

## *Chapter 2*

# **Bosnia and Herzegovina: Reform Agenda and the Effects of its Early Implementation Phase**

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Bosnia and Herzegovina (BiH) has accomplished a great deal since experiencing a war in the 1990s. Today, BiH is a potential European Union (EU) candidate country moving toward alignment with the EU's *acquis* requirements. Between 1998 and 2008, BiH experienced strong growth, with the gross domestic product (GDP) increasing by over two-thirds in real terms, and poverty dropping from nearly 20 percent to around 14 percent during the same period.<sup>1</sup>

Despite this strong economic performance, the onset of the global financial crisis in the fall of 2008 is having an enduring negative impact on the country's economy. The economy rebounded in 2011—growing by one percent after a deep recession in 2009 caused GDP to contract by 2.9 percent—before returning to a recession in 2012.<sup>2</sup> In 2013, the economy grew by an estimated 0.8 percent, mostly due to increased exports. The World Bank forecasted a continued rebound in 2014, with an estimated growth rate of 2 percent. In 2015, the country marked a 3.2 percent growth rate in real GDP terms, with an intention for the growth to reach 4 percent by the end of 2016, and 4.4 percent in 2017.<sup>3</sup>

Despite this relatively positive outlook, risks continue to tilt economic growth downward. In particular, slower growth in the main Eurozone export markets, domestic political and social turmoil, lack of progress in making improvements in the business climate (through streamlined regulations, trade procedures or lack of progress on transport links) could all reduce the economic growth rate indicators.

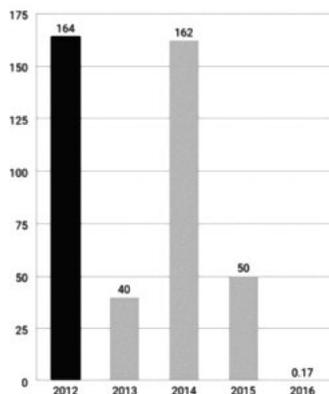
The country needs to achieve significant progress in implementing structural reforms if it is to achieve faster economic growth than what is currently foreseen. Strengthening public finance, improving the business

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<sup>1</sup> The World Bank, <http://www.worldbank.org/en/country/bosniaandherzegovina/overview>.

<sup>2</sup> Central Bank of Bosnia and Herzegovina, [www.cbbh.ba](http://www.cbbh.ba).

<sup>3</sup> BiH Directorate for Economic Planning, [www.dep.gov.ba](http://www.dep.gov.ba).

**LENDING****Bosnia and Herzegovina: Commitments by Fiscal Year (in millions of dollars)\***

\*Amounts include IBRD and IDA commitments

**Bosnia and Herzegovina****Country At A Glance**

Population	3,791 million	2015
GDP	\$ 16,00 billion	2015
GDP growth	3,20 percent	2015
Inflation	-1,00 percent	2015

environment in the country, and advancing the institutional and labor market reform agenda are among the areas where Bosnia and Herzegovina could make notable progress in fostering job creation and growth in the medium term.

### Why Should BiH Undergo Intensive Economic Reforms?

There is an opportunity to reform the business environment and to make the tax system and public finances more sustainable. The size and role of the government sector must be reduced. The public sector is far too expensive for a country the size of Bosnia and Herzegovina. This is not simply because of the complex and multi-layered Dayton structures, it is also the result of decades of political cronyism. A serious public administration reform will, moreover, increase the confidence of investors and, hopefully, get domestic banks to start lending again on a significant level. Make no mistake: BiH does not suffer from a liquidity problem. Rather, banks hold more money at the Central Bank than is required of them, simply because they cannot find adequate projects to finance. Investors and company leaders need to see a brighter future through the fog of government regulation and taxes before they are willing to hire new employees. Bosnia and Herzegovina lacks monetary independence, as the Central bank is currently operating under the Currency board arrangement. The only instrument the Central Bank has at its disposal is prescribing the

minimum level of reserves commercial banks are required to keep. As of July 1, 2016, the Central Bank has amended its policy, which now states that the Central bank will pay interest rates on above-reserves kept by commercial banks in the amount of 50 percent of the ECB interest rate. Basically, this means that the interest rate is regressive so that commercial banks are stimulated to revive their lending. A freeze on wages and on the hiring of new employees in the public sector will also send a strong signal to voters that it is not merely the general population who are expected to change their behavior but institutions as well.

New labor laws and practices are crucial elements in improving the business environment, as all of the relevant domestic and international actors working with BiH identified this particular area as one of the biggest barriers to increasing the overall investment level. Flexibility in the labor market must be increased and consequently, opportunities for finding decent employment—especially for young people—would improve tremendously. Equal access to employment opportunities is a fundamental economic and social right enshrined in many international conventions. The new labor laws intend to make employment secure and fair, rather than exclusive. The Labor Law adopted by the Federation of Bosnia and Herzegovina (FBiH) government and parliament in July 2015 includes 26 articles on strengthening the rights of workers, for example through generous maternity and paternity benefits, making it more in line with European standards than the previous law. In addition, the new law allows employers and employees to adapt to changing circumstances, which is particularly important when promoting increased investment. The objective of each labor-related legislation is to establish a flexible market that can easily adapt to a changing economic environment.

Business-related reforms need to go hand in hand with the further entrenchment of the rule of law and good governance principles. Criminal investigations must be expeditious, efficient and thorough, while sanctions should be a deterrent and actually enforceable. A corrupt-free business environment supported by an accountable, professional and efficient judiciary is an essential pre-condition to restore citizens' confidence and foreign investors' trust.

Reforms will be difficult to implement, but they will ultimately benefit society as a whole. BiH has to establish a system where social benefits like pensions and healthcare can be secured for those who are most in need. Vulnerable people, the elderly, disabled, and those who suffer scars from one of the worst conflicts Europe has seen since World War II need to

receive decent support. This is to be achieved through better targeting, meaning that assistance should be provided to those in need. It is an illusion that BiH can spend more on social affairs, as it, on average, already spends more than other countries in the region. Short-term improvements can come from better targeting practices through an audit process that excludes false users.

At the same time, opportunities for people who are ready and able to work need to be created, as too many have already left the country or are considering doing so if no improvement is in sight. BiH needs to get to a situation where the government is seen as a help rather than a hindrance, and most of all, where people can look forward to a fruitful life in their own country.

## **The British-German Initiative**

### ***Need for Implementation of Social Reform, Strengthening of the Economy, and Job Creation***

On the heels of the October 2014 general elections, representatives of Germany and the United Kingdom announced a new initiative to engage with Bosnia and Herzegovina and re-shape its European integration path after years of stalemate or even regression. The initiative included all of the off-the-shelf ingredients of previous efforts to jump-start the reform process in BiH, such as written commitments (applied in the past to police reform, constitutional reform, etc.) and a reform agenda (as in the Partnership Document).

## **Compact for Growth and Jobs**

The Reform Agenda is a result of the most extensive consultation process BiH has ever seen. It is firmly based on the economic-social programs of all governments in the country; that is, the Council of Ministers, FBiH, Republika Srpska (RS), the Brcko District, and all ten cantonal governments. The “Forum for Prosperity and Jobs” in May 2014, attended by a spectrum of civil, academic, business and political society, provided initial inspiration. Further inputs were received at expert and public events, including at local gatherings with citizens throughout the country, as well as online platforms. In short, this process included all of the relevant domestic and international stakeholders.

## **Reform Agenda Political and Economic Context-Process of Recovery**

The adoption of the Reform Agenda<sup>4</sup> by Bosnia and Herzegovina authorities is a crucial step forward for the country's EU integration path. In July 2015, both entity governments and the Council of Ministers adopted a Reform Agenda for the period 2015–18 for Bosnia and Herzegovina. This particular document outlines the main sectors that require reforms, which has been established with the assistance of the EU Delegation to BiH, and in cooperation with international financial institutions. While the people of BiH have issues on which they repeatedly fail to achieve consensus, the Reform Agenda is something they all agree on. One could even go as far as to say that this is the most significant document endorsed by all groups.

The document comprises six key sectors, later developed into a single action plan, outlining specific activities and the institutional responsibility for each:

1. Public finance, taxation and fiscal sustainability;
2. The business climate and competitiveness;
3. The labor market;
4. Social welfare and pension reform;
5. Rule of law and good governance;
6. Public administration reform

Reform Agenda priorities by years:

2015: Labor legislation, preventing the growth of public expenditure for civil servants, support of employment;

2016: Business environment, commercial courts, registration, licenses and also employment support;

2017: Public-private partnership, concessions, exploitation of resources, attracting investment.

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<sup>4</sup> Reform Agenda for Bosnia and Herzegovina 2015–2018; <http://europa.ba/wp-content/uploads/2015/09/Reform-Agenda-BiH.pdf>.

### **Achieved Milestones:**

The consent of the Federal Government for implementation - September 17, 2015

The Action Plan agreed with the Government of the RS - September 9, 2015

The Action Plan contains 61 activity / period of implementation (three years)

Treats six areas of Reform Agenda

Eighteen activities fully accomplished by August 2016

### **Federation of Bosnia and Herzegovina: Summary of Macro-Indicators 2015/2016**

#### Snapshots of Macroeconomic Indicators

- Net increase in number of employees 23,178; (Tax Administration Office, for the period March 31, 2015 to July 31, 2016)
- Growth of indirect tax revenues of 3.5 percent; (Tax Administration Office FBiH, for the period March 31, 2015 to July 31, 2016)
- Growth of real GDP of 3.16 percent, with the intention that the growth reaches 4 percent by the end of 2016. (4.4 percent in 2017)<sup>5</sup>
- Growth of direct tax revenues for the first eight months of 2016 rose by 10.32 percent compared to the same period a year before<sup>6</sup>

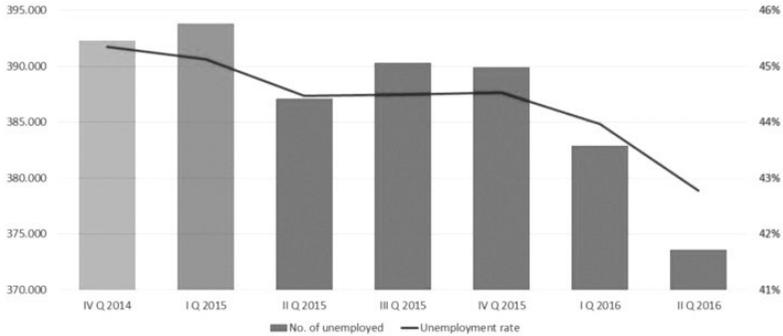
In short, the FBiH government has fulfilled 28 percent of the activities envisaged by the Reform Agenda Action Plan. These macro-indicators are not spectacular, but they prove that the negative trends have been stopped, and that better days are ahead. We can, with certainty, state that these positive indicators come as a result of economic measures undertaken by the FBiH government, and that the economy has positively responded. Unfortunately, this GDP growth is mainly the result of internal (push) forces, as regional (pull) forces are not strong enough to carry the weight of reform. Comparatively, growth in BiH is higher than its neighboring countries in the region with the exception of Macedonia, which reported growth of 3.5 percent. The prospects for regional economic growth remain

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<sup>5</sup> Statistics Agency of FBiH.

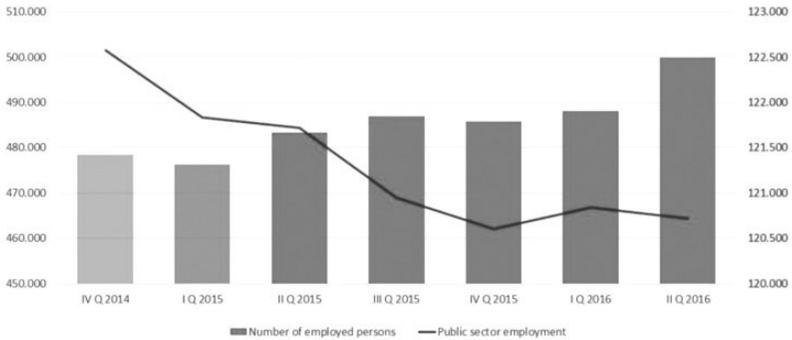
<sup>6</sup> Ministry of Finance of FBiH 2016.

**UNEMPLOYMENT IN FEDERATION OF BOSNIA AND HERZEGOVINA**



Source: Federal employment service

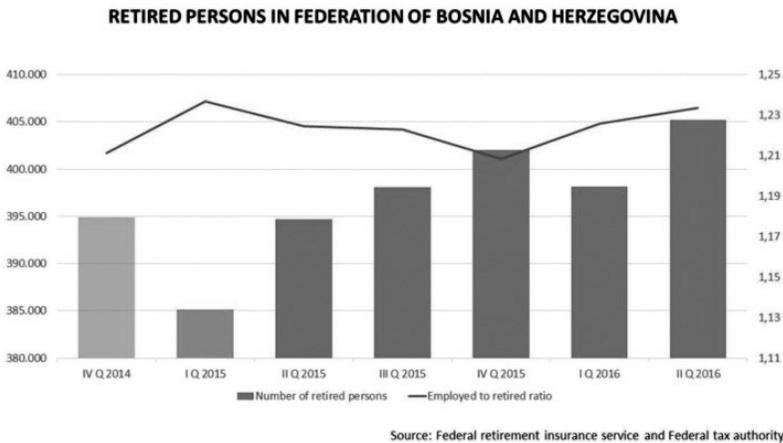
**EMPLOYMENT IN FEDERATION OF BOSNIA AND HERZEGOVINA**



Source: Federal tax authority

stagnant, so pull forces will not significantly aid in the economic growth of BiH.

When the new government of FBiH took office on March 31, 2015, the official number of unemployed was 391,663. This number decreased by 15,585, and on July 31, 2016, it reached 376,078. In accordance with the published data of the Statistics Agency of FBiH, the unemployment rate on March 31, 2015 was 46.74 percent, and on July 31, 2016, it stood at 44.77 percent. Negative trends are stopped, but for any significant



decrease in the unemployment rate, BiH needs to see growth of over 5 percent.<sup>7</sup>

On March 31, 2015, the official number of those employed, according to the tax authority of FBiH, was 476,242. That number increased by 23,178, and on July 31, 2016, FBiH had 499,420 employed persons. This net effect of an additional 23,178 newly employed, combined with other factors such as the fight against the unofficial sector of the economy has led to increase of direct tax revenues by 10.32 percent, compared with the same period last year.<sup>8</sup>

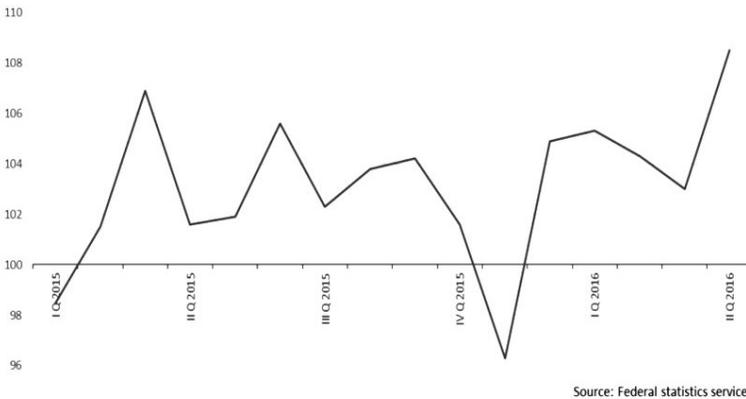
In the last quarter of 2015, FBiH experienced a large shock to its aged population. From April 1, 2015 to July 31, 2016, the number of pensioners increased by 22,086.<sup>9</sup> The magnitude of this increase is very large when taken into account the fact that the number of pensioners typically grows by 4,500-4,700 per annum. The reason for this anomaly is a change in the pension law. Specifically, the previous pension law had a penalty of 0.5 percent for each year of early retirement, whereas the new law (part of the Strategy to reform the pension system), prescribes a penalty of 4 percent per year. Thus, in only 12 months, a PR strategy caused this large increase in number of early retirements. This shock has additionally burdened the Pension Fund of FBiH for about 80 million BAM annually, and when

<sup>7</sup> Statistics Agency of FBiH, 2015-2016.

<sup>8</sup> Tax Administration Office FBiH, for the period March 31, 2015 to July 31, 2016.

<sup>9</sup> Ibid.

**GROWTH OF THE INDUSTRIAL PRODUCTION INDEX  
IN FEDERATION OF BOSNIA AND HERZEGOVINA**



added to the existing current deficit of 210 million BAM, we can see the negative impact of these events.<sup>10</sup>

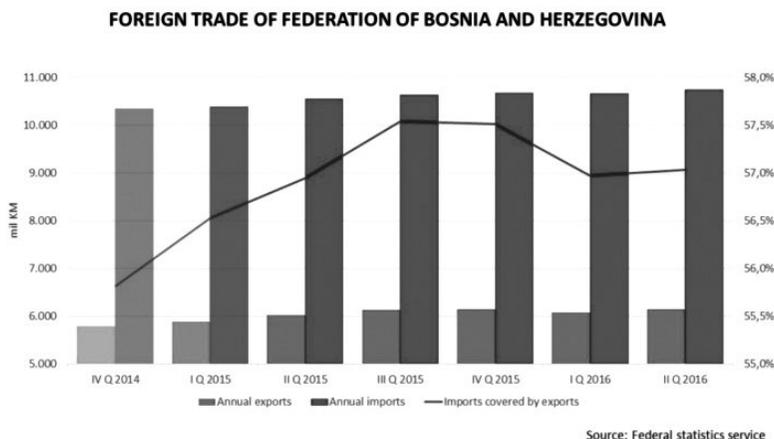
An estimated 162–165 million BAM are required for the payment of monthly pensions.<sup>11</sup> In reality, this impacts the timeline for the distribution of pensions, now about three weeks long. Basically, this is a liquidity problem. The FBiH government had initially overcome this through the so-called “overdraft,” where banks lend financial means in order for the government to be able to pay out pensions on time, after which the banks are reimbursed when contributions are collected for that month. Of course, this will come at the expense of a certain interest rate, but the government bears these additional costs because pensioners are in very difficult situations. Pensions are very low, with a minimum of 326.17 BAM, an average of 369.82 BAM, a guaranteed 434.90 BAM (if the person had worked for 40 years—full work life) and a maximum of 2,174.48 BAM.<sup>12</sup> The existing pension law does not allow for any equalization between the highest and lowest pension.

In the past 12 months, the industrial production has grown by 8.5 percent, compared to the same period last year. The prospects are that the industrial production will keep this trend.

<sup>10</sup> Institute for Pension Insurance, FBiH.

<sup>11</sup> Ibid.

<sup>12</sup> Ibid.



When it comes to trade, the volume of exports amounts to 6.1 billion BAM, and the volume of imports amounts to 10.7 billion BAM, which is a coverage of 57.03 percent, and presents the highest export-import balance in the past 4 years.<sup>13</sup>

### **Accomplished Activities by Reform Agenda Key Sectors: Public Finance, Taxation and Fiscal Sustainability<sup>14</sup>**

Budgets will be placed and maintained on a firm medium-term fiscal foundation to be agreed with the IMF in a successor arrangement to the current Stand-by Arrangement. The successor arrangement requested by BiH authorities and approved by the IMF is Extended Fund Facility. This new fiscal framework will set the public debt level on a downward trajectory, while creating room for an increase in public investment and, at the same time, reducing the size of the government sector in the economy. Fiscal consolidation will be carried out by reducing public spending and increasing public revenues, from consumption taxes, tax base expansion, gray economy and tax exemption reductions, and improvement of tax administration operations. If the above measures prove to be insufficient by the end of 2016, additional measures, including a VAT increase, will be

<sup>13</sup> Statistics Agency of FBiH, 2015-2016.

<sup>14</sup> *Update of the Action Plan for the Implementation of the Reform Agenda*, Office of the Prime Minister of Federation BiH; Last update September 16, 2016.

considered, in consultation with the IMF, on the basis of a thorough assessment, and as discussed at a high-level meeting.

### **Activities Completed by the FBiH Government:**

- **Law on the Corporate Income Tax:** The main reason for the adoption of the Law on the Corporate Income Tax is to ensure public revenues for Cantonal budgets. This is one of the FBiH fiscal system reform laws, and is compatible with other regulations, and also included IMF staff recommendations. This law aims to expand and protect the tax base, rationalize the effective tax rate without reducing the nominal, reduce avoidance and tax evasion obligations, through the definition of clear provisions, amend tax incentives covering all economic activities. The law expands the tax base in two ways: greater taxpayer coverage and greater coverage of taxable income. FBiH needs to expand the tax base and the number of tax payers, to support the fight against tax evasion and to improve overall growth. However, the tax rate of 10 percent remains unchanged and is one of the lowest in the region.
- **Amendments to the Law on Contributions:** In order to fight the gray economy and reduce liabilities, as well as to expand tax coverage, the government has approved amendments to the Law on Contributions (preferential system for low-accumulative activities). These changes enable employees from low-accumulative sectors of the economy to secure health insurance and pensions by paying contributions on a lower tax base.
- **The Initiative to Increase Road Tax on Fuel:** In order to increase the credit capabilities of Autoceste (FBiH-owned motorway company) and to accelerate the building of the highway, the FBiH government has advocated to increase the fuel road tax for an additional 10 + 5 cents (BiH fenings) per liter. It is expected that this initiative will result in law amendments, which will be passed at the state level by the end of 2016.
- **Budget Revision for 2015:** For the purpose of employment rationalization and related costs, and the implementation of fiscal consolidation measures, the FBiH government revised the 2015 budget to reduce expenses for salaries and other running costs.

- **The Initiative to Increase Excise Tax on Tobacco and Beer:** A similar model to the initiative to increase fuel road taxes. This initiative is aimed at servicing a portion of the health sector debt.
- **Amendments to the FBiH Law on Budgets:** With amendments to the FBiH Law on Budgets, the government has introduced a more rigorous fiscal rule, additional restrictions and control of lower levels of government spending, and a greater accountability of managers.
- **A Strategy for Public Debt Management:** In order to improve debt management and coordination between the entities and the Council of Ministers, the FBiH government had adopted a strategy for public debt management.
- **The Exchange of Information between Tax Administrations:** Activities to improve tax collection and to create a firmer system of information exchange between tax administrations on all levels were completed by the government in the first half of 2016.

## Employment Measures

As one of the first measures, the FBiH government introduced a moratorium on employment in this sector, which saved 13.6 percent in terms of salaries and benefits in last year's budget rebalancing. With the introduction of the moratorium, BiH decreased new hirings, and concentrated on savings deriving from the outflow of employees in public administration through the organic retirement process.

Future growth and prosperity must be based on attracting investment. There is a need to boost competitiveness by eliminating barriers to investment. In addition, there is a need to level and clear the playing field for investment by removing hidden subsidies, improving bankruptcy procedures and moving ahead with the resolution of unviable enterprises. Moreover, there are inconsistencies and complexities in the regulatory frameworks and tax systems that pose major problems for potential investors in the economy also compounded by high administrative barriers.

## Activities Completed by the FBiH Government:

As part of the activities related to the business climate and competitiveness, the following laws went through a legal procedure: The Law on Internal Payment System, the Law on Enterprises, and the Law on Foreign

Direct Investments. For the purpose of unifying and effectively planning investments in the public sector, the FBiH government has adopted the program on public investments.

- **Public Investment Program:** this program has been created to consolidate and more effectively plan investments in the public sector.
- **Law on Internal Payment System:** this law was passed to simplify payments in FBiH, and prevent tax evasion and the accumulation of debt towards the tax authority.
- **Law on Enterprises:** this law was created and adopted as a prerequisite for the use of modern methods of management, restructuring and privatization where needed.
- **Law on Foreign Direct Investments:** this law is in line with the Reform Agenda vision to base future growth and prosperity on attracting investment, and was created to ensure a more favorable climate for attracting foreign investments.

## **Labor Market**

In order to gain footing on the road to sustainable growth, Bosnia and Herzegovina must embrace its strategic advantages. These advantages include a significant potential in the workforce, which is not sufficiently utilized at present. The low activity rate of the working-age population and the high unemployment rate are the result of mismatches between supply and demand for skilled labor that restrict development opportunities. In BiH, there is a significant number of discouraged workers who are no longer actively seeking employment. Existing labor laws do not reflect the social and economic relations in BiH, and while certain provisions are contradictory to other laws, others are vague and insufficiently flexible. The culture of collective bargaining and social dialogue is underdeveloped and often burdened by unrealistic demands of social partners.

## **Activities Completed by the FBiH Government**

### ***Labor Law***

The FBiH government accomplished activities related to the Labor Law on July 31st, 2015 when the law was passed. The process of completing activities under the labor legislation was somewhat extended due to the long negotiations with social partners regarding the General Collective

Agreement, and the process of negotiations on the BCAs. It is important that the adopted law, which is favorable to both employers and employees in relation to the past, ensures that the government ends the lawsuit practice within the public sector.

### ***Decree Encouraging Employment (First Employment and Self-Employment)***

To boost the rate of employment, the FBIH government adopted the decree on first and self-employment. FBIH is the first government in the Balkans since the war to take the problem of youth unemployment seriously, and with a program of 50 million BAM distributed through cantonal employment services, collected about 7,000 job applications. In the coming months, these young people will be employed and gain essential work experience or develop in the direction of entrepreneurship. Based on the results of the implementation of the Decree, the government intends to continue with this kind of active labor policy measures in the coming years.

### ***Social Welfare and Pension Reform***

In addition to promoting initiative and efficient industry, a modern and caring society must provide for those who cannot take care of themselves. At the same time, social welfare systems must not distort incentives in the economy and must be fiscally sustainable. To achieve these ends, the governments of the Entities, Cantons and Brcko District must improve the targeting of social assistance through a set of measures that would make social protection policies more effective, efficient and equitable. Social protection needs to work for those who really need it-or who pay for it-and must be put on a sustainable financial footing. Pension systems also need to be put on a sustainable financial path if the accumulated rights of workers are to be met over the medium term.

Social security and pension reforms require a strategic approach. The following legal measures will be implemented in order to achieve results: The Law on Pension and Disability Insurance, the Law on the organization of PIO, and subsidies for electricity bills for the most vulnerable population categories. As part of the pension and disability insurance reform strategy, the Socio-Economic Council considers the draft law on the takeover of financing an outstanding contribution for pension and disability insurance. This law, among other things, addresses the issue of workers who are eligible for retirement, but are not able to realize their rights because of their companies' debts to the state.

### ***Rule of Law and Good Governance***

There is a need to ensure the irreversible entrenchment of the rule of law, which must be built on a foundation of concrete progress in the fight against organized crime, terrorism and corruption. All necessary institutional and operational developments will aim to provide citizens throughout BiH with a safer and corrupt-free environment. At the same time, government institutions on all levels will enhance their commitment to restore overall citizens' trust in the rule of law institutions by developing capacities, accountability, professionalism and integrity. Note: Activities for implementation are still at an early stage.

### ***Public Administration Reform***

Public administration reform is one of the key priorities in ensuring fiscal sustainability and the quality of public service delivery to citizens. It needs to be carried out in close relation to reforms in the socioeconomic system and rule of law.

### ***The Decree on the Regulation of the Exercise of Powers in Companies***

To enable the restructuring, privatization or liquidation of companies (53 companies), the FBiH government adopted an authorization regulation for companies with state capital from the jurisdiction of the FBiH with company categorizations. In order to systematically address the situation in public enterprises, the FBiH government has undertaken a number of measures and activities. Specifically, it has introduced the following categorization: companies of strategic interest for FBiH (18), companies for privatization (5) and companies with difficulties (29). For other companies receiving state capital, the government started activities since the beginning of its mandate.

The sale of minority stakes is in its preparatory phase. Discussions with strategic partners are ongoing in order to find the most suitable and most ideal solutions.

### ***Amendments to the Law on Civil Service, Civil Servants, and Employees***

The Amendments to the Law on Civil Service, civil servants and employees initiated the establishment of a modern, competent, more transparent, efficient, flexible as well as a more responsive public administration.

The abovementioned activities add up to 27.87 percent of the FBiH Reform Agenda Action Plan.

The FBiH government plans to fulfill the following activities by the end of this year:

- Pension Law
- Bankruptcy and Pre-Bankruptcy Procedure Law
- Amendments to the Law on Contributions
- Amendments to the Law on Personal Income Tax

The Law on Pension-insurance is a strategic law that provides a legal basis and a first step in the slow disengagement from the inter-generational solidarity. This new law will secure a transparent and simple way for pension calculation. It is a point-based system that is closely tied with each individual's monthly salary. The law aims to provide long-term financial stability to the Pension Fund, and short-term liquidity issues will be overcome by treasury system of functioning.

Bankruptcy and Pre-Bankruptcy Procedure Law will be harmonized with best practices and will offer a pre-bankruptcy procedure as an additional opportunity for the company to be bailed out. It will also prescribe more rigorous penalties for not declaring bankruptcy when conditions are fulfilled.

Amendments to the Law on Contributions will lower the contribution level to achieve a neutral fiscal effect in regards to broadening the tax base. The tax base will be expanded for non-taxable allowances, but the intention is to keep the same tax burden for the employer. In essence, this measure has two primary objectives. The first objective is to clean the system by preventing the use of non-taxable portions of the salary to increase one's wage and in this way expand the tax base, which will aid in workers' pension levels. The second objective is to mathematically lower the labor tax burden in order to show a clear picture that will attract potential investors and provide an advantage to honest employers that are reporting workers on their actual salary.

Amendments to the Law on Personal Income Tax will introduce a progressive income tax system which is widely accepted. Currently, the personal income tax law prescribes a unified tax rate of 10 percent, but it is time to move to progressive income taxation. This particular measure will be of a neutral fiscal effect, where FBiH is not trying to secure additional revenues to lower government levels but intends to place an additional

burden on higher salaries. Through this secondary redistribution of income, the government is trying to achieve additional equity.

## **Conclusion**

The key sectors and measures of the Reform Agenda are of medium term importance, meaning that the effects will be seen in the next 10-12 months. However, the immediate positive indicators are the positive reaction of employers and businesses on the changes that are taking place. The main goal is to create an attractive business environment by lowering the tax wedge, simplifying registration procedures, creating a flexible labor market, keeping social benefits at an achieved level, good governance an improved rule of law, and of course a more effective public administration.

All of this will be followed by aggressive public infrastructural projects and investments into Corridor Vc, which provides a multiplication effect of 2.4, meaning that economic growth is increased 2.4 times. F BiH will also concentrate on energy and hydropower potentials where the government expects significant investments in the medium term.

The new Extended Fund Facility program with the IMF was approved on September 7, 2016. This program is aimed at providing guidance and assistance to countries during heavy structural reform adjustments. The program itself represents the economic policy of BiH for the period 2016–19, which has three objectives:

- Accelerated reforms aimed at improving the business climate with the objective of increasing employment
- A continuous decrease in public debt to GDP ratio and a reduction in public spending in the area of public administration
- Stability of financial sector with aim to increase bank lending

Why is there such optimism in BiH? First of all, BiH reached a consensus on the most comprehensive package of socio-economic and judicial reforms the country has seen. Further, the EU and international financial institutions are ready to provide significant funds in direct support over the course of over three years in order to meet the cost of the reforms. Having an ongoing program with IFIs encourages private investment, which will boost the overall economy, creating more job opportunities. Medium term projections for economic growth (real GDP growth) for the period 2016-18 are 3.2 percent, 4.4 percent and 4.7 percent for each

of the three years, respectively.<sup>15</sup> Unfortunately, the largest part of this growth will have to be driven from within, as pull forces from trading partners are not expected to aid significantly. The projected GDP growth for the EU this year is about 1.5 percent, with no prospects of significant increases in growth next year. As for BiH, due to different potentials mainly in the sectors of energy and infrastructure, the projected growth is realistic.

If we are to consider all of the above, we can come to the conclusion that the country is harmonized, and that society has a common goal for a better life in Bosnia and Herzegovina, and of course, an accelerated path to EU accession and NATO.

In short, after two decades, without any significant economic development and still struggling to complete the process of economic transition, one can, with certainty, state that there is light for Bosnia and Herzegovina at the end of the tunnel, but in order to get there, we need everyone to be working together.

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<sup>15</sup> BiH Directorate for Economic Planning, [www.dep.gov.ba](http://www.dep.gov.ba).