

Executive Summary

1. Bosnia and Herzegovina has started the negotiations with the European Union aimed at conclusion of Stabilization and Association Agreement. The application of the Agreement should enable stronger and sounder economic and trade links between the two parties, and possible EU membership of BiH in the coming years. In parallel with the negotiations, a number of economic reforms are still being implemented in BiH, which should enable transition to market economy of western European type and result in job creation, macroeconomic stability and accelerated economic growth. The remaining economic reforms must gradually converge towards economic policy of the EU member states. This is not a simple task, given that BiH is at the lower level of economic development. Besides that, adoption of integration rules and application of EU standards require financing and costs, which are not optimum for the level of development of BiH. Therefore, the research endeavors to provide answers to some of these questions and to facilitate the choice of the right model of future economic development of BiH.

2. Public support to reforms is declining. The citizens are not satisfied with the results of started reforms and they want to see more new jobs, greater incomes, as well as greater allocations for social categories and pensioners. The requests are increasingly heard for the restructuring of remaining big economic systems in BiH, for entry of fresh capital that would trigger job creation, as well as for redefinition of privatization process in BiH, in the same direction. In the years to come, the authorities are expected to set the goals of faster economic development of entire country, based on proper local potentials that are still not sufficiently used. The reforms that are being initiated are aimed at turning BiH into a stable society with marked route of development into a normal European society.

3. Other current problems are those of insufficient supply of BiH products, their sales particularly at other markets in the region of western Balkans, and balanced economic development throughout BiH. Economic systems are fragmented and work productivity is way below the pre-war level. There is a lack of greater volume of favorable funds for financing of development investment programs and priority infrastructure projects. The pension and social issues between the entities have not yet been solved. More efficient collection of funds from indirect and direct taxes, and better control of distribution of collected tax revenues are only some of the tasks ahead.

4. The aim is recreation of a strong middle class in the society, able to follow the entire process of further adjustment to the EU membership and ensure implementation of development goals of the country. In that, great importance lies with strengthening of public administrations at the levels of BiH and its entities, better coordination of works between administrations, expert equipping, motivation, responsibility, and internal and external control in all segments of public administration. Serious statistical data that favor BiH economic growth rates are unfortunately still lacking, since there has been no census after the war.

5. Numerous advantages have been identified of implementation of further transition of BiH economy to the market economy, and acceleration of the process of integration into the EU.

The remaining reforms should be directed towards urgent action plans for solution of the abovementioned urgent problems. Most recommendations are based on recognition and improvement of proper capacities, natural resources and potentials that should be used more intensively in creation and implementation of future model of BiH development. In that, the crucial role is on the active, offensive BiH approach to the implementation of reforms, based on strengthening of proper competitive position. The key is also investment in proper human resources, education quality and investment in youth that can respond to the challenge of doing business in 21st century and provide better position of BiH in European economic market.

6. For urgent implementation of further reforms the authorities will need support of the citizens, i.e. the consensus among all local forces becomes a key factor for further actions. Open conversations on priority development issues and ways to solve them, as well as on changes brought about by enlarged European market are important for the interests of each individual in BiH society. Second, a lot will depend also on the EU, since its imposing of greater number of limitations may increase the anti-position on the EU and passive behavior of BiH citizens. Every other approach, hesitation in implementation of economic reforms and relying on international assistance without proper development vision would lead us to new instabilities. Most steps given in European Partnership with the EU should be undertaken immediately, without waiting for the EU to insist upon their implementation.

7. The conclusion is that BiH and its entities need a new model of economic development, based on development of proper local economy, strengthened regional cooperation on common priority projects, consensus among local national forces in implementation of remaining economic reforms linked with the entry into the EU. Making of sector analyses, based on current and future impact of EU policies on certain sectors, may facilitate significantly the forthcoming conversations with the EU, since these data would enable BiH to ask for beneficial position for itself concerning money from European funds and application of and adaptation to certain policies. Therefore, it is important to say "yes" to regional initiatives of the European Union, and work intensively on further improvement of economic cooperation with the neighbors in the region, directed towards establishment of customs union of the Balkans countries.