Required Report - public distribution

Date: 12/21/2018

GAIN Report Number: BK1809

Bosnia and Herzegovina

Exporter Guide

2018

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Report Highlights:

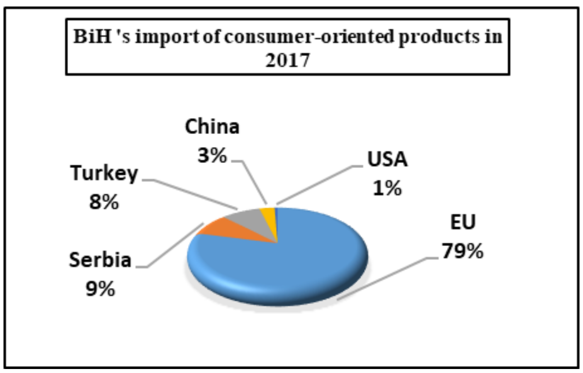
Bosnia and Herzegovina (BiH) imports approximately two-thirds of its overall food needs. The market for processed foods focuses mainly on value rather than quality, as consumers seek to extend their buying power. Advantages to U.S. exporters include relatively low food import tariffs and low costs for introduction and promotion of new products while challenges consist of a complicated dual system of government authorities, low incomes, and poor infrastructure. Opportunities exist for U.S. genetics, beef, pulses, wine, seafood, dried fruits and tree nuts. This report contains marketing tips, information on importing foods, and important points of contact.

Executive Summary

- Bosnia and Herzegovina (BiH) is located in the Southeast of Europe with a population of 3.5 million.
- It currently has status as a potential candidate for European Union (EU) membership, which is seen as a driver to further economic growth and development.
- BiH has a large foreign trade deficit with imports almost two times greater than exports.
- Import of agri-food products totaled $1.8 billion in 2017 and represented 18 percent of total imports.
- The principal trading partners are the European Union (EU) and the countries of ex-Yugoslavia - Serbia, Montenegro, Macedonia, and Kosovo.
- BiH is not yet a member of the World Trade Organization (WTO) but started accession negotiations in 1999.

Import of Consumer Oriented Products

- Most of the U.S. exports to BiH are bulk commodities.
- In 2017, total U.S. agricultural and fish export to BiH were valued at $36.7 million (two percent share of BiH's total agricultural and fish imports from the world) and consisted of animal and vegetable fats, various food ingredients, dried nuts and fruits, beans, seafood, and coffee.



Food Processing Industry

- The private sector consists of wheat and feed milling, dairy and meat processing, vegetable oil and sugar refining, fruit and vegetable processing, and biscuit industry.

Food Retail Industry

- BiH's consumer food retail market is estimated to be valued at $3.2 billion.
- There has been significant concentration taking place in this sector, with bigger shopping centers supplanting smaller traditional shops.
- Two largest retail chains, domestic retail chain "Bingo" and Croatian Konzum (recently partially acquired by Slovenian "Mercator") hold 78 percent of the total market share.

Quick Facts CY2017

Import of Consumer-Oriented Products $1.1B.

List of Top 10 Growth Products in BiH

1) Beverages and Mineral Water	6) Sauces and Spices
2) Chocolate	7) Citrus fruit
3) Biscuits and Cookies	8) Wine
4) Beer	9) Ice-cream
5) Cheese	10) Tree Nuts

GDP/Population

Total Population (2016)	3.5 million
Population Growth Rate (2016)	-0.16%
Urban Population /Total (2006)	1.7 %
Unemployment Rate (2017)	20.5%
Female Population Employed (2014)	41%
Per capita food expenditures (2017)	$1,300
GDP Per Capita (2016)	$4,409
GDP Total	$18.6 billion
GDP composition by sector of origin (2015): Agriculture Industry Services (2016)	 7.9% 26.5% 65.6%
Average Exchange Rate: $1=1KM (2018)	1.7

Strengths/Weaknesses/Opportunities/Threats

Strengths	Weaknesses
High quality and diversity of U.S. products	US exporters are reluctant to expand their operations to relatively unknown and distant BiH market
Fascination with American culture (language, music, TV shows, fashions)	U.S. exporters face competition from EU tariff-free products and from FTA partner countries
Opportunities	**Threats**
Insufficient domestic food production and imports nearly three times larger than exports	Being potential EU candidate, BiH uses EU standards and regulations, including those restrictive to U.S products
Shortages of important foods such as grain and meat and meat products	Absence of a single economic market in the country; different legislative, regulatory and distribution systems in the two Entities
Import duties low if compared to other counties in the region	BiH is not a member of the WTO

Data and information sources: BiH agency for Statistics, BiH Central Bank, World Bank, and BiH Foreign Trade Chamber

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Executive Summary:

I. MAREKT OVERVIEW

Economic situation

The economy in Bosnia and Herzegovina (BiH) is still recovering from the 1992-1995 war and from the transition from a socially planned to a market economy. Estimated per capita GDP in 2016 was $4,409, with a total estimated nominal GDP of approximately $16.8 billion. GDP growth in 2018 is estimated at 3.1 percent (World Bank). The average monthly net salary is $492 (KM 851) (2017). Agriculture's share of GDP has remained at the level of approximately seven – eight percent.

A degree of macro-economic stability has been achieved with the introduction of a Central Bank, adoption of the currency board and creation of a single currency, the Konvertabilna Marka (Convertible Mark, KM). The currency board ensures that the KM is fully backed by hard currency or gold, and the exchange rate is fixed at approximately 2 KM to the Euro. Due to a strict currency board regime, inflation has been relatively low, and BiH recorded a deflation of 1.1 percent in 2016.

A highly decentralized government hampers economic policy coordination and reform. Government spending, at roughly 50% of GDP, remains high because of redundant government offices at the state, entity and municipal level. One of BiH's main economic challenges since the recession began has been to reduce spending on public sector wages and social benefits to meet the International Monetary Fund's criteria for obtaining funding for budget shortfalls. BiH's private sector is growing, but foreign investment has dropped off sharply since 2014, because of the unfavorable investment climate. BiH sees the long-term goal of EU membership as a driver to further economic growth and development.

Structure of the economy

The structure of the BiH economy is quite stable. GDP composition by sector is agriculture: 7.9 percent, industry 26.5 percent, and services 65.6 percent (2015 est.). In 2016, BiH industrial output increased by 4.3 percent after a 2.6 percent increase a year earlier. The major productive sectors of the economy are industry and mining, telecommunications, construction, trade, transportation, and agriculture. The leading industries are steel, aluminum, minerals, vehicle assembly, textiles, tobacco products, wooden furniture, explosives, munitions, domestic appliances, and oil refining. The private sector share in the GDP is approximately 60 percent.

BiH has approximately 1.6 million hectares of land suitable for cultivation. The best prospect sectors are fruit and vegetable, livestock, and poultry in terms of natural resources that are available and productivity. The most important crop is corn followed by wheat and barley. Small, low-output, family farms averaging 2-5 hectares characterize agricultural production along with low input use (fertilizers, chemicals, and certified seeds), poor crop management and post-harvest management practices, and poor railway and road infrastructure. Agriculture contributes approximately seven –eight percent to BiH's GDP.

BiH is a net food importer. The official unemployment rate is 20.5 percent (2017). BiH's grey economy is relatively large – estimates range from 20 to 40 percent of GDP.

Business environment

BiH is composed of two entities, the Federation of Bosnia and Herzegovina (F BiH) and the Republika Srpska (RS), each with its own business environment. Although there has been an effort to create a single market in BiH, significant legislative, regulatory and institutional differences between the Entities persist. Between the two Entities, factors such as business registration requirements and most taxation and standards are separate and different. Useful information can be found in Bosnia and Herzegovina Country Commercial Guide.

Size and Growth of Consumer Foods Market

Little official information is available about the size or growth of the market. BiH's consumer food retail market is estimated to be valued at $3.2 billion (KM 5.5 billion), but the sector has reportedly continued to experience very slow growth in sales since 2012, due to the economic crisis and BiH's high unemployment rate. BiH's purchasing power is only 17 percent of the European average. There has been significant concentration taking place in this sector, with bigger shopping centers supplanting smaller traditional shops. The largest retail chains, domestic retail chain "Bingo" from Tuzla and Croatian Konzum (recently partially acquired by Slovenian "Mercator") recorded the largest growth in 2017 and their market share is estimated at 78 percent. Domestic retail chain "Tropic Group" from Banja Luka keeps expanding its presence. Economists believe that the domestic takeover of foreign retail chains outlets may boost the sales of locally produced foods.

Food Expenditures and Consumption

It is estimated that an average Bosnian family that consists of four members spends approximately $5,200 annually (2017) on food products (source: Entity Institutes for Statistics). According to the BiH Agency for Statistics based on the World Bank's methodology (minimum 2,100 calories per person on daily basis), the poverty rate for BiH is 15 percent and has not declined since the global financial crisis in 2008 due to a high unemployment rate, especially among youth (approximately 50 percent).

Demographic Developments and Impact on Consumer Buying Habits

BiH has a population of 3.53 million (2013 census) and an average BiH household is comprised of 3 members. A single parent runs one in ten households. The population growth rate is -0.16 percent (2017 est.). The United Nations Development Program (UNDP) recently reported that BiH ranks as the fourth most rural country in Europe with approximately 60 percent of the population living in rural areas. The migration of people from rural to urban areas is by about 10 percent in every generation. Less than half of rural households are involved in agriculture, with one-third producing food solely for their own consumption on 1-3 hectares. Less than 1 percent is larger farms with significant agricultural income. The majority of rural households earn income from other employment or social benefits. The six biggest cities enjoyed 40 percent lower unemployment and 25 percent higher wages, whereas most medium-sized towns performed worse than rural areas.

Advantages	**Challenges**
Insufficient domestic food production,	Long distance, bad transportation conditions, absence of

imports nearly three times larger than exports	highways, limited railway service
Increased urban population	Weak economy affects consumer purchasing power, low average net wage, high unemployment rate
High quality of U.S. products	Consumers more interested in price than in quality
Import duties low as compared to other counties in the region	Illegally imported and low-quality products compete with legitimately imported foods
Relatively low costs for introduction and promotion of new products using local broadcast and print media or in-store promotions	Different distribution systems in the two Entities, different taxation systems; difficulties in finding a reliable and capable local partner to carry out marketing and distribution
Increasing number of large retail supermarkets	Domestic market flooded with products imported from ex-Yugoslavia neighboring countries (Central European Free Trade Agreement) and EU countries (Interim Agreement lowers import duties for EU member-countries)
Fascination with American culture (language, music, TV shows, fashions) carries over to American food, such as famous “Coca Cola”	Reservations towards GM foods due to a lack of consumer education on the subject and a desire to meet EU requirements
Food imports grow year by year	Small businesses, limited access to finance and high interest rates negatively affect capacity of BiH’s importers
Pork and poultry consumption increasing as a result of high beef prices	Pork consumption is relatively low because of BiH’s large Muslim population

II. EXPORTER BUSINESS TIPS

Local business customs

Importers/wholesalers/distributors provide transportation, product storage, market information, financing, and some insurance. Finding an agent and/or distributor is the most effective way to market consumer goods. The Foreign Agricultural Service Sarajevo Office can assist U.S. companies exporting to BiH by identifying local opportunities for the sale of U.S. products, providing counseling on the market, and can help you locate qualified distributors (please see the Key Contacts and Further Information). The distribution systems are different for the Federation (F BiH) and the Republika Srpska (RS) because of differing legal frameworks. There have been efforts lately to harmonize rules between the two entities, but there are still significant differences. It is often necessary to develop multiple distribution channels and relations with distributors in both Entities in order to cover the whole country.

General Consumer Tastes and Preferences

Most consumers view price as the primary factor in their food purchasing decision. Preferences tend toward large packages at lower prices. Shopping centers are becoming an increasingly popular retail food sales point. Many people usually buy non-perishable foods at large supermarket centers once or twice a month. Perishable foods, fruits, vegetables, bread and fresh meat are usually bought at small grocery stores, specialized stores, or green markets.

Consumption of red meats is traditionally high. However due to the economic downturn, consumption of poultry meat and pork has increased since 2012, while consumption beef and lamb has declined also with per capita purchasing power and rising prices. We expect this trend to continue in 2019. Pork consumption is much higher in the RS than in the F BiH, because of F BiH's large Muslim population.

III. IMPORT FOOD STANDARDS AND REGULATIONS/IMPORT PROCEDURES

Please see the Food and Agricultural Import Regulations and Standards (FAIRS) and FAIRS Export Certificate reports. that can be found at GAIN Search . General information on import procedures can also be found in Bosnia and Herzegovina Country Commercial Guide.

IV. MARKET SECTOR STRUCTURE AND TRENDS

Domestic Industrial Capacity

In general, the BiH food industry is still too small and inefficient to compete with large foreign industries. Domestic food production is insufficient and covers approximately 30 – 35 percent of total needs.

Food Retail Sector

In general, small retailers are slowly losing out to large wholesalers with developed retail operations. Shopping centers import and distribute food and offer a great variety of fresh meat, exotic and new-to-market foods, and ready-to-eat foods. They also provide good professional service, restaurants with ready meals at favorable prices and a festive environment (entertainment for kids, clowns, and games/ lotteries).

Quite often, they organize in-store promotions and product tastings and provide small gifts with purchased products. A special discount is offered to faithful customers. Food items are also sold in a number of small independent groceries and open markets.

Trade events and shows are a good way to market products and services in BiH and to find partners and distributors (for current list of trade shows please see https://ba.usembassy.gov/embassy/sarajevo/sections-offices/fas/). The trade fair sector in BiH has been growing rapidly. Shows provide opportunities for local and foreign companies to establish business connections. Trade events are held throughout BiH. Mostar's "International Trade Fair" is the most popular in the Federation and Banja Luka's "Food and Beverages Fair" is the most popular in the Republika Srpska. Regional centers like Zenica, Tuzla, and Bihac are very active in trade promotion.

Approximately 60 percent of the BiH population uses the Internet regularly, but food sales are still very small.

Hotel, Restaurant and Institutional (HRI)

The HRI sector prepares the meals themselves. They buy ingredients from a range of suppliers, including small grocery stores and green markets to big producers, retail centers and wholesalers, depending on the size of the commercial entity/institute and the number of meals. Lately, there has been a growing consensus that tourism can be a major source of job growth and foreign exchange earnings for Bosnia and Herzegovina. According to foreign experts, BiH has a large potential as a tourist destination that could generate significant jobs and revenue for the BiH economy.

Turnover in catering –2011-2015

Year	Federation of BiH Total turnover (000 KM)	Republika Srpska Total turnover (000 KM)
2011	41,852	77,000
2012	52,899	81,091
2013	53,795	85,336
2014	79,954	N/A
2015*	88,807	N/A

Source: Federation and Republika Srpska Institutes for Statistics
US$ 1.00 = KM 1.71 on November 20, 2018
*Latest available data.

V. AGRICULTURAL AND FOOD IMPORTS

Agricultural and Food Import Statistics

BiH has a large foreign trade deficit with imports almost two times greater than exports. From 2007 to 2016, total exports increased from $4.3 billion to $6.4 billion, while imports rose from $9.5 billion to $10.5 billion. Agricultural products only represent about 10 percent of exports, but they represent 18 percent of total imports.

Agriculture and food import statistics USA – BiH for the past five years can be found at https://apps.fas.usda.gov/Gats/default.aspx

Best High Value Consumer Oriented Product Prospect Categories

Product Category	Market Size	2017 imports (in million US$)	Average Annual Import Growth (2012-2017)	Key Constraints of Market Development	Market Attractiveness for USA
Beverages	N/A	91.4	8.9%	Competition from key	N/A

and Mineral Water				suppliers such as Croatia and Serbia	
Chocolate	N/A	85.2	3.6%	Competition from key European companies	Negligible local production
Biscuits and Cookies	N/A	77.6	3.8%	No	N/A
Beer	1,900,000 hl (est)	70.0	0.14%	Breweries producing more than 400,000 hl annually pay higher excise tax (US$0.25/liter)	Traditional high consumption, demand and consumption should continue to grow
Cheese	40,000 MT	42.5	5.9%	Competition from key European suppliers	Insufficient local production and growing demand
Sauces and Spices	N/A	27.5	0.1%	No	Insufficient local production
Citrus Fruit	N/a	21.9	3.4%	Competition from key suppliers: Greece, Italy and Turkey	Insufficient local production and growing demand
Wine	24,500 hectoliters (est.)	17.2	1.6%	Increasing local production of good quality wines, competition from European suppliers	Consumption of high-quality wines is expected to grow with standard of living.
Ice-cream	2,500 MT (est.)	13.5	7.1%	Competition from key suppliers such as Croatia	BiH has limited domestic production
Tree Nuts	10.9	7.8	14.3%	Competition from key suppliers (i.e. Romania, Italy and Iran), and most economic supply preferred even if lower quality	Insufficient local production

For import tariff rates please see BiH Customs Tariff Rates.

VI. KEY CONTACTS AND FURTHER INFORMATION

Please contact FAS Sarajevo for any import-related information, including lists of importers and distributors:

FAS/USDA

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The Global Agricultural Information Network (GAIN) reports for Bosnia and Herzegovina can be found at FAS GAIN Reports Search or https://www.fas.usda.gov/regions/bosnia-and-herzegovina.