Exports). Source: World Bank, 2015.

Main Suppliers (% of Imports)	2017
Germany	11.6%
Italy	11.4%
Serbia	11.2%
Croatia	10.1%
China	6.5%
Slovenia	5.0%
Russia	4.7%
Turkey	4.2%
Austria	3.4%
United States	3.2%

Table 5: Main Suppliers (% of Imports). Source: World Bank, 2015.

6.4 bn USD of products exported in 2017	
Seats, whether or not convertible into beds, and...	6.3%
Electrical energy	4.2%
Unwrought aluminum	3.2%
Wood sawn or chipped lengthwise, sliced or barked,...	3.2%
Furniture and parts thereof, n.e.s. (excl. seats...	3.0%
Footwear with outer soles of rubber, plastics,	2.8%
Insulated incl. enameled or anodized wire, cable...	2.4%
Parts and accessories for tractors, motor vehicles...	2.3%
Parts of footwear, incl. uppers whether or not...	2.0%
Structures and parts of structures e.g., bridges...	2.0%

Table 6: Main Products Exported. Source: Comtrade.

10.4 bn USD of products imported in 2017	
Petroleum oils and oils obtained from bituminous...	5.3%
Motor cars and other motor vehicles principally...	3.9%
Petroleum oils and oils obtained from bituminous...	3.2%
Coal; briquettes, ovoids and similar solid fuels...	2.5%
Medicaments consisting of mixed or unmixed...	2.4%
Electrical energy	1.7%
Leather further prepared after tanning or crusting...	1.2%
Transmission apparatus for radio-telephony,...	1.1%
Petroleum gas and other gaseous hydrocarbons	1.0%
Parts and accessories for tractors, motor vehicles...	0.9%

Table 7: Main Products Imported. Source: Comtrade.

4. Bilateral Relations

- Although Greece runs a surplus in its trade with Bosnia, there is a lot of room for improvement.
- Greece is Bosnia-Herzegovina's 18th most important trade partner.
- Greek products and services account for 1.1% of total imports in Bosnia-Herzegovina
- Greece is the number one exporting country to the Bosnia-Herzegovinian market in the category of aluminum and aluminum products.

Imports from Bosnia-Herzegovina	2014	2015	2016	2017
FOOD & LIVE ANIMALS	275,218	487,554	840,945	441,534
BEVERAGES & TOBACCO	:	14,821	:	387,102
CRUDE MATERIALS, INEDIBLE	874,776	230,807	444,760	2,058,121
MINERAL FUELS, LUBRICANTS	135,998	410,477	251,832	82,147
ANIMAL & VEGETABLE OILS, FATS	87,897	:	:	:
CHEMICALS & RELATED PRODUCTS	631,073	702,046	1,420,301	1,760,465
MANUFACTURED GOODS	8,925,073	8,552,328	4,538,004	4,422,002
MACHINERY & TRANSPORT EQUIPMENT	16,521	31,582	208,808	116,975
MISCELLANEOUS MANUFACTURED ARTICLES	185,853	196,825	210,539	2,159,561
OTHER COMMODITIES	:	:	:	2,878
TOTAL	11,132,409	10,626,440	7,915,189	11,430,785

Table 8: Greek Imports from Bosnia-Herzegovina. Source: Eurostat

Exports to Bosnia-Herzegovina	2014	2015	2016	2017
FOOD & LIVE ANIMALS	7,019,545	6,287,176	7,996,244	6,421,641
BEVERAGES & TOBACCO	1,388,912	848,422	223,604	198,703
CRUDE MATERIALS, INEDIBLE	42,617,085	42,038,600	37,463,934	48,684,238
MINERAL FUELS, LUBRICANTS	175	288,065	16,685	32,123
ANIMAL & VEGETABLE OILS, FATS	4,704	8,988	29,123	34,376
CHEMICALS & RELATED PRODUCTS	10,055,736	9,200,098	8,651,614	10,325,175
MANUFACTURED GOODS	9,404,452	8,702,471	7,658,651	7,795,155

MACHINERY & TRANSPORT EQUIPMENT	962,321	1,374,747	1,074,739	2,105,411
MISCELLANEOUS MANUFACTURED ARTICLES	544,550	597,735	912,190	4,040,962
OTHER COMMODITIES	359,381	317,270	444,228	394,627
TOTAL	72,356,861	69,663,572	64,471,012	80,032,411

Table 9: Greek Exports to Bosnia-Herzegovina. Source: Eurostat

5. Business Communication

5.1 Dress Code

- For Men - Formal suits and ties. Darker colors are the way to go.
- For Women - Dress suits are common (matching top and bottom)
- Business casual attire may be acceptable in certain industries.

5.2 Punctuality-Concept of Time

- People in BiH do tend to leave things to the last minute and so it can be challenging to get them to adhere to a deadline. Lots of coaxing may be needed in this regard. Punctuality too can slip a bit but not by a huge amount of time, at least not in the workplace.

5.3 Communication Style

- It is very helpful to make an effort to get to know someone if one wants to enter a business relationship with him/her. Even in policy discussions or meetings, it is best not to start off right away with the topic at hand. Some pleasantries exchanged first are expected.

6. Useful Contacts

Greek Embassy in Sarajevo

Address : Obala Maka Dizdara 1, 71000 Sarajevo

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Sources

International Organizations

- OECD: Global Economic Outlook, Economic Surveys
- World Economic Forum: Global Competitiveness Reports
- IMF: Country Information
- International Trade Center
- UNCTAD
- The World Bank
- World Trade Organization: Trade Policy Reviews
- European Commission: Market Access Database, Eurostat
- Fitch Group: BMI Research
- The Economist Intelligence Unit
- Global Affairs Canada: Country Insights
- Euler Hermes: Economic Research, Country Reports

Financial Institutions

- Eurobank: Export Gate
- Rabobank: RaboResearch
- Banco Santander: Santander Trade

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