

FINANCIAL INTERMEDIARIES IN THE FINANCIAL MARKET OF BOSNIA AND HERZEGOVINA UNDER THE CONDITIONS OF GEOPOLITICAL CHANGES

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Abstract: This paper analyzes the main characteristics and types of financial intermediaries in the financial market of Bosnia and Herzegovina, as well as the state and prospects of their operations under the influence of geopolitical changes. The research discusses various types of financial intermediaries, such as banks, investment funds, insurance companies, brokers, and stock exchanges, and their role in the economic system of Bosnia and Herzegovina. It examines in detail how geopolitical factors, such as global political tensions, conflicts, economic sanctions, and changes in the global market, impact the operations of financial intermediaries in Bosnia and Herzegovina. The methodology used includes an analysis of the current state and investment trends of financial intermediaries over the past few years, with a particular focus on the period after 2021, when geopolitical changes became more pronounced with the conflict in Ukraine. The paper also discusses the prospects for the future development of the financial market in Bosnia and Herzegovina, considering the potential implications of economic sanctions, changes in international trade, and new global

challenges. The aim of the research is to determine how these factors affect the stability, operations, and investment activities of financial intermediaries.

Key words: financial intermediaries, financial market, geopolitical changes, investment funds, insurance companies, banks, brokers, stock exchanges.

JEL classification: G20

1. INTRODUCTION

The financial system of Bosnia and Herzegovina has undergone significant institutional development over the past decades, with financial intermediaries such as banks, insurance companies, investment funds, and brokerage houses assuming formal roles in the market. However, despite this structural presence, their functional capacity to mobilize and allocate capital effectively remains limited. The market is characterized by low liquidity, weak investor confidence, and a conservative investment approach, largely oriented toward low-risk

instruments such as government securities and bank deposits. These limitations have been further exacerbated by external shocks, particularly the geopolitical and economic instability following 2022, including the war in Ukraine, the global energy crisis, and disruptions in supply chains. This paper aims to explore the role and resilience of financial intermediaries in Bosnia and Herzegovina under such conditions, and to assess the systemic constraints that hinder their contribution to capital market development and economic recovery.

2. FUNDAMENTAL CHARACTERISTICS OF FINANCIAL INTERMEDIARIES

Financial intermediaries are institutions and individuals that act as intermediaries between the surplus and deficit sectors, playing a key role in the functioning and development of the financial market. Their primary function is the transformation of savings into investments, thereby ensuring the efficient allocation of capital within the economy. This is of crucial importance because the fundamental function of money is to facilitate exchange. Money, in itself, does not possess intrinsic value; its value is realized through its use as a medium of exchange. In this context, financial intermediaries play an important role in directing capital from savers (surplus sector) to investors (deficit sector), who use it for investment ventures that have the potential to transform industries and significantly contribute to economic development. Without financial intermediaries, savings could not be effectively transferred into investments, which would hinder economic growth and slow down innovation.

- The main characteristics of financial intermediaries are:
- Collection and allocation of funds,
- Risk management and investment diversification,
- Provision of liquidity,
- Support for the development of the financial market.

In addition to the core function of collecting and allocating funds, the importance of financial intermediaries is also reflected in risk management and the diversification of investments. Financial intermediaries use various advanced risk management techniques, such as hedging, to identify, assess, and minimize potential losses that may arise due to changing market conditions. Hedging, as one of the basic tools, enables financial intermediaries and their clients to protect their investments from adverse market movements, such as fluctuations in prices, interest rates, or

exchange rates. Moreover, financial intermediaries also implement other risk management strategies, such as risk insurance, derivatives, and diversification, to reduce overall risk for investors and ensure the stability of investments and the financial market. Through expert risk assessment and management, financial intermediaries contribute not only to the security of their clients but also to the stability of the entire financial system.

Financial intermediaries occupy the position of key investors and "market makers," ensuring continuity in the supply and demand of financial instruments, thereby providing their liquidity. Liquidity is one of the fundamental pillars of the financial market, as it allows market participants to quickly and efficiently convert financial assets into cash. A high level of liquidity fosters confidence in the financial market. For investors, especially institutional ones, the ability to quickly sell a financial instrument is a crucial factor in making investment decisions. If, for strategic, operational, or unforeseen reasons, there arises a need for liquidity—for example, to shift to another investment, meet obligations, or capitalize on favorable market conditions—it is critical that the financial instrument they hold has active market demand and that the transaction can be executed quickly and efficiently.

Financial intermediaries actively contribute to the development and enhancement of financial markets. Their impact is manifested through: transaction intermediation, the provision of financial services, investor protection, and ethical conduct within the financial market system. In the process of delivering services, financial intermediaries continuously develop new financial products and tools such as derivative financial instruments, investment strategies, and specialized forms of insurance, thereby improving the functionality and depth of the financial market. A prominent place in the modern financial system is held by ETFs (Exchange Traded Funds), which are among the most representative examples of innovation in financial intermediation. ETFs enable broad diversification and investment flexibility and are characterized by high liquidity and lower costs, making them accessible to both institutional and individual investors. In addition, financial intermediaries raise the level of trust in the financial market by providing a high level of legal and financial security through the implementation of regulations set by regulators, as well as through oversight and transparency in their operations, thereby contributing to the reduction of information asymmetry and the protection of the rights of all participants in financial transactions. Ethical behavior, adherence to professional codes,

and responsible and transparent communication with clients are the foundation of a sustainable trust relationship between financial intermediaries and investors, which is essential for the stability and integrity of the financial market.

3. TYPES OF FINANCIAL INTERMEDIARIES IN THE FINANCIAL MARKET OF BOSNIA AND HERZEGOVINA

The financial market of Bosnia and Herzegovina (BiH) has a pronounced bank-centric character, which is clearly reflected in the table presenting the overview of financial intermediaries by the value of total assets. The market includes the following financial intermediaries: banks, insurance companies, investment funds, brokerage houses, and stock exchanges.

Table 1. Financial intermediaries in BiH by total assets (in million BAM)

Financial Intermediary	2020	2021	Δ%	2022	Δ%	2023	Δ%	2024	Δ%
Banks	33,811	36,380	8%	37,762	4%	39,818	5%	43,550	9%
Insurance Companies	2,190	2,327	6%	2,472	6%	2,629	6%	2,800	6%
Investment Funds	820	943	15%	1,075	14%	1,050	-2%	1,139	9%
Broker-dealer companies	12	14	22%	15	5%	13	-13%	9	-34%
Stock Exchanges	11	11	0%	11	1%	11	2%	11	2%
Total Assets	36,843	39,674	8%	41,334	4%	43,520	5%	47,509	9%

Source: Central Bank of BiH

Depending on the method of financing, economies can be divided into those that are bank-oriented and those oriented towards the capital market, i.e., raising funds through securities on the capital and money markets. Typical representatives of the latter category are the USA and the United Kingdom, while most European countries' economies, including Bosnia and Herzegovina, rely more on financing through the banking sector. This orientation is clearly visible in the structure of the total assets of financial intermediaries. Financing through the banking sector means that companies, individuals, and other institutions in BiH mostly secure the necessary financial resources through loans from banks, as opposed to issuing securities (such as shares or bonds) on the capital market of BiH. According to data from the Central Bank of BiH, the total assets of banks in 2024 amount to 43.55 billion BAM, which represents about 92% of the total assets of all financial intermediaries in the country (which total 47.51 billion BAM).

Insurance companies in BiH are a smaller part of the financial system compared to banks. Their primary function is risk management—that is, collecting premiums from policyholders and paying compensation in the event of an insured occurrence. According to data for 2024, the total assets of insurance companies amounted to 2.8

billion BAM, about 5.9% of the total assets of financial intermediaries in BiH. Although this share is not large, insurance companies have a specific and significant role as institutional investors. The collected funds from paid premiums are invested by insurance companies in the financial market in BiH, primarily in debt securities issued by the entities RS and FBiH. Their conservative investment approach ensures the stability and security of portfolios, given the nature of the obligations insurance companies take on towards policyholders.

Investment funds represent financial intermediaries that collect funds from a larger number of individual investors and then invest them in a wide range of securities or other forms of assets, aiming to diversify risk and achieve returns. Funds are managed by professional portfolio managers employed by investment fund management companies, who strive to maximize returns while minimizing risk according to the fund's investment policy. The collected funds of the fund are held in a custodian bank, which is legally and operationally separate from the management company, thus protecting investors' interests and ensuring transparency in management. Investment funds participate in the primary market as issuers of shares or units, while on the secondary market they appear as investors in securities. This dual

role makes them an important mechanism linking supply and demand for capital. In BiH, both open and closed investment funds operate. Their operations are supervised by entity securities commissions. According to data from the Central Bank of BiH, the total assets of investment funds in 2024 amounted to 1.139 billion BAM, which is about 2.4% of the total assets of financial intermediaries in BiH. Despite their relatively small share, they are among the few institutions actively investing in shares on the stock exchanges in BiH.

Broker-dealer companies on the financial market of BiH perform a wide range of activities including mediation in the purchase and sale of securities, as well as buying and selling for their own account to realize price differences. The key functions of these companies include brokerage, dealing, consulting services, and portfolio management. Brokers and dealers represent two different roles in the market, where brokers act as intermediaries for clients, while dealers trade on their own behalf and account. Modern broker-dealer companies combine these two roles, which allows a broader range of services and greater flexibility.

Observing total assets in the period from 2020 to 2024, brokerage houses in BiH recorded growth in 2020 of 22% (from 12 to 14 million BAM), but afterwards growth slowed down. In 2021, there was a growth of 5%, but in 2023 a decline of 13%, and in 2024 a decline of 34%. This indicates a significant reduction in activity in this segment in 2024.

One of the main reasons for the decline in brokerage house activity is increased competition and technological changes. The financial market is developing towards greater presence of electronic trading platforms and direct investments, which reduced the need for traditional brokerage

mediation in the country. International brokers such as Interactive Brokers, eToro, Saxo Bank, and others often have lower fees and commissions compared to brokers in BiH. This difference makes international brokers a more competitive choice for investors who want to access global markets.

Stock exchanges in BiH are less developed compared to other countries in the region and global markets. In BiH, there are two stock exchanges: the Sarajevo Stock Exchange (SASE) and the Banja Luka Stock Exchange (BLSE).

These exchanges enable trading in securities such as shares, bonds, and other financial instruments, but their trading volume is limited and cannot be compared with larger and more developed markets in Europe and the region. In the observed period from 2020 to 2024, the assets of stock exchanges remained stable with minor increases. The exchanges achieved small growth (1% in 2022 and 2% in 2023), indicating gradual development but without significant leaps in their activities.

4. THE CURRENT STATE AND INVESTMENT PROSPECTS OF FINANCIAL INTERMEDIARIES IN THE FINANCIAL MARKET OF BOSNIA AND HERZEGOVINA UNDER THE INFLUENCE OF GEOPOLITICAL CHANGES

The financial market of Bosnia and Herzegovina (BiH) has been in stagnation for years, a trend that became particularly pronounced following the global crisis of 2008. While developed markets began their recovery as early as 2009, markets such as BiH have yet to experience significant growth. Geopolitical tensions, including global military conflicts and the pandemic, have further increased uncertainty, negatively impacting investment activity and investor confidence.

Table 2. Market Capitalization on Exchanges in BiH (in million BAM)

Year	Market Capitalization of Banja Luka Stock Exchange	Market Capitalization of Sarajevo Stock Exchange	Total Market Capitalization	Amount of Change	% Change
2017	4,024	5,075	9,099	-322	-3%
2018	3,630	5,017	8,647	-452	-5%
2019	3,786	5,579	9,365	718	8%
2020	4,011	5,301	9,312	-54	-1%
2021	4,146	5,536	9,683	371	4%
2022	4,718	5,999	10,717	1,034	11%
2023	5,197	6,468	11,665	948	9%
2024	5,143	7,601	12,745	1,080	9%

Source: Central Bank of BiH

The following table presents a comparative overview of market capitalization and securities turnover on the Sarajevo and Banja Luka stock exchanges for the period from 2017 to 2024.

Table 3. Overview of Market Capitalization and Securities Turnover

Year	Market Cap Banja Luka Exchange (mil BAM)	Turnover Banja Luka Exchange (thousands BAM)	Market Cap Sarajevo Exchange (mil BAM)	Turnover Sarajevo Exchange (thousands BAM)
2017	4,024	49,732 (equity) 437,143 (debt)	5,075	200,324 (equity) 332,283 (debt)
2018	3,630	102,149 (equity) 326,022 (debt)	5,017	166,389 (equity) 121,807 (debt)
2019	3,786	76,553 (equity) 395,580 (debt)	5,579	195,685 (equity) 235,239 (debt)
2020	4,011	112,624 (equity) 621,395 (debt)	5,301	157,601 (equity) 383,430 (debt)
2021	4,146	100,520 (equity) 277,277 (debt)	5,536	131,074 (equity) 190,021 (debt)
2022	4,718	62,433 (equity) 625,991 (debt)	5,999	119,843 (equity) 263,895 (debt)
2023	5,197	93,924 (equity) 960,780 (debt)	6,468	34,022 (equity) 387,869 (debt)
2024	5,143	116,023 (equity) 620,098 (debt)	7,601	44,685 (equity) 741,027 (debt)

Source: Author's work based on data from the Central Bank of BiH

The war in Ukraine has triggered a rise in global uncertainty and significant economic sanctions, which have had a major impact on capital markets, increasing the need for borrowing. In this context, the issuance of debt securities in BiH has shown a growth trend. On the Banja Luka Stock Exchange, market capitalization increased from 4,024 million BAM in 2017 to 5,143 million BAM in 2024, representing growth of 27.8%. This increase resulted from the greater borrowing needs of the Government of Republika Srpska (RS) through the issuance of debt securities (bonds) during the period 2020–2024, as a consequence of heightened financing requirements amid global uncertainty

and the war in Ukraine. Market capitalization on the Sarajevo Stock Exchange in the same period rose from 5,075 million BAM to 7,601 million BAM, a significant increase of 52.6%. This higher growth relative to the Banja Luka Exchange indicates a stronger rise in trading activity, especially in the debt securities sector, which may also be related to the impact of the war in Ukraine. The portfolio structure of securities held by the banking sector in BiH shows a clear dominance of debt securities, which corresponds with the structure of turnover and capitalization on BiH stock exchanges.

Table 4. Portfolio of Securities of the Banking Sector in Republika Srpska

DESCRIPTION	31.12.2022.		31.12.2023.		30.09.2024	
	Amount (mil. BAM)	%	Amount (mil. BAM)	%	Amount (mil. BAM)	%
Equity Securities	26	2%	29	2%	31	3%
Debt Securities	1,271	98%	1,374	98%	1,299	97%
Government Bonds	1,206	95%	1,322	95%	1,240	95%
Government of RS	955	75%	1,137	83%	1,068	82%
EU Member States	227	18%	172	13%	159	12%
Other Countries	24	2%	13	1%	13	1%
Other Issuers	65	5%	52	5%	59	5%
From RS	37	3%	31	3%	37	3%
From EU Member States	28	2%	21	2%	22	2%

Source: Banking Agency of Republika Srpska

During the observed period from 2022 to 2024, a significant change is noted in the volume and structure of debt securities owned by banks in Republika Srpska, with a particular emphasis on securities issued by the Government of RS. In 2022, the investment volume in these instruments amounted to BAM 955 million, increasing to BAM 1,137 million in 2023, which represents a growth of 19%. This directly corresponds to increased liquidity needs amid heightened

uncertainty caused by global geopolitical changes, including the impact of the war in Ukraine, energy instability, and inflationary pressures. In 2024, a slight decline in investments in RS Government bonds occurred—from BAM 1,137 million to BAM 1,068 million. This downward trend may be linked to political instability and sanctions, which reduced confidence in RS institutions, reflected also by the decreased interest of foreign-capital banks in new bond issuances.

Table 5. Portfolio of securities of the banking sector in the Federation of Bosnia and Herzegovina (FBiH)

DESCRIPTION	31.12.2022.		31.12.2023.		31.12.2024.	
	Amount (mil. BAM)	%	Amount (mil. BAM)	%	Amount (mil. BAM)	%
Equity Securities	18	1%	30	1%	34	1%
Debt Securities	2,011	99%	2,471	99%	3,075	99%
All Government Bonds in BiH	1,046	52%	1,109	45%	1,411	45%
Bonds of Other Countries	791	39%	1,136	46%	1,473	47%
Corporate Bonds	175	9%	226	8%	191	6%
TOTAL	2,029	100%	2,501	100%	3,109	100%

Source: Banking Agency of FBiH

The total value of the securities portfolio of the banking sector in FBiH increased from BAM 2,029 million in 2022 to BAM 3,109 million in 2024, representing a total growth of 53% over two years. Although the nominal amount invested in government bonds issued by the governments of FBiH and cantons rose (from BAM 1,046 million to BAM 1,411 million), their share in the total portfolio decreased from 52% to 45%. The amount invested in debt securities of other countries increased from BAM 791 million (39%) in 2022 to

BAM 1,473 million (47%) in 2024. This indicates relative dispersion of bank investments in FBiH. The conditions on the international financial market changed significantly after the pandemic, the war in Ukraine, and the rise in interest rates in the EU and the USA. Foreign government bonds, especially those from the EU, became attractive again, offering relatively high yields with low risk, which attracted capital from banks operating in FBiH.

Table 6. Balance Sheet of Investment Funds in Bosnia and Herzegovina (in mil. BAM)

Year	Currency and Deposits	Debt Securities except Shares	Debt Securities except Shares	Other Receivables	Non-financial Assets	Total Assets	Other Liab.	Capit	Total Liab.
2013	70	33	663	6	2	775	14	760	775
2014	74	49	677	7	1	809	12	797	809
2015	140	77	607	8	1	834	10	824	834
2016	162	83	561	5	5	817	8	809	817
2017	212	117	510	7	10	858	10	848	858
2018	250	135	487	10	10	894	7	887	894
2019	251	178	410	11	11	861	10	852	861
2020	213	188	391	11	17	820	10	810	820
2021	214	269	432	9	18	943	10	932	943
2022	255	325	468	2	23	1,074	5	1,069	1,074
2023	237	344	452	8	26	1,061	9	1,052	1,061
2024	240	440	427	7	25	1,139	8	1,131	1,139

Source: Author's calculations based on Central Bank of BiH data

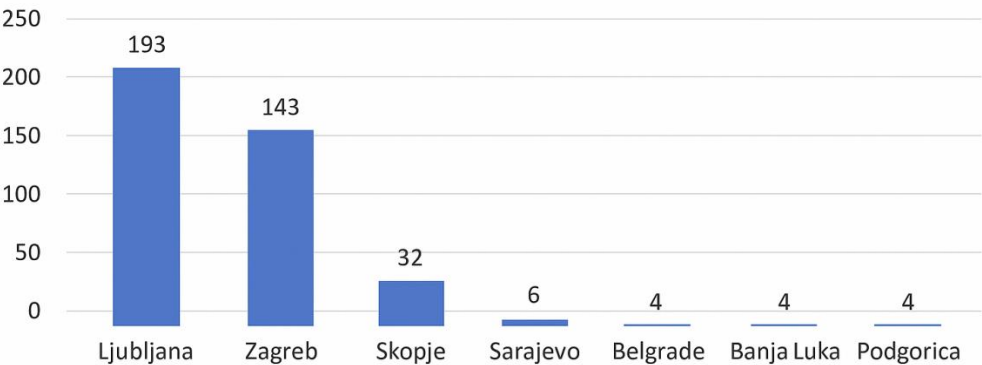
Following the global financial crisis of 2008, investment funds in Bosnia and Herzegovina experienced a significant decline in asset value, lasting until 2014. Before the crisis, equities represented the largest portion of investment fund assets, but the drop in their market value caused by the crisis directly impacted the reduction of total assets. In the subsequent period, a gradual recovery occurred, but the portfolio structure shifted towards safer instruments. Another significant decline in asset value was recorded during 2018–2020, mainly due to increased redemptions by investors, especially in open-ended investment funds. This further influenced the portfolio redistribution, with funds increasingly shifting from equities to debt securities and deposits, driven by rising interest rates. Since 2021, there has been a noticeable trend of increased investment in debt securities, which for

the first time exceeded deposits in that year. This trend continued, and in 2024 debt securities became the largest single asset category in fund portfolios. Meanwhile, the value of equities within total assets has been steadily declining, indicating a long-term strategic shift of investment funds towards more stable and less risky instruments.

In addition to investment funds, other financial intermediaries, primarily insurance companies, play a significant role in the financial market of BiH. The investment structure of insurance companies in BiH is dominated by debt financial instruments, mainly government bonds, as well as deposits with financial institutions. This approach results from both internal risk management policies and regulatory restrictions that encourage a more conservative investment strategy.

Chart 1. Stock Trading Volume on Regional Exchanges (mil. EUR) in Q1 2025

Turnover of shares on regional stock exchanges (mil. EUR) in the first quarter of 2025



Source: Momentum Securities

Compared to other countries in the region, stock exchanges in Bosnia and Herzegovina exhibit relatively low trading volumes of equity securities, which limits their role in the economy. The main challenges are low liquidity, insufficient participation of institutional investors, and a limited number of companies listed on the exchanges. Progress requires regulatory improvements, attracting new issuers, and promoting public trading of securities. The establishment of a regional stock exchange could significantly enhance liquidity and the attractiveness of capital markets in the region, including BiH. A regional exchange would consolidate several smaller markets, attract a larger number of investors, and provide easier access to

capital for companies. Financial intermediaries in BiH, such as banks, brokerage houses, and investment funds, could play a key role in integrating the domestic market into a broader regional platform. Strengthening regional infrastructure would also encourage financial intermediaries themselves to invest more capital and expand their activities, further strengthening the financial markets of BiH and the region.

CONCLUSION

Although financial intermediaries in Bosnia and Herzegovina are institutionally present in various forms—such as banks, insurance companies, investment funds, and brokerage houses—they still fall short of fully performing their intermediation

function in capital mobilization and allocation. Their investments are predominantly concentrated in low-risk and traditional instruments such as government bonds and bank deposits, indicating a highly cautious investment strategy. This conservative approach is partly a legacy of an earlier stage of financial system development, during which banking channels of financing dominated, while capital market institutions remained marginalized.

Financial intermediaries in Bosnia and Herzegovina operate in a market that is shallow, illiquid, with a limited number of securities and low investor confidence. Additionally, internal fragmentation, lack of legal certainty, and weak financial literacy further reduce the efficiency of these institutions. Geopolitical changes—particularly after 2022, including the war in Ukraine, the energy and inflation crises, disruptions in global supply chains, and increased uncertainty in the Western Balkans—have heightened global risk and increased the vulnerability of financial intermediaries in Bosnia and Herzegovina.

Instead of assuming a more active role in financing the economy during times of crisis, intermediaries have further retreated into safe investments, which has exacerbated the problem of illiquidity and limited the potential for capital market development. These circumstances indicate that the financial market of Bosnia and Herzegovina is structurally sensitive to external shocks and lacks sufficient internal mechanisms to absorb geopolitical and economic disruptions.

In the future, the development of the market will depend on the ability of financial intermediaries to adapt to new risks, as well as on systemic support aimed at strengthening the regulatory framework,

promoting financial literacy, and encouraging alternative sources of financing.

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