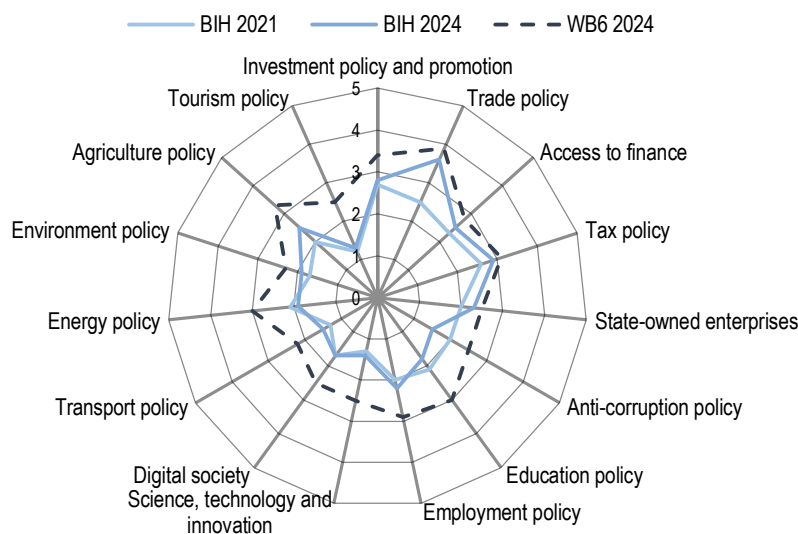


Executive summary

Bosnia and Herzegovina has positively, albeit slowly, advanced since the 2021 *Competitiveness in South East Europe: A Policy Outlook* (Competitiveness Outlook), progressing across 11 of the 15 policy dimensions, regressing in three and stagnating in one. Bosnia and Herzegovina showed the strongest score increases in the areas of trade and agriculture policies, with the remaining nine areas advancing marginally. However, Figure 1 illustrates that Bosnia and Herzegovina is performing below the average of the six Western Balkan (WB6) economies across all policy dimensions, with only state-owned enterprises (SOEs), tax, access to finance and trade policies nearing the average. Bosnia and Herzegovina is significantly lagging in the areas of digital society, agriculture, education and tourism policy, scoring below all of its Western Balkan neighbours, highlighting the areas requiring substantial improvement for achieving convergence with the European Union (EU). For additional insights into Bosnia and Herzegovina's performance across various dimensions, trends over time or comparisons with other economies, please refer to the Western Balkans Competitiveness Data Hub at westernbalkans-competitiveness.oecd.org.

Figure 1. Scores for Bosnia and Herzegovina across Competitiveness Outlook policy dimensions (2021 and 2024)



Note: Dimensions are scored on a scale of 0 to 5. See the reader's guide and the Data Hub for information on the assessment methodology and the individual score assigned to indicators.

StatLink  <https://stat.link/edpcrm>

Main progress areas

The main achievements that have led to increased performance for Bosnia and Herzegovina since the last assessment are as follows:

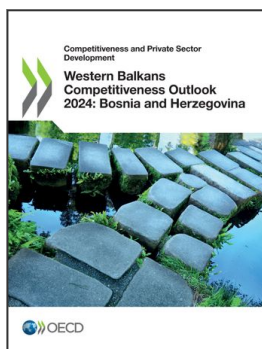
- Increased digitalisation has helped to facilitate trade. The roll-out of the New Computerised Transit System has streamlined operations and fostered efficiency in the customs process by enabling the electronic submission and processing of declarations. Such advances in efficiency have been bolstered by the improved legislative framework surrounding customs policy, which has further simplified related procedures. The introduction of an Authorised Economic Operators programme has been another good step towards creating a secure and efficient trade environment by encouraging businesses to adhere to security and compliance standards.
- The tax administration has been significantly strengthened. The e-filing of taxes has been progressively implemented for most taxes in both entities – the Federation of Bosnia and Herzegovina (FBiH) and Republika Srpska (RS). The frequency of e-filing system use has been steadily growing across both entities, with rates increasing to 64% in FBiH and 90% in RS. Both entities have also developed audit plans targeting large taxpayers. Risk-based selection strategies have improved compliance assessment and risk management in both entities, thereby improving the resource allocation of tax administrations.
- Strengthened legal and regulatory frameworks governing banking finance have increased businesses' access to finance. Both entities have advanced in aligning banking industry regulation with international standards, including the EU acquis, which has strengthened the reliability of bank finance supply for businesses in the economy. Loans from commercial banks to small and medium-sized enterprises (SMEs) account for around 45% of total loans in Bosnia and Herzegovina, exceeding the regional average. Both entities offer an array of policy schemes to bolster SMEs' access to bank finance, including designated credit guarantee schemes and credit lines. Such advances in the banking sector are crucial given that banks control 88% of total financial assets in the economy as of June 2022.
- Ongoing initiatives focusing on rural development support the productivity and competitiveness of the agriculture sector. Both entities have undertaken efforts to offer augmented policy support and financing to expand rural infrastructure, focusing on the road network as this is integral to supporting farmers' access to services and connection to markets. Irrigation and draining infrastructure have also been expanded and improved, although remain limited. Meanwhile, rural livelihoods have been improved by enhanced income generation capacities and living standards of rural populations, largely supported by several donor-funded projects. These projects have played a crucial role in supporting small rural agrifood businesses.

Policy insights

To further improve its competitiveness and boost its economic convergence with the EU and OECD, Bosnia and Herzegovina is encouraged to:

- Reinforce anti-corruption efforts. The perceived level of corruption in Bosnia and Herzegovina consistently remains above the regional average and has generally worsened in recent years. There is no overarching policy framework on anti-corruption for both state and entity levels, and limited resources and powers affect corruption prevention, investigative and prosecutorial bodies. Systems for the management of conflicts of interest, disclosure of assets, whistleblower protection and registration of beneficial ownership fall short of international standards. Only 20% of the public agrees that the government fights corruption successfully, the lowest in the Western Balkans.

- Accelerate efforts to establish necessary conditions for a well-equipped science, technology and innovation (STI) system. The policy framework guiding STI remains outdated in Bosnia and Herzegovina, with slow progress towards the development of an economy-wide smart specialisation strategy. The lack of effective policy co-ordination due to the constitutional set-up hinders the ability to leverage economies of scale. Implementation capacity remains limited and there are no dedicated agencies to implement targeted policy instruments. Investments into research and development (R&D) remain chronically low, and weak business-academia linkages, coupled with significant brain drain, result in low scientific research. Concerted and comprehensive efforts will be needed to strengthen the STI system.
- Improve the quality and relevance of education across all levels. Varying learning standards for students limits the capacity of government actors to assess learning outcomes across the entire education system. Limited participation in international assessments, such as the Programme for International Student Assessment (PISA), further hinders the ability of policy makers to develop valuable benchmarks for monitoring education performance. High youth unemployment and inactivity rates indicate deficiencies in the system's ability to equip youth with the necessary skills. Policies and mechanisms supporting teachers' professional development are underdeveloped, and the decentralised nature of pre-university education funding impacts the quality and equity of education, particularly in early childhood education and care.
- Strengthen policies to improve the competitiveness of the tourism sector. The tourism sector is experiencing a dynamic period, with significant growth over the past ten years. However, there are limited policies to capitalise on this growth. Efforts need to be increased to attract foreign direct investment and promote innovation in the sector, with a focus on diversifying the tourism offer. The lack of an economy-wide tourism brand identity, state-level tourism organisation and reliable data hinder Bosnia and Herzegovina from fully unleashing its potential. These issues are further compounded by the absence of a comprehensive framework for destination management, which limits co-operation across various administrative levels.



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