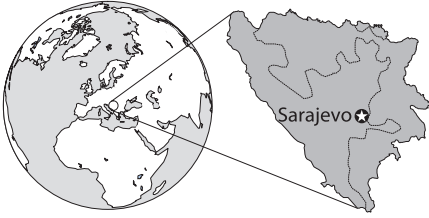


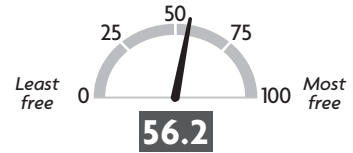
# BOSNIA AND HERZEGOVINA



World Rank: **110**

Regional Rank: **39**

## Economic Freedom Score



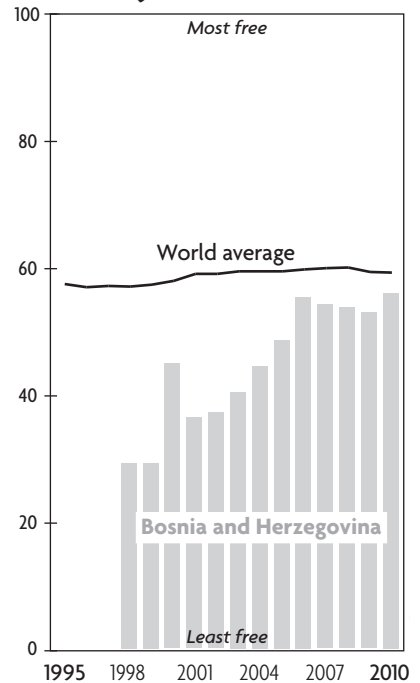
**B**osnia and Herzegovina's economic freedom score is 56.2, making its economy the 110th freest in the 2010 *Index*. Its overall score is 3.1 points higher than last year, with significant improvements in fiscal freedom, investment freedom, and labor freedom. Bosnia and Herzegovina is ranked 39th freest among the 43 countries in the Europe region, and its overall score remains well below the regional average.

After several years of robust growth and monetary stability, the economy of Bosnia and Herzegovina deteriorated markedly in 2009, partly because of the global economic crisis and the generally slow pace of transition to greater economic freedom. The entrepreneurial environment has been improving but remains one of the region's most difficult and inefficient.

Further reforms are needed to tackle bureaucracy and reduce petty corruption. Without significant progress in revitalizing the privatization of large-scale enterprises, reforming the judicial system, and improving the enforcement of laws on competition and bankruptcy procedures, the encouraging growth of previous years is unlikely to resume, leaving much of the country mired in poverty and high unemployment.

**BACKGROUND:** The 1995 Dayton Agreement ended three years of fighting and finalized Bosnia and Herzegovina's secession from the former Yugoslavia. Under a loose central government, two separate entities exist along ethnic lines: the Republika Srpska (Serbian) and the Federation of Bosnia and Herzegovina (Muslim/Croat). The rule of law is weak, and local courts are subject to substantial political interference and lack the resources to prosecute complex crimes. Intrusive bureaucracy and costly registration procedures reflect a history of central planning. The economy relies heavily on agriculture. The European Union signed a Stabilization and Association Agreement with Bosnia and Herzegovina in June 2008, moving closer to EU membership. Progress toward membership in NATO slowed somewhat in 2009 because of member countries' concerns about the lack of progress on needed reform.

## Country's Score Over Time



## Quick Facts

**Population:** 3.8 million

**GDP (PPP):** \$31.7 billion

6.0% growth in 2008

5.8% 5-year compound

annual growth

\$8,390 per capita

**Unemployment:** 29.0% (2007)

**Inflation (CPI):** 7.4%

**FDI Inflow:** \$1.0 billion

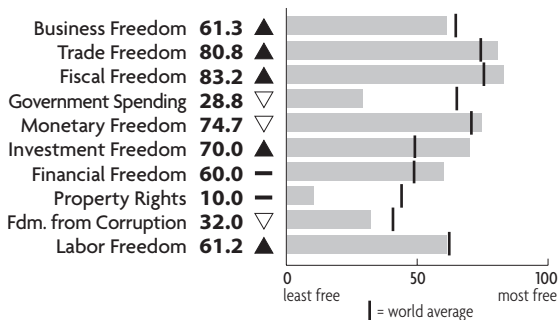
2008 data unless otherwise noted

Data compiled as of September 2009

## How Do We Measure Economic Freedom?

See page 457 for an explanation of the methodology or visit the *Index* Web site at [heritage.org/index](http://heritage.org/index).

## BOSNIA & HERZEGOVINA'S TEN ECONOMIC FREEDOMS



### BUSINESS FREEDOM — 61.3

The overall freedom to establish and run a business is limited by Bosnia and Herzegovina's national regulatory environment. Starting a business takes an average of 60 days, compared to the world average of 35 days. Obtaining a business license takes more than the world average of 218 days.

### TRADE FREEDOM — 80.8

Bosnia and Herzegovina's weighted average tariff rate was 4.6 percent in 2008. Import and export restrictions, non-transparent regulations and government procurement, additional import duties on agriculture products, and numerous border fees add to the cost of trade. Enforcement of intellectual property rights remains problematic. Ten points were deducted from Bosnia and Herzegovina's trade freedom score to account for non-tariff barriers.

### FISCAL FREEDOM — 83.2

Bosnia and Herzegovina's various governing entities have different tax policies. The top income tax rate is 10 percent, down from 15 percent. The top corporate tax rate is also 10 percent, down from 30 percent. Other taxes include a value-added tax (VAT), a sales tax, and a property tax. In the most recent year, overall tax revenue as a percentage of GDP was 38.5 percent.

### GOVERNMENT SPENDING — 28.8

Total government expenditures, including consumption and transfer payments, are high. Privatization efforts have had mixed success. A Fiscal Council was established in 2008 to address problems with national fiscal coordination. In the most recent year, government spending equaled 48.7 percent of GDP.

### MONETARY FREEDOM — 74.7

Inflation is rising, averaging 5.8 percent between 2006 and 2008. Price controls apply to electricity, gas, and telecommunications services. Ten points were deducted from Bosnia and Herzegovina's monetary freedom score to adjust for measures that distort domestic prices.

### INVESTMENT FREEDOM — 70

The law accords foreign investors the same rights as domestic investors. With the exception of armaments and media, where foreign control is limited to 49 percent, there are no

restrictions on investment. The right to transfer and repatriate profits and remittances immediately is guaranteed, and local and foreign companies may hold accounts in one or more banks that are authorized to initiate or receive payments in foreign currency. A multi-tiered and divided two-entity government creates a confusing array of regulations, fees, taxation, and standards requirements. Foreign investors continue to face serious obstacles, including a complex legal and regulatory framework, non-transparent business procedures, and a weak judiciary. Myriad state and municipal administrations result in a non-transparent bureaucratic system that creates opportunities for corruption. Privatization of state-owned enterprises has lagged behind the other countries in the region. There are few restrictions on capital transactions and foreign exchange accounts. The law prohibits expropriation and nationalization of assets, except under special circumstances and with due compensation.

### FINANCIAL FREEDOM — 60

More reform has taken place in the financial sector than in any other area of economic activity. The banking system has expanded quickly in recent years, and consolidation and privatization have followed. Most banks are in private hands, accounting for more than 80 percent of banking capital. There is easy access to capital and a wide range of services. The presence of foreign-owned banks is strong, accounting for over 90 percent of total banking assets. Long-term lending is still hindered by insufficient enforcement of contracts and the poor regulatory environment. The central bank has attempted to consolidate financial oversight, but the process has stalled. Capital markets remain underdeveloped. Each region has a slowly growing non-bank financial sector and a small stock exchange. There are no restrictions on payments and transfers related to international current and capital transactions.

### PROPERTY RIGHTS — 10

Property registers are largely unreliable, leaving property transfers open to dispute. The judicial system does not cover commercial activities adequately. Court decisions are difficult to enforce. Contracts are almost unenforceable, and the implementation of laws protecting intellectual property rights is inadequate.

### FREEDOM FROM CORRUPTION — 32

Corruption is perceived as widespread. Bosnia and Herzegovina ranks 92nd out of 179 countries in Transparency International's Corruption Perceptions Index for 2008. Corruption remains prevalent in many political and economic institutions. Judges typically request bribes and respond to pressure from public officials. Business registration and licensing are particularly vulnerable to corruption.

### LABOR FREEDOM — 61.2

Relatively inflexible employment regulations hinder employment creation and productivity growth. The non-salary cost of employing a worker is moderate, but an inflexible wage-determination system hinders job creation and mobility.