Bosnia and Herzegovina’s economic freedom score is 62.9, making its economy the 82nd freest in the 2021 Index. Its overall score has increased by 0.3 point, primarily because of an improvement in the tax burden score. Bosnia and Herzegovina is ranked 40th among 45 countries in the Europe region, and its overall score is below the regional average but above the world average.

Bosnia and Herzegovina’s economy remains moderately free for the fifth year in a row. The main impediment to greater economic freedom remains very poor performance on the rule-of-law indicators: property rights, judicial effectiveness, and government integrity. Adoption of policies to improve business freedom is likewise necessary but will require better cooperation between the country’s separate political entities.

IMPACT OF COVID-19: As of December 1, 2020, 2,727 deaths had been attributed to the pandemic in Bosnia and Herzegovina, and the economy was forecast to contract by 6.5 percent for the year.

BACKGROUND: The 1995 Dayton Agreement finalized Bosnia and Herzegovina’s independence. Two separate entities, the Republika Srpska (Serbian) and Federation of Bosnia and Herzegovina (Muslim/Croat), exist under a loose central government. Disagreement among Bosnia’s triumvirate presidency resulted in a 14-month delay in the formation of a government following elections in October 2018. 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. The impact of ongoing migrant arrivals continues to strain resources. Additional challenges include high unemployment and the resilience of the country’s nascent tourism industry.
The difficulty of registering real property is generally acknowledged to be a significant barrier to the development of property and mortgage markets. A significant portion of real property lacks a clear title, and property registries are largely unreliable. The judiciary remains susceptible to political influence, and the backlog of cases is large. Legislation designed to combat corruption, which remains widespread and systemic, is poorly enforced.

The top income and corporate tax rates are 10 percent, but various governing entities have different tax policies. The overall tax burden equals 20.4 percent of total domestic income. Government spending has amounted to 41.0 percent of total output (GDP) over the past three years, and budget surpluses have averaged 1.9 percent of GDP. Public debt is equivalent to 38.0 percent of GDP.

Starting a business, getting electricity, and dealing with construction permits have become less costly. However, the recovery rate when resolving insolvency has increased. Complex labor and pension laws cause many employers to underreport the size of their workforces. Heavy subsidies to state-owned enterprises, which have assets equal to one year of GDP, have been a drain on the budget.

Bosnia and Herzegovina has four preferential trade agreements in force. The trade-weighted average tariff rate is 7.9 percent, and significant nontariff barriers further restrict trade flows. Bosnia and Herzegovina is not a member of the World Trade Organization. Complex legal and regulatory frameworks limit new foreign investment. The banking sector, dominated by foreign banks, remains stable, but the number of nonperforming loans is sizable.