

BOSNIA AND HERZEGOVINA

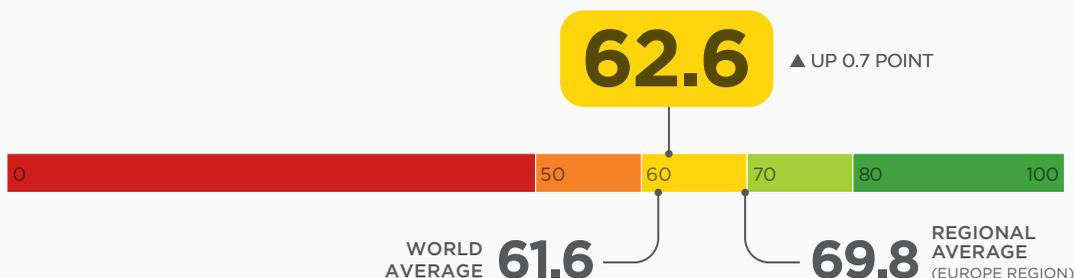
Bosnia and Herzegovina's economic freedom score is 62.6, making its economy the 82nd freest in the 2020 *Index*. Its overall score has increased by 0.7 point, aided by a spike in the score for **government integrity**. Bosnia and Herzegovina is ranked 38th among 45 countries in the Europe region, and its overall score is well below the regional average and approximately equal to the world average.

Scoring of Bosnia and Herzegovina in the *Index* began in 1998. Since then, the country has made slow but steady progress. Its economy has been designated moderately free for the past four years. GDP growth during that period has also been solid.

The main impediment to greater economic freedom is very poor performance on the rule-of-law indicators: property rights, judicial effectiveness, and government integrity. Adopting reforms and changing the culture at judicial and other government institutions would not only bring the country a higher ranking in the *Index*, but also enhance prospects for its accession to the European Union.

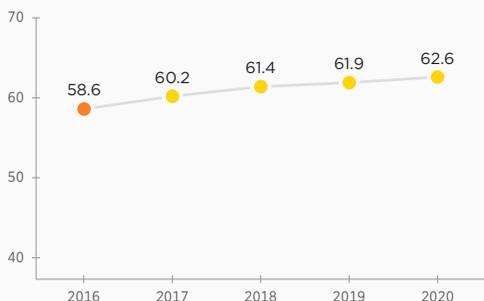


ECONOMIC FREEDOM SCORE



HISTORICAL *INDEX* SCORE CHANGE (SINCE 1998): +33.2

RECENT FREEDOM TREND



QUICK FACTS

POPULATION:
3.5 million

GDP (PPP):
\$47.3 billion
3.1% growth in 2018
5-year compound annual growth 2.7%
\$13,491 per capita

UNEMPLOYMENT:
20.8%

INFLATION (CPI):
1.4%

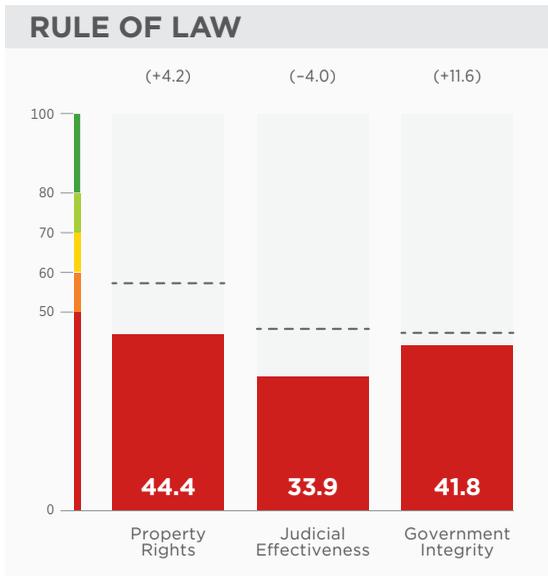
FDI INFLOW:
\$467.7 million

PUBLIC DEBT:
37.0% of GDP

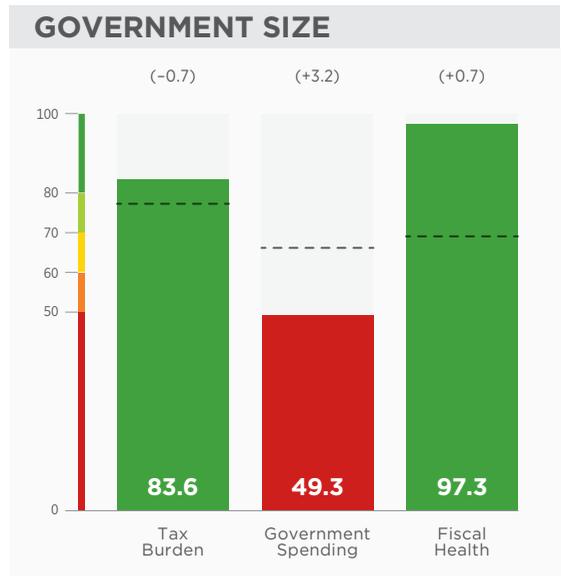
2018 data unless otherwise noted. Data compiled as of September 2019

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 the 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 EU. 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 increase in migrant arrivals caused by shifting smuggling routes in the Balkans has strained resources.

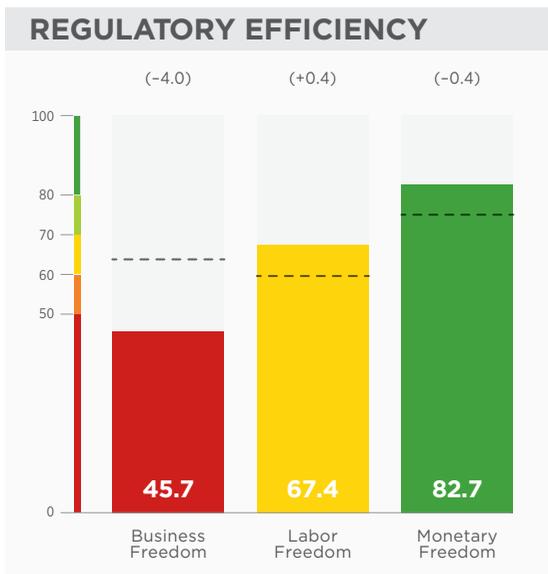
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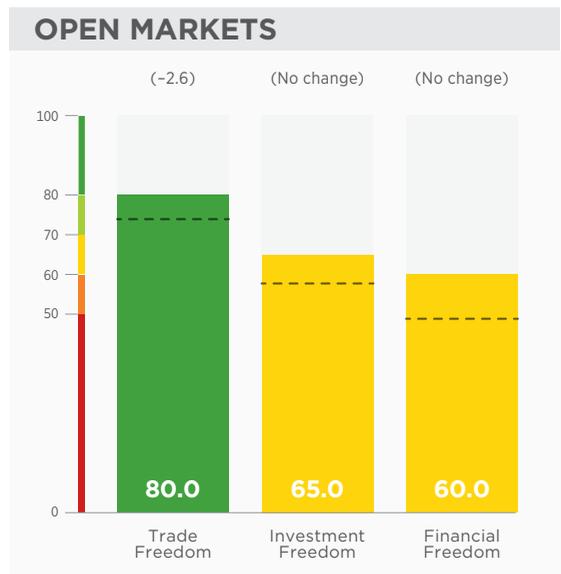
A significant portion of land and real estate property lacks a clear title because of restitution issues, and property registries are largely unreliable. The judiciary remains susceptible to political influence and faces a large backlog of cases. Corruption remains prevalent in many political and economic institutions in Bosnia and Herzegovina and raises the costs and risks of doing business.



The top income and corporate tax rates are 10 percent, but various governing entities have different tax policies. The overall tax burden equals 37.9 percent of total domestic income. Government spending has amounted to 41.1 percent of the country's output (GDP) over the past three years, and budget surpluses have averaged 1.5 percent of GDP. Public debt is equivalent to 37.0 percent of GDP.



The legacy of socialism still burdens entrepreneurs in the form of an overly complex legal and regulatory framework. Mandatory contributions to labor unions by employers discourage the hiring of new workers and fuel informal labor. New labor laws passed in 2016 are meant to modernize the labor code. The government is reforming the finances of state-owned enterprises that have been a drain on the budget.



The total value of exports and imports of goods and services equals 98.2 percent of GDP. The average applied tariff rate is 2.5 percent. Nontariff barriers reduce the potential benefits of trade. Inadequate legal protections and an opaque regulatory framework deter investment. The banking sector remains stable, but the number of nonperforming loans is still considerable. Foreign-owned banks account for over 70 percent of total banking assets.