

OHR's Statement at the International Agency's Joint Press Conference in Banja Luka

OHR Comment on Federation Parliament decision to Delay Discussion of Internal Debt Law

The law on internal debt drafted by the Federation Government's working group represented the fairest solution to the internal debt problem that was possible given the current fiscal situation in the Federation. The law is essential in order to resolve a problem that has deterred serious investment in BiH and thus prevented the creation of significant numbers of new jobs. Further delay in passing this law means further delay in delivering to citizens the benefits this law will bring – it means delaying payments to pensioners and workers who are owed money by the authorities; it means delaying payments to foreign currency account holders. Most citizens will regret this delay. Unfortunately it also means that BiH has failed to meet the criteria agreed to with the IMF. This may well have consequences on future international programs in this country. The OHR urges the Federation parliamentarians to enact this essential piece of legislation as soon as possible.

OHR Economic Newsletter: Tax Reform and Consistent Economic Strategy Key to Success

I've brought along copies of the OHR Economic Newsletter. As you will see, the lead article argues that tax reform is the bedrock of economic takeoff, bearing in mind the fact that efficient and fair tax system is a prerequisite for

competitive companies and creation of new jobs.

VAT is progressing well, but if Prime Minister Terzic's mid-2005 introduction date is to be met, rapid steps must be taken to reorganise the ITA and make it fully operational. Before the end of the summer, a Law on VAT, a Law on Customs Policy and a Law on Allocation and Distribution of Revenues and Payment into the Single Account must be passed.

The current, inefficient, tax regime encourages corruption and drives companies into the grey economy. The newsletter notes that "increasing enforcement of VAT can result in revenue sufficiency, so that governments can **reduce** the tax rate without reducing their revenue."

The Newsletter also suggests that BiH can emulate a country such as Ireland, a small, multi-confessional country (with a population about the same size as BiH and geographically on the periphery of Europe) which in the space of 15 years has transformed itself into Europe's fastest growing economy. Ireland has done this by:

- Adopting industrial, tax and education policies that welcome foreign investors
- Practising fiscal self-discipline
- Following a consistent economic strategy despite changing administrations
- Creating a transparent, rules-based business environment
- Developing a positive popular attitude towards business