

1 Context

This chapter offers an overview of Bosnia and Herzegovina's economic developments since the Competitiveness Outlook 2021, focusing on the economic impact of recent external shocks and economic convergence. The chapter also examines the progress made and challenges encountered in achieving the Sustainable Development Goals. It also recaps the progress made towards EU accession, including the financial and development support provided by the EU for Bosnia and Herzegovina's accession efforts. Altogether, this sets the stage for an in-depth examination across 15 policy dimensions in the subsequent chapters, all necessary for sustaining economic competitiveness.

Economic context

Key economic developments

Bosnia and Herzegovina is a small upper-middle-income economy with a gross domestic product (GDP) of approximately EUR 24.9 billion as of 2023 (IMF, 2024^[1]; FRED, 2023^[2]). Services account for the largest share of the economy, contributing 54.4% to GDP, followed by industry, including construction, which accounts for 24.7% of GDP, while agriculture represents only 4.8% of GDP (World Bank, 2024^[3]). Meanwhile, 50% of employment is concentrated in services, while industry and agriculture comprise 33% and 17% of employment, respectively (ILO, 2024^[4]). The informal sector is estimated to account for 30.5% of employment as of 2019 (ILO, 2023^[5]).

Over the assessment period, Bosnia and Herzegovina's economy remained largely resilient, with growth projected to slow to 2.5% in 2024 (IMF, 2024^[6]) (Table 1.1). While its GDP declined by 2.9% in 2020, growth rebounded to 7.3% in 2021, decelerated rapidly to 3.8% in 2022, and further slowed to approximately 2% in 2023 (European Commission, 2024^[7]; IMF, 2024^[8]). On the demand side, growth has been primarily driven by domestic demand supported by higher real wages, policy support, tourism, and recovering private investment (IMF, 2024^[8]). Public and minimum wage increases to mitigate the impact of rising costs have supported domestic demand but also risk fuelling inflation (IMF, 2024^[8]). On the production side, recovery growth was mainly driven by trade, transport, accommodation, food and IT and communication services (European Commission, 2024^[7]). Tourism has also helped buoy the recovery, with figures reaching and even surpassing post-pandemic levels in the first eleven months of 2023 (World Bank, 2023^[9]).

Despite a peak of 14% in 2022, inflation has been moderate over the observed period and is projected to continue declining (IMF, 2024^[6]). As a result of the Russian Federation's full-scale invasion of Ukraine (Box 1.1), rising international food and energy prices drove inflation to a peak in 2022, which was felt particularly among poor and vulnerable households (European Commission, 2024^[7]; World Bank, 2023^[9]). As of 2023, inflation came down to 4.3%, owing to downward pressures from lower import prices, domestic currency appreciation, and monetary policy normalisation (IMF, 2024^[6]). Policy responses to mitigate the impact of rising prices have included agricultural subsidies (non-tax), personal income tax deductions (only in the Republika Srpska entity), and customs tariff reductions.

Amid challenging circumstances, the labour market shows signs of modest recovery, with unemployment declining to 15.4% as of 2022, below the pre-pandemic level of 15.7% in 2019 (European Commission, 2024^[7]). Labour force participation rates also increased, from 57.3% to 61.6% over the same period (ILO, 2024^[10]). Youth unemployment declined slightly from 38% in 2021 to 35% in 2022 – reaching pre-pandemic levels but remaining persistently high and reflecting structural problems (World Bank, 2023^[9]; European Commission, 2024^[7]). The increase in employment has also been accompanied by an increase in wages, with wage growth consistently rising in 2021 and 2022 by 6.3% and 8.2%, respectively (European Commission, 2024^[7]).

Bosnia and Herzegovina's external sector has made a strong recovery following the pandemic, mainly owing to its services exports. As of 2022, travel comprised 49.6% of services exports, while transport accounted for another 22.1% (UNCTAD Statistics Division, 2023^[11]). While total exports had declined significantly from 40% of GDP in 2019 to 34.6% in 2020, a strong upswing followed, with total exports recuperating to 42.6% of GDP in 2021 and growing further to 48.1% in 2022 (European Commission, 2024^[7]). Inward foreign direct investment (FDI) flows increased by 12.6% from 2021 to 2022, from EUR 496.2 million in 2020 to EUR 627.5 million, surpassing pre-pandemic levels (UNCTAD, 2023^[12]). As of December 2022, the Federation of Bosnia and Herzegovina accounted for 64.5% of total FDI, the Republika Srpska contributed 34.4%, and the Brčko District constituted 1.1% (FIPA, 2023^[13]). The top five historic investors in BiH are Austria, Croatia, Serbia, Slovenia, and Germany, representing 61% of total

FDI stocks. Personal remittances increased by 33% from 2020, reaching EUR 2.45 billion in 2022 (World Bank, 2024^[14]). Total reserves amounted to approximately EUR 8.2 billion in 2022, an increase from EUR 7.6 billion in 2020 (World Bank, 2024^[15]). As the Bosnia-Herzegovina Convertible Mark (BAM) remains pegged against the euro, its exchange rate has remained constant, at a rate of BAM 1.96 per euro (European Commission, 2024^[7]). However, its real effective exchange rate has increased slightly into 2022, owing to a rising positive inflation differential with its trade partners (European Commission, 2024^[7]). The current account deficit narrowed to 6% of GDP in 2022, with lower oil prices and higher investment income and remittances (European Commission, 2024^[7]; World Bank, 2023^[9]; IMF, 2024^[8]).

While the government's fiscal position has improved following the shock of 2020 due to more substantial tax revenues supported by a high inflation rate, its improved fiscal position is expected to be temporary. Following a negative government balance in both 2020 and 2021, at -5.2% and -0.3% respectively, Bosnia and Herzegovina's balance reached -0.4% in 2022 (European Commission, 2024^[7]). However, the fiscal deficit is expected to widen owing to increases in wages, pension outlays, and social benefits approved in 2023 (World Bank, 2023^[9]; IMF, 2024^[8]). Despite an increase in public debt in 2020, it decreased to 37.6% by 2021 and 31.5% by 2022, and is estimated to remain stable, though varying between the two entities (World Bank, 2023^[9]). In June 2023, Standard and Poor's raised the long-term local and foreign currency sovereign credit ratings on Bosnia and Herzegovina to "B+" from "B", which it has maintained as of February 2024 (S&P Global Ratings, 2024^[16]).

Bosnia and Herzegovina's financial sector has remained well capitalised and stable, though some policy-induced risks exist (IMF, 2024^[6]). Its capital adequacy ratio remained at 19.5% in the second quarter of 2023, well above the regulatory minimum of 12% (European Commission, 2024^[7]). Nonperforming loans decreased from 5.8% in 2021 to 5.4% in 2022 (World Bank, 2023^[9]). Lending rates have risen marginally, from 3.1% in 2020 to 3.4% in 2022, a rate that may not adequately reflect real credit risk (World Bank, 2022^[17]; IMF, 2024^[6]). Credit to the private sector has shrunk, declining from 1.3% in 2020 to -8.1% in 2022 (World Bank, 2023^[9]).

Table 1.1. Bosnia and Herzegovina: Main macroeconomic indicators (2019-22)

Indicator	Unit of measurement	2019	2020	2021	2022
GDP growth	% year-on-year	2.3	-2.9	7.3	3.8
National GDP	USD billion	20.48	20.23	23.65	24.47
Inflation	% average	0.6	-1.1	2.0	14
Current account balance	% of GDP	-2.6	-2.8	-1.8	-4.3
Exports of goods and services	% of GDP	40	34.6	42.6	48.1
Imports of goods and services	% of GDP	54.5	47.9	53.9	61.9
Net FDI	% of GDP	2.1	2	2.7	3
Public and publicly guaranteed debt	% of GDP	34.5	38.8	37.6	31.5
External debt	% of GDP	62.1	66.9	55.5	52.1
Unemployment	% of the total active population	15.7	15.9	17.4	15.4
Youth unemployment	% of total	34.1	37.1	35.3	31.9
International reserves	In months of imports of G&S	7.8	10	9.3	6.8
Exchange rate (if applicable, local currency/euro)	Value	1.96	1.96	1.96	1.96
Remittance inflows	% of GDP	11.4	9.5	10.5	10.5
Lending interest rate	% annual average	3.3	3.1	3.2	3.4
Stock markets (if applicable)	Average index	772	769	870	1 009

Note: G&S = goods and services.

Sources: European Commission (2024^[7]); World Bank (2022^[18]; 2022^[19]); World Bank (2023^[9]); EBRD (2023^[20]); IMF (2024^[21]); UNCTAD (2024^[22]).

Box 1.1. Economic impacts of Russia's full-scale invasion of Ukraine on Bosnia and Herzegovina's economy

The economic fallout from Russia's war of aggression against Ukraine, which provoked rising inflation globally and in Europe, led to moderate consequences for Bosnia and Herzegovina's economy. Inflationary pressures from rising energy prices spilt over into the economy, reaching a peak inflation rate of 14% in 2022. Moreover, since February 2022, 213 Ukrainian nationals have remained in Bosnia and Herzegovina, 41 of whom have claimed asylum status (UNHCR, 2024^[23]).

Bosnia and Herzegovina's trade sector has been minimally affected overall, as trade with both Russia and Ukraine comprises a small amount of its total trade. As of 2022, Russia accounted for only 0.3% of exports and 1.6% of BiH's imports (United Nations, 2024^[24]). Russia's total trade value with Bosnia and Herzegovina declined in 2023, owing to a drastic reduction in the value of imports. Exports increased by 2% from 2022 to 2023, from EUR 50 million to EUR 52.2 million. Bosnia and Herzegovina primarily exports medicaments, apples and pears, and refined petroleum to Russia (United Nations, 2024^[24]). Meanwhile, imports from Russia, which mainly consist of petroleum gas, raw aluminium and coal, decreased by 30% from EUR 337.9 million to EUR 236.4 million between 2022 and 2023 (United Nations, 2024^[24]). Before Russia's full-scale invasion of Ukraine in 2022, total Russian **investment** in Bosnia and Herzegovina accounted for less than 4% and was primarily focused on banking, energy and real estate (Ruge, 2022^[25]). Shortly after the outbreak of war, authorities in Bosnia and Herzegovina expelled Russian banks and sold subsidiaries of Sberbank, Russia's largest lender, due to the bank's significant cash outflows.

Trade relations with Ukraine, which represent less than 0.1% of the economy's total trade value, have also been impacted since the start of the conflict. Exports to Ukraine nearly doubled from 2021 to 2022, increasing from EUR 4.4 million to EUR 8.05 million, and increased by 8% thereafter to EUR 8.73 million in 2023 (United Nations, 2024^[24]). Meanwhile, imports from Ukraine totalled EUR 30.1 million in 2021, peaked at EUR 60.3 million in 2022 and fell to EUR 31.3 million in 2023 (United Nations, 2024^[24]).

Bosnia and Herzegovina's direct energy needs were moderately impacted, as Russia is the main source of its natural gas imports. The cost of household electricity rose by a mere 3% from the start of 2020 to the end of 2022, as Bosnia and Herzegovina can fulfil domestic demand through hydroelectric generation (EBRD, 2022^[26]). However, the cost of gas for household consumers rose by 60% over the same period (Eurostat, 2024^[27]). As Bosnia and Herzegovina's energy sector is managed primarily at the entity level, the economy has had a split approach regarding its energy imports of gas since the conflict, leading to a temporary stalemate in efforts at infrastructure expansion. For the Federation of Bosnia and Herzegovina, plans are under way to develop the South Interconnection Gas Pipeline through Croatia, which would supply Bosnia and Herzegovina with gas from a liquefied natural gas (LNG) terminal on the Croatian island of Krk, increasing the diversification of natural gas. Meanwhile, Republika Srpska aims to increase its gas imports exclusively from Russia by constructing the New Eastern Interconnection gas pipeline, facilitating the transportation of Russian gas through Serbia.

Sustainable development

Bosnia and Herzegovina has made moderate progress towards reaching the targets of the 2030 Agenda for Sustainable Development over the assessment period; implementation and monitoring strategies show room for improvement (Sachs et al., 2023^[28]) (Table 1.2) As of 2023, Bosnia and Herzegovina achieved or is on track to reach 44.3% of its target indicators and has made limited progress in 31.1% of indicators, while performance has regressed across 24.6% of indicators. Bosnia and

Herzegovina officially endorsed the 2030 Sustainable Development Goal (SDG) Agenda in September 2015. They developed the SDG Framework for Bosnia and Herzegovina in December 2020, formally adopted by the Council of Ministers in 2021 (UNDP, 2020^[29]). The lead government unit responsible for overall monitoring and reporting on the implementation of the SDGs Framework is the Interministerial Council for the Implementation of the SDGs in Bosnia and Herzegovina, which also co-ordinates the preparation of annual reports and Voluntary National Reviews (VNR) for the United Nations (UNDP, 2020^[29]). Despite these efforts, however, the government has not yet mainstreamed SDGs into its national and sectoral plans and has yet to incorporate SDG tagging into national budgeting practices (Sachs et al., 2023^[28]; UNDP, 2023^[30]). While no national indicators have been enumerated, there is online reporting on official SDG indicators (Sachs et al., 2023^[28]). According to the latest VNR in 2023 (the first being in 2019), co-ordination and integration of policies, as well as monitoring of SDG indicators, remain especially challenging given the highly decentralised structure of the economy (Government of Bosnia and Herzegovina, 2023^[31]).

Table 1.2. Bosnia and Herzegovina’s progress towards achieving the SDGs (2023)

SDG	Current assessment	Trends
1 – No poverty	SDG achieved	On track or maintaining SDG achievement
2 - Zero hunger	Significant challenges	Moderately improving
3 – Good health and well-being	Significant challenges	Moderately improving
4 – Quality education	Significant challenges	Information unavailable
5 – Gender equality	Significant challenges	Moderately improving
6 – Clean water and sanitation	Significant challenges	Stagnating
7 – Affordable and clean energy	Significant challenges	Moderately improving
8 – Decent work and economic growth	Significant challenges	Moderately improving
9 – Industry, innovation and infrastructure	Significant challenges	Moderately improving
10 – Reduced inequalities	Significant challenges	Information unavailable
11 – Sustainable cities and communities	Major challenges	Stagnating
12 – Responsible consumption and production	Significant challenges	Stagnating
13 – Climate action	Significant challenges	Stagnating
14 – Life below water	Challenges remain	Moderately improving
15 – Life on land	Significant challenges	Moderately improving
16 – Peace, justice and strong institutions	Significant challenges	Stagnating
17 – Partnerships for the goals	Challenges remain	Moderately improving

Note: The order of progress (from greatest to least) is as follows: SDG achieved; challenges remain; significant challenges; major challenges. Source: Sachs et al., (2023^[28]).

Bosnia and Herzegovina achieved or has maintained the achievement of the SDGs in only one area, poverty (SDG 1), and is nearing achievement in the protection of marine life (SDG 14) and partnerships for the goals (SDG 17). Despite the challenges wrought by the pandemic and the energy crisis that affected the most vulnerable, the economy’s performance in terms of poverty reduction remains in line with SDG achievement. Considerable improvements have been made in the aforementioned areas of SDG 14 and SDG 17 since 2021, supporting advancements in their achievement. Meanwhile, progress has generally been moderate across most SDG areas, and information was insufficient regarding progress made in the areas of education (SDG 4) and reduction of inequalities (SDG 10) (Sachs et al., 2023^[28]).

Progress has been most positive in the areas of nutritional well-being (SDG 2); health (SDG 3); gender equality (SDG 5); affordable and clean energy (SDG 7); economic growth (SDG 8); industry, innovation and infrastructure (SDG 9); and protection of terrestrial life (SDG 15). However, progress in these areas remains insufficient to achieve the goals (Sachs et al., 2023^[28]). Rising obesity rates and

low vaccination rates continue to hinder progress in nutritional well-being and health (SDGs 2 and 3). Persistently high levels of CO₂ emissions from fuel combustion and limited access to clean fuels and technology for cooking among the population impede further improvement in clean energy (SDG 7). Progress in economic growth (SDG 8) was limited owing to persistently high unemployment, while low levels of expenditure in research and development inhibited the advancement of industry, innovation and infrastructure (SDG 9) (Sachs et al., 2023^[28]). Bosnia and Herzegovina continues to have a low mean percentage area of protected biodiversity areas, posing a hindrance to protecting terrestrial life (SDG 15).

Performance has been flagging in the areas of clean water and sanitation (SDG 6), responsible consumption and production (SDG 12), and climate action (SDG 13), with the most significant gap in sustainable communities (SDG 11). Minimal improvement in the availability of essential drinking water and poor wastewater treatment rates contribute to the lagging performance in the area of clean water and sanitation (SDG 6) (Sachs et al., 2023^[28]). Ongoing high emissions levels in production processes and imported products hinder progress in responsible consumption and production (SDG 12) and climate action (SDG 13). While 2030 target levels have been met about the proportion of the urban population living in slums, significant challenges remain in achieving sustainable cities and communities (SDG 11), particularly in reducing air pollution and improving access to piped water, transport and other services.

EU accession process

Bosnia and Herzegovina's EU accession process began in June 2006 with the signing of its Stabilisation and Association Agreement (SAA). The SAA entered into force in June 2015, and Bosnia and Herzegovina submitted its application for EU membership in February 2016. In October 2019, the European Commission outlined 14 critical priorities for Bosnia and Herzegovina to fulfil to be ready for the opening of accession negotiations, which focus on the areas of democracy and functionality of the state, the rule of law, fundamental rights and public administration reform. In February 2020, the European Commission set out its revised enlargement methodology, which places an even stronger focus on the fundamentals of the accession process proposed by the EU and emphasises credible fundamental reforms, stronger political steer, and the increased dynamism and predictability of the process (European Commission, 2021^[32]). Along with the revised methodology, the Commission adopted an Economic & Investment Plan to support and bring the Western Balkans closer to the EU.

In December 2022, Bosnia and Herzegovina was granted EU candidate status, catalysing positive momentum, including steps towards fulfilment of the key priorities outlined by the European Commission. In November 2023, the EC issued its recommendation for the opening of accession negotiations, contingent upon achieving the necessary degree of compliance with the Membership criteria, which the European Council approved in December 2023. On 12 March 2024, the European Commission issued its formal recommendation for opening negotiations. Opening was then approved at the European Council meeting on 21 March 2024 (European Council, 2024^[33]). While chapters on EU accession are not yet open for the economy as the negotiation procedures have not yet commenced, the status of Bosnia and Herzegovina's implementation of each criterion is being assessed annually.

According to the latest enlargement report, Bosnia and Herzegovina has made significant positive developments within particular reform areas since it gained a candidate (European Commission, 2023^[34]). Regarding the fundamentals of the accession process, Bosnia and Herzegovina has made significant reforms, such as its adoption of the law on the prevention of conflicts of interest and the law on anti-money laundering and countering terrorist financing. It has also taken significant steps towards improving the judiciary and prosecutorial system, the fight against corruption, organised crime, terrorism, and migration management, with the approval of a mandate to negotiate a Frontex status agreement¹ (European Commission, 2023^[34]). The legislative and institutional framework on fundamental rights is largely in place, though significant reforms are still needed to ensure equal access to voting rights and

quality education. Meanwhile, newly proposed laws that reintroduce criminal penalties for defamation in Republika Srpska threaten freedom of expression and freedom of the media (European Commission, 2023^[34]). Bosnia and Herzegovina has reached and continues to maintain full alignment with the EU Common Foreign and Security Policy (European Commission, 2024^[35]).

In terms of economic criteria, Bosnia and Herzegovina is still in the initial stages of developing a functional market economy and falls between an early stage and a certain level of readiness regarding its ability to handle competitive pressure and market forces within the EU (European Commission, 2023^[34]). It has made limited progress in the former, with economic performance remaining below its potential amid a fragmented internal market and limited economic reforms. Key impediments regarding its capacity to cope with competitive pressure and market forces in the EU lie in continued underperformance in the quality of education and green and digital transition, as well as low total trade volumes with the EU relative to its total trade potential.

On 8 November 2023, the European Commission adopted a new Growth Plan for the Western Balkans to improve the level and speed of convergence between the Western Balkans and the EU (European Commission, 2023^[36]; European Commission, 2023^[37]). Backed by EUR 6 billion in non-repayable and loan support, the Growth Plan has the potential to boost socio-economic convergence and bring the WB6 closer to the EU single market (Gomez Ortiz, Zarate Vasquez and Taglioni, 2023^[38]). The new Growth Plan is based on four pillars, aimed at:

1. “Enhancing economic integration with the European Union’s single market, subject to the Western Balkans aligning with single market rules and opening the relevant sectors and areas to all their neighbours at the same time, in line with the Common Regional Market;
2. Boosting economic integration within the Western Balkans through the Common Regional Market;
3. Accelerating fundamental reforms, including on the fundamentals cluster2, supporting the Western Balkans’ path towards EU membership, improving sustainable economic growth including through attracting foreign investments and strengthening regional stability; and
4. Increasing financial assistance to support the reforms through a Reform and Growth Facility for the Western Balkans” (European Commission, 2023^[37]).

The new Growth Plan builds on the existing enlargement methodology and creates a package of mutually reinforcing measures, providing incentives to economies to accelerate the adoption and implementation of the EU *acquis*, while narrowing the gap between the Western Balkans and EU Member States. In that context, the OECD has recently released the *Economic Convergence Scoreboard for the Western Balkans 2023* to track the region’s performance in achieving economic convergence towards the EU and the OECD area and highlight policy bottlenecks that hinder faster economic growth in a sustainable and inclusive way (OECD, 2023^[39]) (Box 1.2).

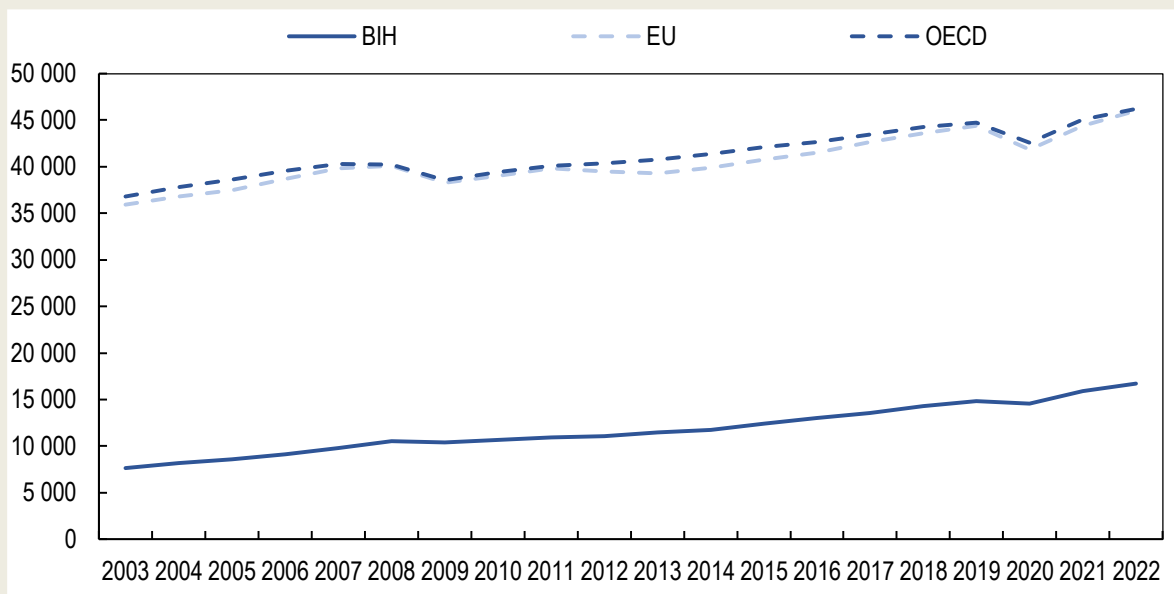
As part of the new Growth Plan, the Western Balkans have been asked to submit to the European Commission country-specific Reform Agendas listing a number of structural reforms that would need to be implemented in order to access part of the Plan’s funding. All Reform Agendas are structured along the same four policy areas: 1) the business environment and private sector development, 2) green and digital transformation, 3) human capital development and 4) fundamentals (of the EU accession process). They replace Economic Reform Programmes’ Chapter IV on structural challenges as going forward; the Economic Reform Programmes will only cover macrofiscal aspects.

Box 1.2. Economic Convergence Scoreboard for the Western Balkans 2023: Spotlight on Bosnia and Herzegovina

Bosnia and Herzegovina's GDP per capita has more than doubled from 2003 to 2022 in comparison to the EU's and OECD's comparatively modest increases of 27% and 25%, respectively. Between 2003 and 2022, Bosnia and Herzegovina significantly narrowed the gap in GDP per capita by more than half, with the EU and OECD area showing substantial progress. Bosnia and Herzegovina has experienced a consistent rise in GDP per capita during the observed period, highlighting positive policy developments that promote a resilient economy and a stronger workforce. However, Bosnia and Herzegovina's 2022 GDP per capita of USD (PPP international \$) 16 737 (EUR 15 900)¹, compared to the EU's USD 45 978 (EUR 43 679) and the OECD's USD 46 208 (EUR 43 897), underscores the considerable progress still needed for Bosnia and Herzegovina to align with the EU and OECD area (Figure 1.1).

Figure 1.1. Bosnia and Herzegovina's GDP per capita convergence with the OECD and the European Union (2003-22)

In purchasing power parity 2017 USD (thousands)



Source: World Bank (2022_[40]).

StatLink  <https://stat.link/oj4cqp>

In this context, the OECD developed the *Economic Convergence Scoreboard* for the first time in 2023, marking the establishment of a recurring monitoring mechanism and dedicated tool designed to evaluate the extent of economic convergence of the Western Balkans with the European Union and the OECD area. Prepared to inform discussions at the Berlin Process Western Balkans Leaders' Summit 2023 and grounded in a decade-long series of policy assessments, the Scoreboard offers a thorough analysis of the region's progress across five key policy areas, or clusters, crucial for attaining sustainable and inclusive economic growth. These clusters include *business environment, skills, infrastructure and connectivity, greening, and digitalisation*.

Since 2008, Bosnia and Herzegovina has demonstrated consistent yet gradual advancement across the five policy clusters, underscoring the adoption of policies that support harmonisation with the EU *acquis* and OECD standards but also emphasising the necessity for more robust and efficient implementation. Bosnia and Herzegovina advanced in both the *skills* and *infrastructure and connectivity* clusters. Regarding *skills*, the economy has improved its performance, trending positively with incremental advancements in areas such as the employment rate and output per hour worked. Notably, the Programme for International Student Assessment (PISA) score is near parity with that of the EU and the employment rate is approaching the same milestone, while output per hour worked, though presently performing at less than half of the EU's rate, is steadily increasing. Moreover, Bosnia and Herzegovina's performance in many facets of the *infrastructure and connectivity* cluster is comparable to that of the EU and even surpasses it in total freight transport by road and the average time required to obtain electricity. Noteworthy advances were made in average time to obtain electricity over the three observed periods (2008-12; 2013-17; 2018-22), with the economy surpassing convergence with the EU since the latter period.

By contrast, there is a need for further advancement in the *business environment* and *greening* clusters. Bosnia and Herzegovina's performance in terms of the *business environment* warrants attention, given the stagnation in trade openness since 2008 and the 5% observed decline in new business density; these point to challenges within the small business sector. In this context, SME's performance in total exports also declined by 20%, although it is currently above that of the EU. Concerning the *greening* cluster, the current intensity of water exploitation in Bosnia and Herzegovina is eight times higher than that in the EU, and fertiliser consumption increased by 14% between 2013 and 2022, underscoring the need for enhanced implementation of greening policies as part of the economy's broader convergence efforts.

In the context of aligning with OECD standards, Bosnia and Herzegovina has demonstrated consistent progress, albeit with a slight setback in the OECD Services Trade Restrictiveness Index and Digital Services Trade Restrictiveness Index, and with regard to the Competitiveness Outlook (CO) 2021 employment and agriculture policy. Notably, advancements have been made in CO access to finance policy, energy policy and digital society. Bosnia and Herzegovina's positive development within a majority of OECD good policy practices, standards and tools demonstrates the positive influence of the CO 2021 recommendations on Bosnia and Herzegovina's long-term policy development.

1. The 2022 market exchange rate has been used to convert PPP constant 2017 international dollars into EUR.
Source: OECD (2023^[39]).

EU financial and development support

Bosnia and Herzegovina continues to receive significant support from the European Union, helping the economy realise its reform processes and endeavours that bring it closer to the *acquis*. The European Union's financial support to the economy and the region has been provided through both temporary support, such as COVID-19 assistance packages, and long-term investment programmes and funds through the Instrument for Pre-accession Assistance (IPA), European Investment Bank (EIB) loans, Western Balkans Investment Framework grants and more.

Under the Instrument for Pre-accession Assistance I and II, the EU allocated Bosnia and Herzegovina with total funding of EUR 1.9 billion over 2007-20, while the IPA III funding for national programmes amounts to over EUR 256 million (European Commission, 2023^[41]). The IPA 2022 programme covers the areas of environmental protection, strengthening democracy and the judiciary, and supporting other reforms to fulfil EU standards and norms. It also includes the dedicated EUR 70 million from the 2023 Energy Support Package immediate measures, 90% of which have already been disbursed to support vulnerable families and SMEs facing rising energy prices. The actions are also aimed at supporting policy measures to accelerate the energy transition (European Commission, 2023^[41]).

The European Union has also been crucial in financially supporting Bosnia and Herzegovina in the wake of COVID-19. Bosnia and Herzegovina received over EUR 340 million in combined assistance through the European Commission’s EUR 3 billion Macro-Financial Assistance (MFA) package for enlargement and neighbourhood partners; the European Union’s Team Europe COVID-19 economic recovery support package to the region and SME support from the European Investment Fund.

Additionally, through the Economic and Investment Plan (EIP) for the Western Balkans 2021-27, Bosnia and Herzegovina is expected to benefit from significant flagship projects. The EU has already mobilised EUR 3 billion in investments, out of which EUR 934 million are grants (European Commission, 2023^[41]). The Bosnian section of Corridor Vc, backed by over EUR 1 billion in financing to date through the EIB, represents the largest ever infrastructure project in the economy’s history. Once completed, the project will link Bosnia and Herzegovina with Hungary, eastern Croatia and the Adriatic Sea. The EIP also foresees investments in a Trans-Balkan Electricity Transmission Corridor that will provide electricity transmission to Bosnia and Herzegovina, two wind farms, and gas interconnection with Croatia to facilitate the diversification of Bosnia and Herzegovina’s energy supply (WBIF, 2023^[42]).

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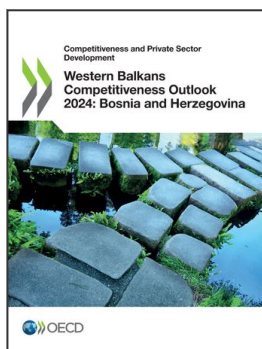
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Notes

¹ Frontex is the European Border and Coast Guard Agency of the European Union and assures the security of the EU’s external borders in line with EU’s fundamental rights charter. Frontex provides support on the ground and fighting cross-border crime, collecting aerial surveillance and information for EU and Schengen countries. The management of EU’s borders is supported by status agreements between Frontex and non-EU members, including the Western Balkan economies Albania, Montenegro, North Macedonia and Serbia. For more information, please see (EUR-lex, 2023^[44]).

² In line with Communication on “Enhancing the accession process – A credible EU perspective for the Western Balkans”, COM(2020)57. The fundamentals cluster includes: chapter 23 – Judiciary and fundamental rights, chapter 24 – Justice, Freedom and Security, the economic criteria, the functioning of democratic institutions, public administration reform, chapter 5 – Public procurement, chapter 18 – Statistics; and chapter 32 – Financial control (RCC, 2021^[43]).



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