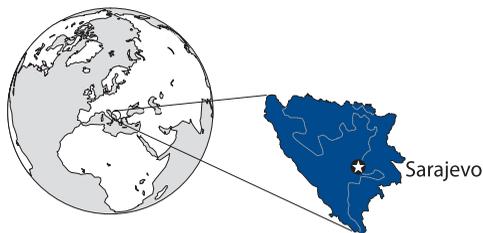


BOSNIA AND HERZEGOVINA



Economic Freedom Score



World Rank: **101**

Regional Rank: **38**

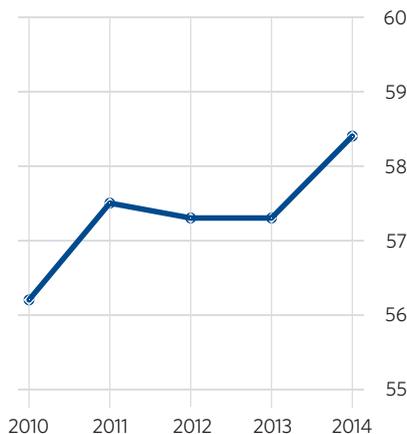
Bosnia and Herzegovina's economic freedom score is 58.4, making its economy the 101st freest in the 2014 *Index*. Its overall score has increased by 1.1 points, reflecting improvements in investment freedom, business freedom, and freedom from corruption. Bosnia and Herzegovina is ranked 38th out of 43 countries in the Europe region, and its score is below the global and regional averages.

Bosnia and Herzegovina was first ranked in the *Index* in 1998. Over the 17 years since then, its economic freedom score has advanced by about 29 points, the second best improvement of any country. With scores increasing in all 10 economic freedoms, Bosnia and Herzegovina has made tremendous strides in eliminating economically repressive policies. Implementation of gradual structural reforms to enhance regulatory efficiency and market openness has moved it into the mid-ranks of the *Index*. Greater monetary stability has also been achieved.

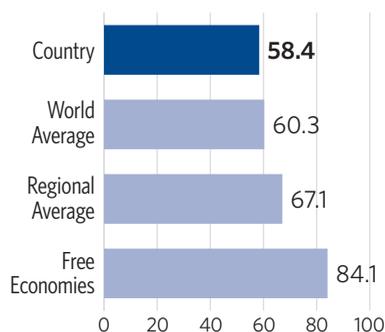
Nonetheless, Bosnia and Herzegovina's economy is still considered "mostly unfree." Deeper institutional reforms, particularly related to eradicating corruption and ensuring judicial independence, remain critical to further advancement of economic freedom and improvement of economic growth.

BACKGROUND: The 1995 Dayton Agreement ended three years of war in the former Yugoslavia and finalized Bosnia and Herzegovina's independence. The presidency rotates among three elected members every eight months inside a four-year term. Under a loose central government, two separate entities exist: the Republika Srpska (Serbian) and the Federation of Bosnia and Herzegovina (Muslim/Croat). The European Union signed a Stabilization and Association Agreement with Bosnia and Herzegovina in 2008. Bosnia also received a NATO Membership Action Plan in 2010 and is one of four official candidates to join NATO. The country is one of Europe's poorest. Agriculture is inefficient. There has been some privatization, but much of the industrial sector is also inefficient. Corruption is widespread. An institutionally weak central government has made implementation of economic reforms difficult.

Freedom Trend



Country Comparisons



Quick Facts

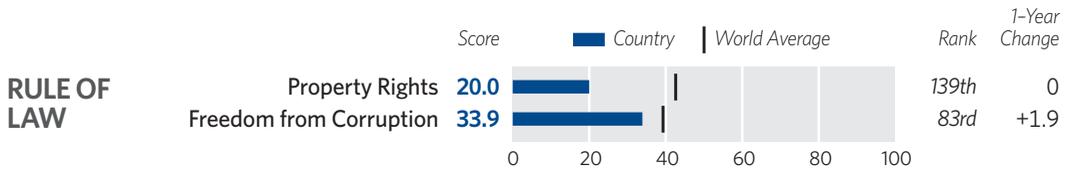
Population: 3.9 million
GDP (PPP): \$31.9 billion
 -0.7% growth in 2012
 5-year compound annual growth 0.8%
 \$8,216 per capita
Unemployment: 28.0%
Inflation (CPI): 2.0%
FDI Inflow: \$632.9 million
Public Debt: 44.3% of GDP

How Do We Measure Economic Freedom?

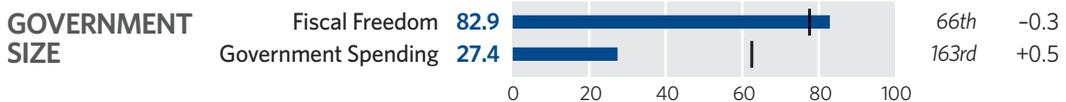
See page 471 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

2012 data unless otherwise noted.
 Data compiled as of September 2013.

THE TEN ECONOMIC FREEDOMS



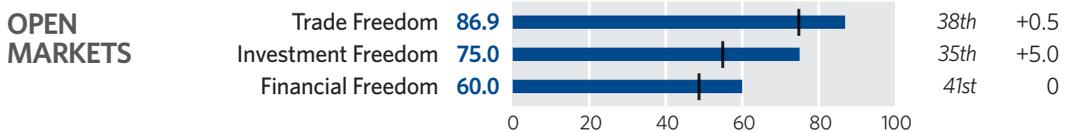
In the most high-profile corruption case since independence in 1992, the president of the Bosnian Federation and 18 other officials were arrested in April 2013 and charged with taking bribes in return for granting clemency to convicted criminals. The complex system of government lends itself to deadlock and prevents reform. Property registries are largely unreliable, leaving transfers open to dispute.



Tax policies in Bosnia and Herzegovina vary across governing entities. The top individual income and corporate tax rates are 10 percent. Other taxes include a value-added tax (VAT) and a property tax. Overall tax revenue is 38.9 percent of GDP. Government expenditures have fallen steadily to 49.2 percent of the domestic economy, and public debt remains below 45 percent of GDP.



It takes 11 procedures and almost 40 days to incorporate a company. The process for obtaining necessary permits costs more than 10 times the level of average annual income and takes over 100 days. The labor market remains inefficient, with employment regulations not conducive to productivity and job growth. Energy-related subsidies amount to nearly 10 percent of GDP. The state also subsidizes agricultural production.



The country's 1.5 percent average tariff is relatively low. Its legal and regulatory systems may be difficult for foreign investors to navigate. The banking sector remains well-capitalized, but the level of non-performing loans has increased. Of the 29 banks that operate in the country, the 19 that are foreign owned account for over 85 percent of total assets in the sector.

Long-Term Score Change (since 1998)

RULE OF LAW		GOVERNMENT SIZE		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	+10.0	Fiscal Freedom	+4.1	Business Freedom	+15.5	Trade Freedom	+17.5
Freedom from Corruption	+23.9	Government Spending	+10.8	Labor Freedom	+7.6	Investment Freedom	+45.0
				Monetary Freedom	+80.1	Financial Freedom	+50.0