**BOSNIA AND HERZEGOVINA**

Bosnia and Herzegovina’s economic freedom score is 61.9, making its economy the 83rd freest in the 2019 Index. Its overall score has increased by 0.5 point, with improvements in labor freedom and government spending outpacing declines in scores for judicial effectiveness and trade freedom. Bosnia and Herzegovina is ranked 37th among 44 countries in the Europe region, and its overall score is below the regional average but slightly above the world average.

Bosnia and Herzegovina’s economy has been driven by postwar reconstruction. Trade is an engine of growth, but the overall entrepreneurial environment remains one of the region’s most burdensome, hindering the emergence of a dynamic private sector. The highly decentralized government hampers policy coordination and reform, while excessive bureaucracy, weak rule of law, and market segmentation discourage foreign investment. Public perceptions of government corruption and misuse of taxpayer money motivate many to remain in the large informal economy.

**ECONOMIC FREEDOM SCORE**

![Economic Freedom Score](image)

**RELATIVE STRENGTHS:** Fiscal Health and Tax Burden

**HISTORICAL INDEX SCORE CHANGE (SINCE 1998):** +32.5

**CONCERNS:** Government Integrity and Judicial Effectiveness

**FREEDOM TREND**

![Freedom Trend Graph]

**QUICK FACTS**

- **POPULATION:** 3.5 million
- **GDP (PPP):** $44.6 billion
- **INFLATION (CPI):** 1.3%
- **FDI INFLOW:** $425.2 million
- **PUBLIC DEBT:** 41.0% of GDP

**BACKGROUND:** The 1995 Dayton Agreement finalized Bosnia and Herzegovina’s independence. Two separate entities exist under a loose central government: the Republika Srpska (Serbian) and Federation of Bosnia and Herzegovina (Muslim/Croat). Bosnian Serb nationalist leader Milorad Dodik and Sefik Dzaferovic of the large Muslim Bosniak party won the Serb and Bosniak seats in Bosnia’s triumvirate presidency in October 2018 elections. The slow pace of reform has delayed accession to the European Union. The economy relies heavily on exports of metals, energy, textiles, and furniture as well as on remittances, foreign aid, and Chinese infrastructure investment, particularly in the energy sector. Tourism has been rising, but a large uptick in migrant arrivals caused by shifting smuggling routes in the Balkans has strained resources.

2017 data unless otherwise noted. Data compiled as of September 2018.
Property registries are largely unreliable, making land transactions vulnerable to dispute and creating a major barrier to the development of real property and mortgage markets. The judiciary remains susceptible to political influence and burdened by a large case backlog. Inefficiency, incompetence, and corruption are pervasive.

The top income and corporate tax rate is 10 percent, but various governing entities have different tax policies. The overall tax burden equals 37.0 percent of total domestic income. Over the past three years, government spending has amounted to 42.4 percent of the country’s output (GDP), and budget surpluses have averaged 0.7 percent of GDP. Public debt is equivalent to 41.0 percent of GDP.

Regulatory inefficiency still impairs the business environment and limits the private investment needed for faster economic growth. Obtaining business licenses and launching a business remain subject to bureaucratic delays. The newly adopted labor code is intended to enhance labor market flexibility. The government subsidizes energy and maintains a regime of poorly targeted agricultural subsidies.

The combined value of exports and imports is equal to 86.9 percent of GDP. The average applied tariff rate is 1.2 percent. The government’s official policy is to treat foreign and domestic investors equally under the law. Foreign-owned banks account for over 80 percent of banking assets. About 63 percent of adult Bosnians and Herzegovinians have an account with a formal banking institution.