

Package of Key Economic Reforms Can Raise Living Standards in BiH

The OHR welcomes the launch, on 1 January, of Bosnia and Herzegovina's new VAT system. Introducing VAT is a key precondition for BiH's further integration in Europe, but – just as important – it can deliver real benefits to the people of BiH long before full membership of the EU becomes a reality.

The VAT system that has been adopted in BiH will increase government revenue, which can be spent on upgrading social services. It will make tax evasion more difficult, thus benefiting honest businesses, and it will help reduce the corruption that is such an unwelcome part of life in BiH. Finally, it will make potential investors think seriously about putting money into BiH businesses and thus creating new jobs.

VAT is part of a broader package of reforms that can help attract investment. The unified customs service and the successful establishment of the single account has already staunched the hemorrhaging of revenue that was a function of the old fractured customs system. Standards of corporate governance at public companies are being raised through effective audits and through a package of recently-enacted laws; business registration has been streamlined; and banks are starting to channel funds into promising SMEs. These are just a few of the improvements that have been made to the BiH business environment in the recent past. They all have one object – to raise living standards. And with the introduction of core economic legislation in 2006, including the Law on Obligations and the centralizing of the banking supervisions system, these reforms create the right environment in BiH to

generate substantial improvements in the economy.

Change is hard. Introducing VAT is a major change. It has required a major political and administrative effort in every country where it's been introduced, but it has repaid that effort by setting the public finances on a fair and efficient basis. In the long term, VAT represents a major boost to BiH's economic prospects.