

BROCHURE CONTENT



Investment potentials



Statistical data



Legal framework

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BOSNIA & HERZEGOVINA

Investment guide





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GEOGRAPHICAL CHARACTERISTICS AND CLIMATE CONDITIONS

Bosnia and Herzegovina (B&H, B&H) is a small Balkan country with a growing economy located at the crossroads of Southeastern and Southern Europe.

It is surrounded by Croatia, Serbia, and Montenegro, while in the south, it has a narrow coastline on the Adriatic Sea within the Mediterranean Sea, which is about 20 kilometers long and surrounds the city of Neum.

Bosnia and Herzegovina consists of two land regions: **Bosnia, the northern part**, is mountainous and covered with dense forests, which is its main natural feature. 53% of the country is covered with dense forests, which can represent significant potential for the timber and construction industries.





FOREST POTENTIAL

In terms of forest potential, Bosnia and Herzegovina ranks first in the Balkans and seventh in Europe. Due to its natural and diverse structure, forests represent a significant resource for the further development of Bosnia and Herzegovina. The country is also geographically well positioned in terms of various climate influences (Mediterranean and moderate continental climates) and boasts over a hundred tree species.

It is interesting to note that Bosnia and Herzegovina has more waterfalls than Italy, France, and Germany combined.

RIVER POTENTIAL

Herzegovina, the southern part, consists mainly of rocky hills and flat arable surfaces.

The river system is composed of the rivers Bosna, Drina, Neretva, Vrbas, and Sava. **The hydro potential of Bosnia and Herzegovina amounts to 6,000 MW**, while its utilization is only 35%. Out of the total area of 51,210 km² of B&H, 12.2 km² is covered by water surfaces. The river network of Bosnia and Herzegovina consists of 262 smaller or larger rivers, which generate a large number of waterfalls.

ENERGY POTENTIALS

Bosnia and Herzegovina experiences snowy winters and a rainy season in early summer.

Summers are warm in mountain valleys but cold at higher altitudes. In the southern regions, there are 1900-2300 hours of sunshine (Mostar = 2285 hours). In northern Bosnia and Herzegovina, there are 1800-2000 hours of sunshine, more in the eastern than in the western part.

If fully utilized, Bosnia and Herzegovina could become a regional leader in clean energy production.

Terrain: Mountains and valleys.

Natural resources that Bosnia and Herzegovina possesses:

Coal, iron ore, bauxite, copper, lead, zinc, gold, chromite, cobalt, manganese, nickel, clay, gypsum, salt, sand, forests, hydro energy.



LEGAL FRAMEWORK

Bosnia and Herzegovina consists of two entities: the **Federation of Bosnia and Herzegovina (Federation)** and the **Republika Srpska (RS)**. A third, smaller area, the **Brčko District**, operates under special self-governance. Legislation regarding market unity is regulated at the level of Bosnia and Herzegovina, while some legislation is regulated at the entity level. All three administrative units have partially similar legislative and tax rules that need to be considered when investing in the country.



The capital and business center of the country is **Sarajevo** (274,524 inhabitants). With a rich history, Sarajevo is one of the oldest cities in Europe and a favorite destination for tourists visiting the region. Some other important and larger cities for business are Banja Luka, Tuzla, Mostar, Zenica, and Trebinje.



Population: 3,271 milion inhabitants (2021)

Surface area: 51,210 km² (19,772 mi²)

Language: bosnian, croatian, serbian.

Currency: Convertible mark – BAM (linked to EUR – 1 EUR = 1,95583 KM)

Bosnia and Herzegovina is over four times more energy-intensive than the average in EU countries and has the highest energy intensity in the Western Balkans. The residential sector is responsible for the largest share of total final energy consumption and has significant potential for improvements.

- Bosnia and Herzegovina has significant potential for renewable energy, especially in hydroelectric and wind power capacities.
- According to a study conducted by the German government, B&H could produce up to 2000 MW of wind energy annually, primarily in the areas of Livno, Tomislavgrad, Mostar, and Trebinje. This emerging industry still faces several regulatory and financial challenges.
- The road and highway network has a total length of 22,926 km. With a population of 3.27 million, this corresponds to 7.01 meters per person. This places Bosnia and Herzegovina at 76th place on the global ranking list.



MACROECONOMIC INDICATORS

The inflation rate for Bosnia and Herzegovina in November 2022 was **16.3%**.

The average inflation rate in Bosnia and Herzegovina from 2006 to 2023 has been 2.36%, reaching a record high of 17.40% in October 2022 and a record low of -2.10% in May 2020.

The unemployment rate in B&H for 2022 was **15.7%**.

GDP = 23,37 billion USD (2021.)

GDP per capita = 7.143,31 USD (2021.)

In 2023, the gross domestic product (GDP) of Bosnia and Herzegovina is projected to grow by 3.1%, according to the World Bank's Global Economic Prospects report in June 2022.

It is predicted that the gross domestic product of Bosnia and Herzegovina, in current prices, will continue to grow between 2022 and 2027, reaching a total increase of \$7.6 billion (+32.09%). The GDP is estimated to amount to \$31.27 billion in 2027.

INDUSTRIAL POTENTIAL

From the perspective of foreign investors, Bosnia and Herzegovina is an attractive investment location. Its geographical position serves as a link between the European Union and the countries of Southeast Europe.

Relatively low labor costs, proximity to European and CEFTA markets, developed industrial culture, and stable currency are just some of the reasons why investors choose Bosnia and Herzegovina.

Bosnia and Herzegovina is a transitional economy with a rapid decline in population.

Economic growth in B&H is primarily driven by consumption and, to some extent, public investments.

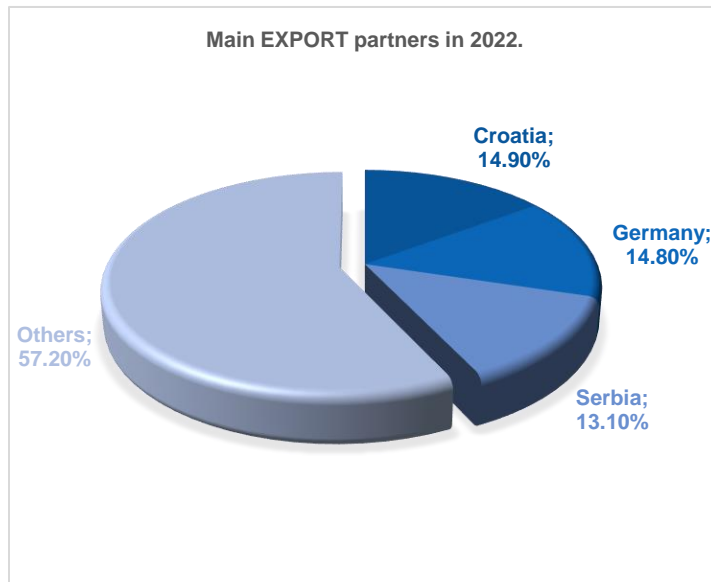
B&H is closely tied to global value chains as it primarily exports low-value goods rather than services.

Key industries include steel, coal, iron ore, lead, zinc, manganese, bauxite, aluminum, motor vehicle assembly, textiles, tobacco products, wooden furniture, ammunition, household appliances, and oil refining.

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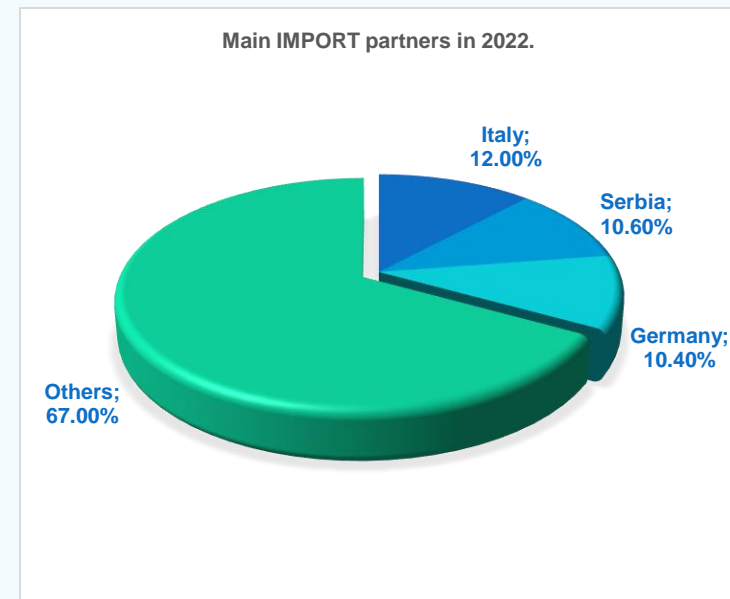
EXPORT PARTNERS AND MATERIALS



Main export materials: Metals, clothing, wood products.

It is also important to note that due to the rise in electricity prices during the current energy crisis, the export of this strategic product reached a record high of 1,074,654 KM, according to the data from the *Agency for Statistics of Bosnia and Herzegovina*.

IMPORT PARTNERS AND MATERIALS



Main import materials: Machinery and equipment, chemicals, fuels, food.

Bosnia and Herzegovina imports nearly double the amount it exports: the import value in 2022 was 28.6 billion KM compared to an export value of 17.9 billion KM. The export-to-import ratio stands at 62.8%. The country finances this trade deficit through substantial remittances from the Bosnian diaspora, amounting to 2 million KM, who reside outside the country.



BOSNIA & HERZEGOVINA – MARKET PRIORITIES AND OPPORTUNITIES

The main economic priorities of Bosnia and Herzegovina are: accelerating integration into the EU, strengthening the fiscal system, public administration reform, membership in the World Trade Organization, and fostering economic growth by nurturing a dynamic, competitive private sector.

B&H offers opportunities for well-prepared and persistent exporters and investors. The country is open to foreign investment and offers a liberal trade regime. Richly endowed with natural resources, it provides the best opportunities in the following sectors:

- Agricultural products and services related to meat and livestock, dairy and dairy products, fruits and vegetables, medicinal and aromatic herbs, and fisheries.
- Industrial processing materials to supply the metal-based industrial sector in B&H.
- Equipment for energy production and transmission for the construction and upgrading of hydroelectric power plants, thermal power plants, and electricity distribution projects.
- Telecommunication equipment and services to expand existing networks, including mobile, fixed, and broadband networks.
- Engineering of transportation infrastructure and construction services for the highway construction project on Corridor 5c and the improvement of local roads and railway infrastructure.
- Construction equipment to support infrastructure projects.
- Medical equipment for public healthcare systems and private clinics, including sophisticated diagnostic equipment.
- Information technology equipment and services, including computer software and IT equipment and services.

It is necessary to visit the country at an early stage of market research to develop relevant industry contacts and understand the multi-layered bureaucratic structure of B&H.

For a company new to the market, identifying a local partner is crucial. The choice should be based on knowledge of the potential partner's local market and a thorough check of their reputation. Sales agents, representatives, and distributors play an important role in this market.

PROTECTION OF FOREIGN INVESTMENT AND TRADE AGREEMENTS

In accordance with the Law on Foreign Direct Investment Policy in Bosnia and Herzegovina, foreign investors are guaranteed the following:

- Foreign investors have the same rights and obligations as residents of Bosnia and Herzegovina.
- Foreign investors can open bank accounts in any commercial bank in domestic or freely convertible currency.
- Foreign investors have the right to freely employ foreign nationals unless otherwise specified by the laws of B&H.
- Foreign investors have the same property rights over real estate as domestic legal entities.
- Foreign investors are protected against nationalization, expropriation, requisition, and measures with equivalent effect. Such measures can only be taken in the public interest, in accordance with applicable laws and regulations, and with payment of adequate compensation.
- Foreign investors have the right to repatriate profits resulting from their work in Bosnia and Herzegovina.
- The rights and privileges granted to foreign investors, as well as the obligations arising from the Law on Foreign Direct Investment Policy, cannot be abolished or invalidated by subsequently enacted laws and regulations.

The rights and privileges granted to foreign investors, as well as the obligations arising from the Law on Foreign Direct Investment Policy, cannot be abolished or revoked upon the enactment of subsequently adopted laws and regulations.



AGREEMENTS ON THE PROTECTION OF FOREIGN INVESTMENTS

- After 2015, by signing the Stabilization and Association Agreement (SAA) between the European Union (EU) and Bosnia and Herzegovina (B&H), and in 2022, by obtaining candidate status for EU membership, Bosnia and Herzegovina is one step closer to aligning its legislative framework with EU legislation. This step has significantly increased the stability of trade and economic relations between the European Union and Bosnia and Herzegovina.
- In addition to the above, Bosnia and Herzegovina has concluded the Central European Free Trade Agreement (CEFTA) with Macedonia, Serbia, Albania, Moldova, Montenegro, and Kosovo in order to protect foreign investments and facilitate access to other European and global markets.
- Bosnia and Herzegovina has also entered into a Free Trade Agreement with the European Free Trade Association (EFTA) countries, including Switzerland, Norway, Iceland, and Liechtenstein.
- Furthermore, Bosnia and Herzegovina has signed a Free Trade Agreement with Turkey, providing access to a market of 70 million people.
- Bosnia and Herzegovina has a preferential trade system with New Zealand, Japan, Australia, and member countries of the Eurasian Economic Union.

Bosnia and Herzegovina applies Agreements on Promotion and Reciprocal Protection of Investments with:

- *Albania, Austria, Belgium, Luxembourg, Belarus, Czech Republic, Denmark, Egypt, Finland, France, Greece, Croatia, Netherlands, Iran, Italy, Jordan, Canada, Qatar, China, Kuwait, Lithuania, Hungary, North Macedonia, Malaysia, Moldova, Germany, Pakistan, Portugal, Romania, USA, San Marino, Slovakia, Slovenia, Serbia, Spain, Switzerland, Sweden, Turkey, United Kingdom, and Ukraine.*

Considering the aforementioned relationships that Bosnia and Herzegovina maintains with other countries, establishing a company in B&H represents an opportunity for exporting to a market of nearly 600 million people without paying customs duties.

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CUSTOMS BENEFITS

- Foreign investments will be exempt from paying customs duties and obligations, except for passenger vehicles, entertainment machines, and gambling devices.
- Imported production equipment that is not produced in Bosnia and Herzegovina, and is imported for new or expanded production, production modernization, introduction of new or upgraded production technology directly related to production activities, is exempt from paying import customs duties.
- Production assets and other equipment belonging to a company that definitively ceases its activities in another country and relocates to the customs territory of Bosnia and Herzegovina to engage in similar activities are exempt from paying import customs duties.



FREE ZONES

Currently, there are four free zones in Bosnia and Herzegovina: "Visoko" LLC - Visoko, "Vogošća" LLC - Vogošća, "Hercegovina" LLC - Mostar, and "Holc" LLC - Puračić (near Lukavac). According to the Law on Free Zones of Bosnia and Herzegovina, a free zone can be established by one or more domestic or foreign legal and natural persons registered in Bosnia and Herzegovina.

The following are the fiscal benefits of a free zone:

- Free zone users are exempt from paying VAT and import duties on equipment used for production.
- Investments in free zones, profit transfers, and investment transfers are also free.
- Establishing a free zone is economically justified if, based on the submitted economic feasibility study of establishing the free zone, it can be assessed that the value of goods exported from the free zone will exceed at least 50% of the total value of produced goods leaving the free zone within a 12-month period.
- Exemption from paying VAT for the use of goods (excluding energy sources such as electricity, gas, etc.) in free zones, which are used for production and/or further trade of goods intended for export from Bosnia and Herzegovina.
- Exemption from paying VAT on equipment, facilities, and tools used in free zones for the production and/or further trade of goods intended for export from Bosnia and Herzegovina.
- Exemption from paying VAT for all services provided to free zone users directly related to the introduction of goods into free zones and the construction of facilities for conducting activities in free zones.



TAXES IN BOSNIA AND HERZEGOVINA

VALUE ADDED TAX (VAT)

The VAT rate in Bosnia and Herzegovina is uniform and amounts to **17%**.

The Value Added Tax Law provides for exemptions from paying VAT for certain transactions within specific activities listed in Articles 24 to 30 of the Law. Some of these include:

- Activities in the public interest.
- Insurance and reinsurance services, real estate transactions (excluding the first transfer of ownership or disposal rights of newly constructed real estate), leasing and subleasing of residential houses, apartments, and residential buildings for a period longer than 60 days, as well as leasing of agricultural and forest land registered in the land registers, financial services, stock trading, and management of investment funds.
- Final import of goods, where any subsequent transaction by the taxpayer would be exempt from VAT in Bosnia and Herzegovina, as well as goods exempt from customs duties, and services related to the import of goods...

It should be emphasized that this section of the Value Added Tax Law also includes taxation at a zero rate, for example, in terms of the export of goods from Bosnia and Herzegovina by or on behalf of the seller, the provision of services, including transportation and other ancillary services directly related to the export or import of goods.

According to the regulations in Bosnia and Herzegovina, a VAT taxpayer is entitled to deduct the VAT that they are required to pay or have paid when purchasing goods or services from another taxpayer or upon importation of goods, provided that they use those goods or services for the supply of goods and services subject to VAT payment.

The taxpayer may exercise the right to deduct input tax for the supply of goods and services made abroad, provided that the right to deduct input tax would exist if such supply were made in Bosnia and Herzegovina.

DIRECT TAXES

The application of regulations on direct taxes in Bosnia and Herzegovina (income tax and profit tax) depends on the place of business activity. Accordingly, direct taxes in Bosnia and Herzegovina are regulated at three levels - **the Federation of Bosnia and Herzegovina, the Republika Srpska, and the Brčko District of Bosnia and Herzegovina**. The tax rate for profit or income tax is **10%**.

Federation of B&H

Article 36 of the Corporate Income Tax Law introduces the possibility of the following incentives:

The taxpayer has the right to a reduction of profit tax payment based on investments made, subject to specific conditions listed exhaustively in the following paragraphs.

- The taxpayer who invests from their own funds in production equipment worth more than 50% of the current tax period's profit is entitled to a 30% reduction of the calculated profit tax liability in the year of investment. Investing in production equipment refers to the purchase of fixed assets, including plants and equipment (excluding passenger vehicles), which the taxpayer purchases with their own funds for the purpose of conducting production activities.
- The taxpayer who, over a period of five consecutive years, invests from their own funds a total amount of 20 million KM, with an initial investment of 4 million KM in the first year, is entitled to a 50% reduction of the calculated profit tax liability in the years of investment. Investing refers to investments in fixed assets, including real estate, plants, and equipment (excluding residential units and passenger vehicles), which the taxpayer will use for the purpose of conducting production activities.

Furthermore, the Corporate Income Tax Law has provided that the taxpayer has the right to a tax-deductible expense in the amount of double the gross salary paid to newly hired employees.



Republic of Srpska

According to the Corporate Income Tax Law, a taxpayer who makes an investment in equipment and facilities for conducting registered production activities within the territory of Republic of Srpska is entitled to a reduction of the tax base by the value of the investment made.

Withholding tax is paid on the following income payments to non-residents:

- a) dividends and profit shares,
- b) interest,
- c) remuneration for copyright and related rights, and intellectual property rights (rights to reproduce literary, artistic, scientific, and cinematographic works, patents, licenses, rights to use names, designs, models, trademarks, drafts, plans, and other similar rights),
- d) for performing entertainment, recreational, artistic, or sports programs in Republic of Srpska,
- e) for professional, scientific, technical, and educational services (market research, advertising and promotion, management, consulting, tax and business advisory, auditing, accounting, legal services, education, and other similar services),
- f) insurance premiums for insurance or reinsurance against risks in Republic of Srpska,
- g) for telecommunication services between Republic of Srpska and a foreign country, and
- h) for the lease of movable property.

Withholding tax is not paid on:

- Profits returned to a non-resident country related to their permanent establishment in Republika Srpska, where profits returned to the country refer to the remaining profit of the non-resident after paying the profit tax in Republika Srpska.
- Interest on loans and credits obtained from a legal entity in Republika Srpska and the permanent establishment of a non-resident in Republika Srpska for investments in equipment and facilities as defined in Article 26 of this law.
- Income in the form of interest or its functional equivalent on debt securities issued by Republika Srpska or a local self-government unit within its composition.

Withholding tax is calculated and settled based on:

- a) dividends or profit distributions;
- b) interest or its functional equivalent on financial instruments and arrangements;
- c) royalties and other intellectual property rights;
- d) fees for managerial, technical, and educational services (including fees for research, market consulting, auditing, and consulting services);
- e) rental fees for movable and immovable property leasing;
- f) fees for entertainment and sports events;
- g) insurance premiums for insurance or reinsurance against risks in the Federation;
- h) fees for telecommunication services;
- i) other service fees, but only for non-residents from countries with which no double taxation agreement is signed.

The following are not subject to withholding tax:

- interest on loans provided by suppliers for the purchase of equipment for production activities;
- interest on government bonds;
- reinsurance premiums against risks in the Federation paid by a reinsurer authorized by the supervisory authority.
- Withholding tax is paid at a rate of 10%, unless a different amount is agreed upon in a double taxation agreement concluded between B&H and the relevant country.

Real estate transfer tax is paid at a rate of **5%**.



Withholding tax is paid at a rate of 10%, unless otherwise agreed upon in a double taxation avoidance agreement concluded between Bosnia and Herzegovina and the relevant country.

In Republic of Srpska, there is an obligation to pay property tax at a rate of 0.20%. However, an exception applies to properties where direct production activities are conducted, with a tax rate of up to 0.10%.

Brcko District of Bosnia and Herzegovina

The Brcko District of Bosnia and Herzegovina has its own tax system (excluding indirect taxes such as VAT at 17%) with the following specificities:

- There is no property transfer tax.
- The property tax rate is 0.05% of the assessed value and is paid annually.
- The corporate income tax rate is 10%.

Tax incentives for legal entities are provided in the Law on Corporate Income Tax and summarized in the following provisions:

- Tax exemption based on the share of export income in the total income. The taxpayer who has achieved a certain percentage of export income in the taxable year is exempt from paying corporate income tax on the base consisting of the determined profit, proportionally to the share of export income in the total income. This exemption applies cumulatively if the taxpayer is headquartered in the Brčko District of Bosnia and Herzegovina and is predominantly engaged in production (excluding profits derived from export of services and intangible assets).
- Deduction of the tax base, up to a maximum of 50% of the taxable base, for the amount of investment made in land, buildings, equipment, furniture, and transportation means for conducting own activities within the district.
- Deduction of the tax base in the amount of gross salaries paid to newly employed workers, as an incentive measure for employment by the taxpayer who has hired new permanent employees during the tax year.
- Possibility of submitting consolidated tax returns without time limitation.

- In all three mentioned tax systems, there is a possibility of submitting a consolidated tax return, which entails submitting tax consolidation for the parent company and its subsidiary companies. In the consolidated tax balance sheet, the losses of one or more companies can be offset against the profits of other companies within the group. Once tax consolidation is approved, it is applied for a minimum of five years.
- When determining the tax base, the calculated depreciation using the proportional method of depreciation is recognized for long-term assets and assets under the right of use. The tax-recognized depreciation rates for long-term assets are specifically listed in the Laws on Corporate Income Tax.



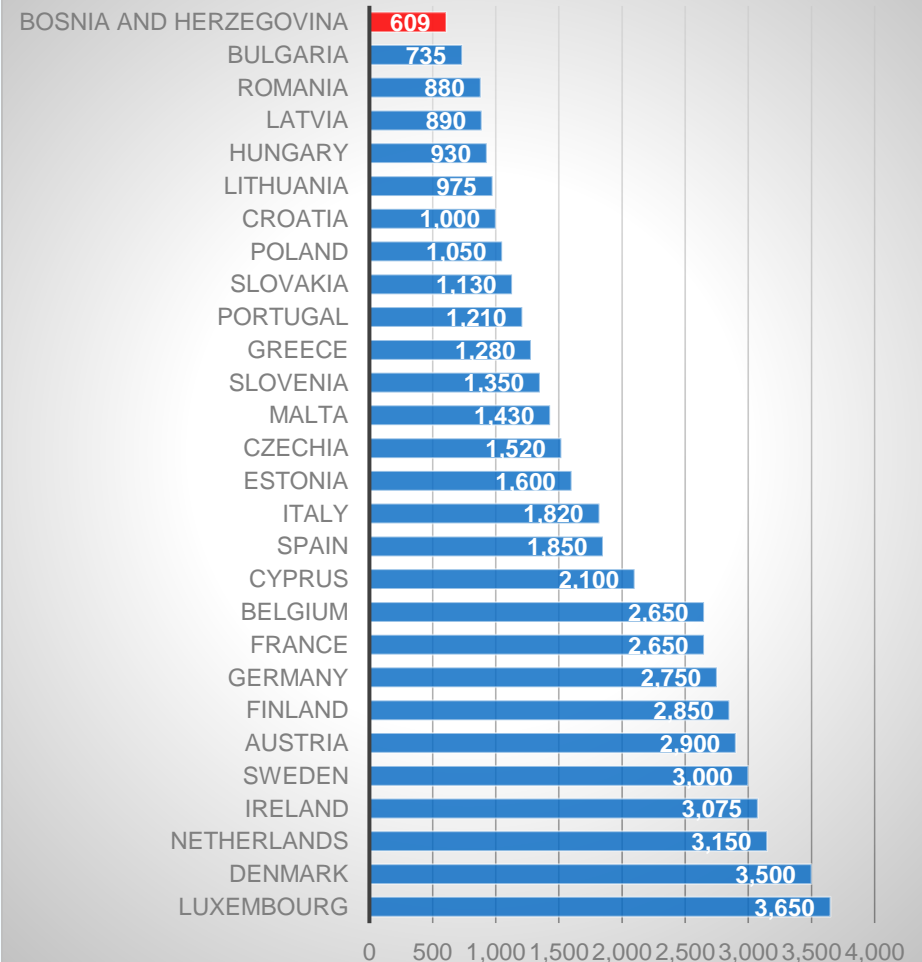
CONTRIBUTES

In the Federation of Bosnia and Herzegovina, Republika Srpska, and Brčko District of Bosnia and Herzegovina, contributions are calculated based on the gross salary. The gross salary includes the net salary of employees multiplied by the determined coefficient, plus salary contributions. The contribution rates for employees are as follows:

- **FB&H:** 17% for pension and disability insurance, 12.5% for health insurance, and 1.5% for unemployment insurance (totaling 31% of the gross salary).
- **RS:** 18.5% for pension and disability insurance, 10.2% for health insurance, 0.6% for unemployment insurance, and 1.7% for child protection (totaling 31% of the gross salary).
- **Brcko District:** 17% for pension and disability insurance for employers applying the FB&H Law, and 18.5% for pension and disability insurance for employers applying the RS Law, 12% for health insurance, and 1.5% for unemployment insurance (totaling 32% of the gross salary) excluding income tax, which is paid at a rate of 10%.

MORE COMPETITIVE LABOR COSTS COMPARED TO THE REST OF THE EU

Average net earnings (EUR) - EU Countries and B&H





MEDIAL SALARY

The median salary is 2,480 BAM (1,269 EUR) per month, which means that half (50%) of the population earns less than 2,480 BAM (1,269 EUR), while the other half earns more than 2,480 BAM.

Generally speaking, employees with two to five years of experience earn an average of 32% more than younger individuals across all industries and disciplines.

Professionals with more than five years of experience typically earn an average of 36% more than those with less than five years of work experience.

Salary changes based on experience vary significantly from one location to another and largely depend on the field of career.

The economy of Bosnia and Herzegovina is growing, but not fast enough to achieve the desired living standard of the population. Bosnia and Herzegovina started from a low base after the breakup of Yugoslavia, and production decreased by around 80% between 1989 and 1995 due to the war.

Bosnia and Herzegovina have GDP per capita that is approximately one-third of the EU average. Although the economy of Bosnia and Herzegovina has been growing in recent years, at its current pace, it would take over 100 years to reach the average income level of the EU.

If the growth accelerates and is sustained at around 5% (as it was before the global financial crisis), reaching EU income levels could be achieved within three decades.

Greater investments, increased productivity, and improvement in the labor market will be necessary to accelerate economic growth.

EMPLOYMENT OF FOREIGNERS (Work Permits and Temporary Residence Permits)

A foreigner can work in Bosnia and Herzegovina if they obtain a work permit and a temporary residence permit.

The employer obtains the work permit for the foreigner by submitting a request to the competent cantonal authority, along with the required documentation listed explicitly in the mentioned laws.

After obtaining the work permit, the employee to whom it applies is personally obligated to submit an application for temporary residence in Bosnia and Herzegovina. The process of obtaining a work permit and temporary residence permit typically takes 2-4 months.

The competent authority cannot issue a work permit to a foreigner if there is an unemployed person meeting the requirements for the requested work permit listed in the employer's jurisdiction.

Based on the work permit, a foreigner can only work in the specific position or perform the type of work for which the work permit was issued and on the basis of which temporary residence was granted.

The work permit is issued for a period not exceeding one year.

The work permit can be extended for a period of one year.

Foreigners can work in Bosnia and Herzegovina without a work permit, among other cases, if they are engaged in activities as founders of a company based in Bosnia and Herzegovina, the company employs at least five citizens of Bosnia and Herzegovina, including the founders, pays a gross salary to each employee at least equal to the average gross salary in Bosnia and Herzegovina, and fulfills tax obligations.

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