Bosnia and Herzegovina

The banks surveyed in Bosnia and Herzegovina account for 81 per cent of the country's total banking assets, with foreign banks controlling the majority of assets (Chart 1).[1] More than 70 per cent of banks in Bosnia and Herzegovina expect their branch networks to shrink over the next five years. This is far higher than the average in south-eastern Europe (SEE), where 56 per cent of banks expect their branch network to decline (Chart 2).[2]

Around 70 per cent of Bosnian banks have social and environmental policies and targets in place, while 36 per cent have climate change-related policies. Across all categories, the share of banks with environmental, social and governance (ESG) policies is on par with the SEE and EBRD economies, on average. Approximately 80 per cent of Bosnian banks undertake environmental and/or corporate governance impact assessments before lending to SMEs, putting them roughly on a par with or above the average of the EBRD economies (Chart 3).

Only half of the Bosnian banks surveyed undertake social impact assessments before disbursing SME loans, compared with 60 per cent in the SEE region. Fewer than 60 per cent and 40 per cent of surveyed banks in Bosnia and Herzegovina provide loans to improve the energy efficiency of SMEs and/or corporate clients and commercial real estate, respectively (Chart 4). Each of these shares is 17 percentage points below average for banks in the SEE and EBRD economies. On average, just under 60 percent of Bosnian banks provide loans to improve the energy efficiency of residential housing, roughly on a par with SEE and slightly below the EBRD regions.

More than half of Bosnian banks, meanwhile, view fintech as an opportunity in corporate lending, asset management and trade finance, in line with the SEE and EBRD averages (Chart 5). Conversely, almost a third of banks interviewed view fintech as a threat to trade finance. What's more, only a small minority of Bosnian banks view fintech as an opportunity in retail lending, compared with more than 40 per cent of banks across the EBRD regions.

Chart 1 Branch presence of surveyed banks

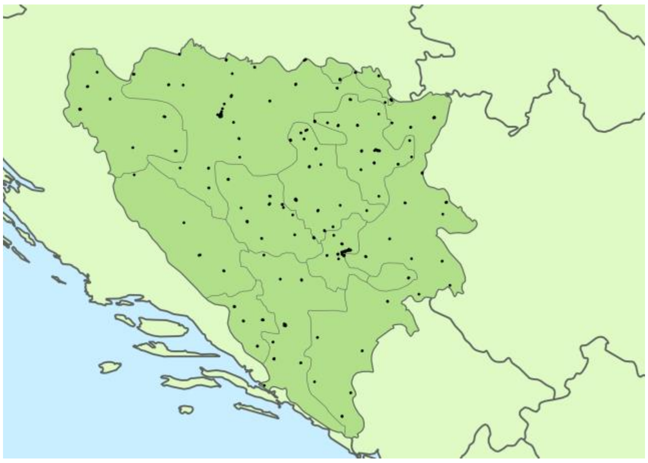


Chart 2 Branch network expectations, next five years

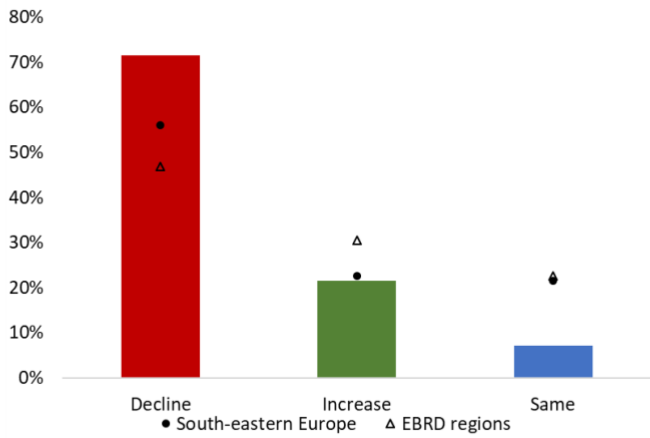


Chart 3 Impact assessment of SMEs before loan approval

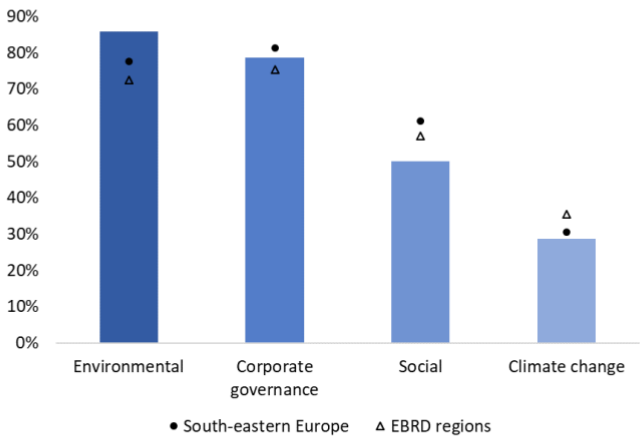
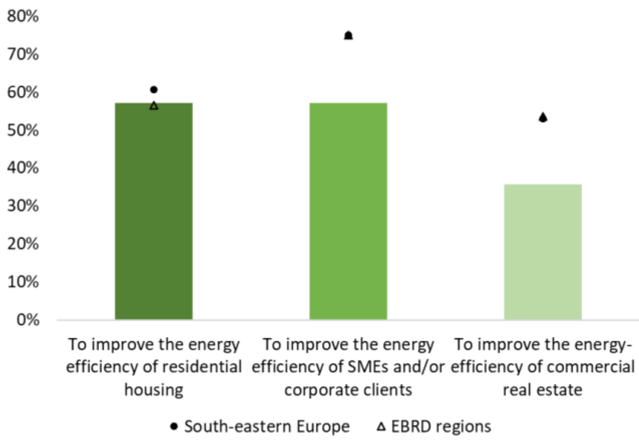


Chart 4 Prevalence of loans to improve clients' energy-efficiency



[1] Foreign banks control 96 per cent of the banking assets owned by surveyed banks. In Bosnia and Herzegovina, where a parent bank has two subsidiaries, both are included in the pool of banks from which we draw the sample.

[2] In Charts 2, 3, 4, 7 and 8, bars refer to the percentage share of banks in Bosnia and Herzegovina.

With the exception of cloud computing, Bosnian banks lag their peers in the SEE and EBRD economies on the adoption of digital technologies (Chart 6). Fewer than 40 per cent of banks use digital wallet solutions and only 20 per cent use biometric authentication for customer identification. Meanwhile, more than 40 per cent of banks in EBRD countries report the commercial use of these technologies.

Only 36 per cent of banks in Bosnia and Herzegovina accept online applications, while just under half of banks in the EBRD economies do so. The adoption of digital technologies contrasts with bank branch expectations. On average, banks surveyed in Bosnia and Herzegovina lag those of the SEE and EBRD regions in terms of digital technology adoption, but exceed them when it comes to expectations of bank branch closures over the next five years.

Bosnian banks are as concerned as their SEE and EBRD peers about IT security and regulatory uncertainty, financial constraints on investing and difficulties in identifying and establishing links with companies in the fintech space (Chart 7).

More than 90 per cent of Bosnian banks lend to innovative research and development (R&D)-intensive industries such as information technology (IT), chemicals and pharmaceuticals. Close to 40 per cent of banks lending to these industries cite insufficient demand for credit as the main constraint on lending in this area. Loan officers' lack of skills in evaluating credit risks is the second-most frequently cited concern. Both of these constraints are reported more often by banks in Bosnia and Herzegovina than those in the SEE or the EBRD regions, on average (Chart 8).

Chart 5 How fintech will affect banks' business lines

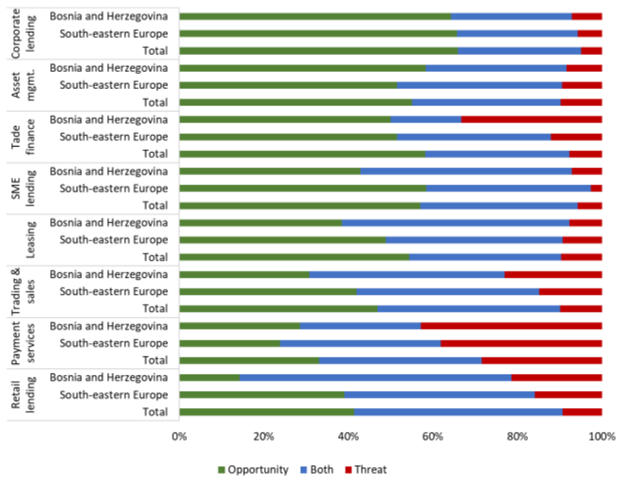
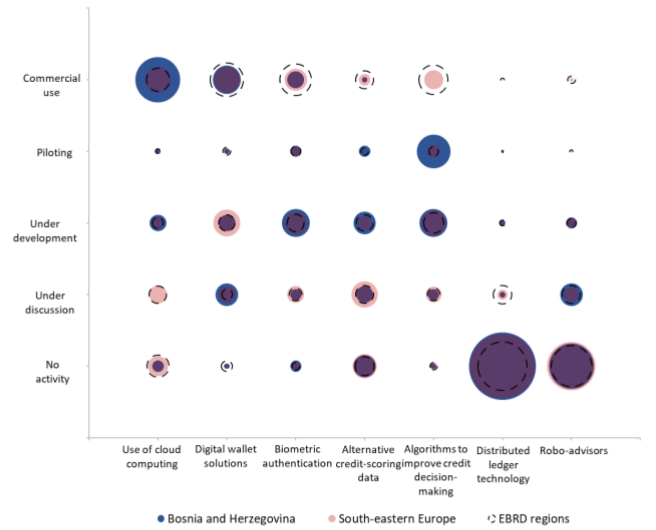


Chart 6 Digital technology development and use



Note: For each digital technology, the size of the bubble is proportional to the share of banks that report using the technology at that level of advancement.

Chart 7 Concerns about digital technologies

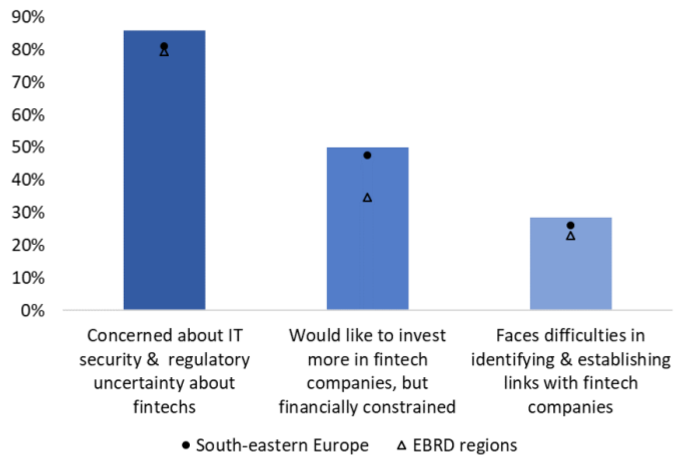


Chart 8 Constraints on lending to innovative industries