



Weekly Briefing

**Bosnia-Herzegovina economy briefing:
Foreign investment in BIH, facts and perceptions
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Foreign investment in BIH, facts and perceptions

Facts

Recently there were several reports on the FDI performance of Bosnia and Herzegovina and comparative perspective to other WB6 countries, all having in common optimistic projections for a trend of inbound FDI. The first FDI data arrived from the Central Bank of Bosnia and Herzegovina. According to these adjusted data for 2018, released in August 2019, FDI in 2018 reached BAM 783 million, which is an increase of 2.8 percent compared to 2017 when BAM 777 million was recorded (For further information, see: <https://www.cbbh.ba/press/ShowNews/1222>). The foreign investment growth trend from 2017 continued into 2018. Preliminary data for 2019 and incomplete analysis of inbound FDI break-up on BIH entities, Republika Srpska and the BIH Federation (FBIH), were also discussed at a session of the FBIH government, which confirmed Central Bank's report for the past year. Total inbound FDI in FBIH amounted to BAM 477.2 million or 60.9 percent of the total BAM 783.4 million for whole BIH.

Second reliable source of data is UNCTAD statistics. This UN based institution has also registered strong inbound FDI growth in the last four years for BIH. Also, as a separate component of calculating (expected) FDI inflow, the total number and value of announced new projects in BIH in 2018 was reported to be higher than in 2017 by 4%. In 2018, 30 new projects were listed (announced) with value estimated to be 23.4% higher than in the previous year (For details, see: <https://unctadstat.unctad.org/wds/TableViewer/tableView.aspx?ReportId=96740>). The UNCTAD report also confirms FDI growth momentum for the region, showing that foreign direct investment fell 13 percent worldwide to USD 1.300 billion, while in the Western Balkans it rose by 33% (USD 7.4 billion).

Lastly, there is Greenfield FDI Intelligence report, a Financial Times data division which compares inbound greenfield investment relative to the size of each country's economy. The 2019 Greenfield FDI Performance Index 2019 designated South East Europe as an area with soaring FDI in greenfield projects. Interestingly, Serbia was ranked number one on the list, scoring 11.92 in the index, closely followed by Montenegro (11.49) in second place. Bosnia and Herzegovina takes also high index score together with Lithuania and other emerging economies on Europe's central-east.

Automotive components, food processing, construction, metal industry and real estate are BIH's leading FDI sectors, and combined they accounted for more than half of total inbound FDI projects in 2018. BIH Federation which comprises country's central part including more

prosperous regions of Sarajevo, Tuzla and Zenica has consistently attracted more FDI than Republika Srpska.

Although relatively stable FDI growth (with highest figures since 2006), Bosnian and Herzegovinian economists are equivocal about the relative success the country's FDI growth comparing to neighboring Serbia and Montenegro. Showing pessimist projections on BIH's ability to catch up with the big investment wave expected to occur (or already occurring) in the Western Balkans, but also failure to keep up with the pace of the FDI growth in neighboring countries, some BIH economists in enhanced FDI growth stats see no reason for satisfaction. Indeed, concerns that BIH is under-performer or side-kicker in prevailing trend of FDI growth in the WB6 region is dominant. A. Cavalic, an economic analyst from Sarajevo believes BIH is not yet on a FDI map of the main investors from Europe. Local-level corruption, red-tape and political instability are still considered as main obstacles for BIH to achieve sustainable growth. Also, due to ongoing political crisis, legal insecurity, poor infrastructure and passing responsibility up and down decision making chain typical for BIH administration, big investment projects are hardly to pass through the network of diverging local, cantonal and central levels. This report will try to check on the local perceptions and opinions regarding the stable trend of FDI growth that BIH continues to receive for three years in a row.

Perceptions- embellishing or distorting the real picture

That BIH is having a new positive FDI trend by mere coincidence of external factors is an opinion shared by those economists who are warning on structural problems within BIH economy and emphasize that FDI growth is rather a result of trends in the regional market out of reach to Bosnian decision-makers. In case like this, as they argue, positive trend of FDI growth is relative and, more importantly, creates limited momentum for BIH to build onto this growth or even rely on growth figures.

According to the FDI Intelligence report, BIH received a rating of 4.83 and had a total of 17 greenfield projects last year. This 4.83 index score means that Bosnia and Herzegovina attracts almost five times the amount of foreign direct investment in greenfield projects than might be expected from an economy of its size. On the other hand, no official data on greenfield FDI are available from BIH central institutions. The BIH Central Bank, the official source of FDI data, does not present separate data on greenfield investment or, as an official in BIH Agency for promotion of foreign investment (FIPA) added, there are no official data on individual investments or type of investment. Specifically, only FIPA tracks down investments divided into greenfield start-ups, joint venture and mergers (acquisitions and privatizations) bracket. (See:

<http://www.fipa.gov.ba/informacije/statistike/investicije/default.aspx?id=180&langTag=en-US>). The agency confirmed that there has been an increase in greenfield projects in recent years. According to their report for 2018, the largest number of companies are newly established (greenfield), in total 518 companies or 53.7 % of total number of companies. However, privatized and acquired companies prevail in terms of investment, amounting to 66.8 % of total FDI or around EUR 5.2 billion. The largest amounts of investments in BIH were realized precisely through the processes of large-scale privatization, while realized greenfield investments are mostly related to acquisitions in retail sector. Furthermore, some have pointed out, FDI Intelligence report uses data on “announced” projects supposed to generate FDI, however, most of announced projects might not be realized, especially in business environment such as BIH’s.

Given these differences, as well as the fact that official data on FDI differ from institution to institution, a starting point even taken to be the reports made by the UNCTAD is not without contestations, to the extent that FBIH government’s decision to approve the FDI figures are regarded only as political tool to embellish official figures.

Perceptions- comparative outlook

Second to these concerns are critiques that find FDI growth irrelevant or frog leap to actual performance of the other regional countries. Republika Srpska leading newspaper Nezavisne journalist Uros Vukic believes that over the past year BIH in fact received the least direct foreign investment relative to the neighboring countries. When it comes to WB6 area + Croatia, with whom BIH usually makes comparisons, BIH is still clearly more following than leading the main trends. In terms of foreign investment growth in the region, Serbia is the leader, far ahead of even some much larger and more developed EU member states. National Bank of Serbia published that by mid-July this year, USD 2.3 billion of foreign direct investment had been credited to Serbia, and that the trend would continue. In terms of greenfield FDI measured by FDI Intelligence, Serbia (11.92) and Montenegro (11.49) have far exceeded their regional counterparts, including Bosnia-Herzegovina, which has high index scores, but far from making a breakthrough on a global level like its eastern neighbors.

According to UNCTAD report, Montenegro and Croatia, the second best FDI growth performers in the region both have significantly increased FDI compared to 2017, while BIH’s increase was “only” USD 20 million. In terms of total FDI in 2018, USD 1.1 billion in foreign investment has arrived in Croatia, about USD 1.5 billion in Albania, Slovenia has attracted USD 1.4 billion, which, according to Oslobodjenje and other media reports, is qualified to be called substantial FDI stock when comparing "just" USD 782 million of FDI that arrived in BIH.

The report also states that Montenegro's amount of direct foreign investment standing at USD 490 million in 2018 is less than half on BIH's, however, Montenegro has six times fewer inhabitants than Bosnia and Herzegovina. Furthermore, BIH also fell below Northern Macedonia, which had an inflow of USD 737 million and population size of around 2 million people. Only in the last year direct investment to North Macedonia increased by USD 205 million, which as most economists argue is a consequence of stepping up North Macedonia Euro-Atlantic integrations following the Prespa Agreement and estimates are that foreign direct investment in this country will grow further. BIH, on the other hand, stagnated on the both paths leading to unchanged perception regarding a high rate of legal uncertainty, complicated bureaucratic apparatus, above all, corruption at entity and cantonal levels of government.

In sum, all six emerging Western Balkan countries recorded a peak in FDI growth and total FDI stock in 2017-2018 period. Only BIH in comparative perspective fell slightly below the proportional benchmark. As mentioned above, the trinity of corruption, bureaucracy and political stagnation that are identified as standing problems to BIH economy are also the reason for the perception of unsatisfying level of inbound FDI growth and stock. For the large FDI the biggest problem appear in the decentralized government. Not only local and cantonal levels have final say on foreign direct investment, but this say is usually tied with particular interest that are narrowing down already smaller investment opportunities.