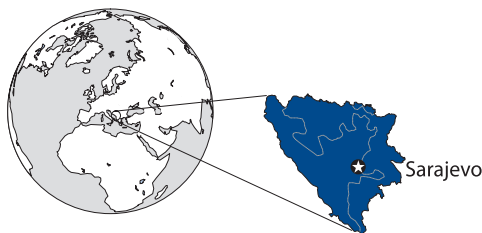
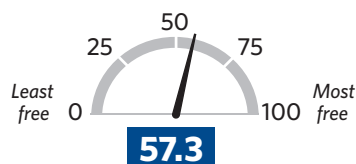


BOSNIA AND HERZEGOVINA



Economic Freedom Score



World Rank: **104**

Regional Rank: **38**

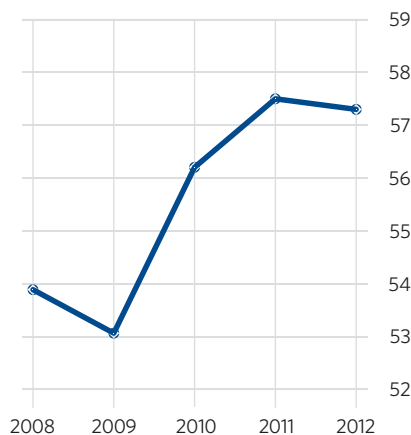
Bosnia and Herzegovina's economic freedom score is 57.3, making its economy the 104th freest in the 2012 *Index*. Its overall score is 0.2 point worse than last year, with a significant decline in business freedom. Bosnia and Herzegovina is ranked 38th out of 43 countries in the Europe region, and its overall score remains well below the regional average.

The foundations of economic freedom are fragile and uneven across the country. Poor protection of property rights and widespread corruption discourage entrepreneurial activity. The rule of law is weak, and local courts are subject to substantial political interference and lack the resources to prosecute complex crimes effectively. Intrusive bureaucracy and costly registration procedures reflect a history of central planning. Inefficient and high public spending perpetuates fiscal burdens imposed by the government.

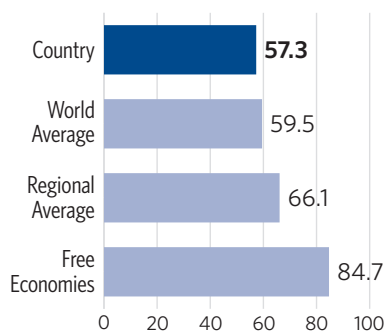
After several years of strong economic growth, Bosnia and Herzegovina's economic performance has deteriorated, partly because of the global economic slowdown and also because of the generally slow pace of the transition to regulatory efficiency and open-market policies. The entrepreneurial environment remains one of the region's most discouraging.

BACKGROUND: The 1995 Dayton Agreement ended three years of war 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 European Union signed a Stabilization and Association Agreement with Bosnia and Herzegovina in June 2008, moving the country closer to EU membership. In May 2010, the EU adopted a proposal allowing citizens of Bosnia and Herzegovina to travel to Schengen-treaty countries (25 European states) without needing a visa. In May 2010, Bosnia received NATO's Membership Action Plan, outlining but not guaranteeing the steps required for membership in that alliance.

Freedom Trend



Country Comparisons



Quick Facts

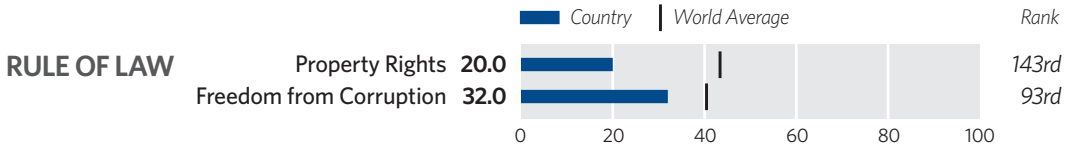
Population: 3.9 million
GDP (PPP): \$30.3 billion
 0.8% growth in 2010
 5-year compound annual growth 3.1%
 \$7,782 per capita
Unemployment: 43.1%
Inflation (CPI): 2.1%
FDI Inflow: \$63.4 million
Public Debt: 39.7% of GDP

How Do We Measure Economic Freedom?

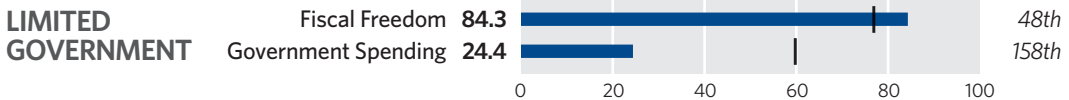
See page 455 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

2010 data unless otherwise noted.
 Data compiled as of September 2011.

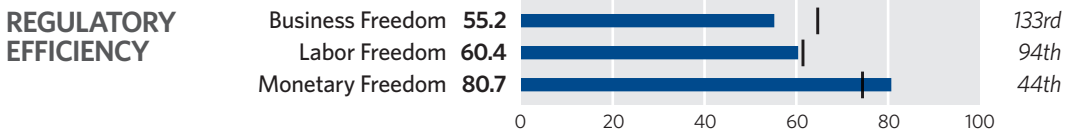
THE TEN ECONOMIC FREEDOMS



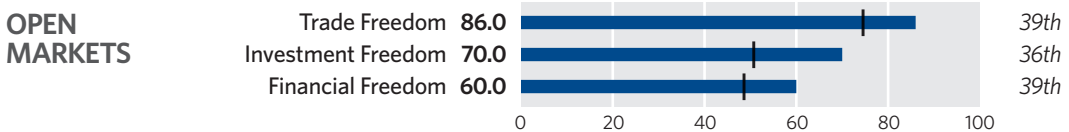
Property registries are largely unreliable, leaving transfers open to dispute. Efforts are being made to update real estate property laws, annul previous conflicting laws, and develop new workable registries in the two sub-federal entities. The judicial system does not cover commercial activities adequately. Contracts are almost unenforceable, and implementation of laws protecting intellectual property rights is inadequate. Corruption remains prevalent.



Bosnia and Herzegovina’s various governing entities have different tax policies. The top income and corporate tax rates are 10 percent. Other taxes include a value-added tax (VAT), a sales tax, and a property tax, with the overall tax burden equivalent to 37 percent of total domestic income. Government expenditures amount to about half of total domestic output, resulting in chronic budget deficits and growing public debt.



The average time required to start a company is about 15 days less than in previous years. However, licensing requirements have become considerably more burdensome and costly. Labor regulations’ complex administrative structure has inspired a dual labor market. The unemployment rate, particularly among the young, is one of the highest in the region. Inflation has been modest.



The trade weighted tariff is 2 percent, but non-tariff barriers persist. Myriad state and municipal administrations make up a non-transparent bureaucratic system that makes investment less appealing. About 80 percent of banking capital is privately owned, and around 90 percent of banks are foreign-owned. However, a lingering lack of contract enforcement and an insecure regulatory environment hamper credit availability.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.4	Business Freedom	-5.2	Trade Freedom	0
Freedom from Corruption	+2.0	Government Spending	+0.3	Labor Freedom	+0.2	Investment Freedom	0
				Monetary Freedom	+0.1	Financial Freedom	0