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**BOSNIA AND HERZEGOVINA 2008 PROGRESS REPORT**

*accompanying the*

**COMMUNICATION FROM THE COMMISSION  
TO THE EUROPEAN PARLIAMENT AND THE COUNCIL**

**Enlargement Strategy and Main Challenges 2008-2009**

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## COMMISSION STAFF WORKING DOCUMENT

### BOSNIA AND HERZEGOVINA 2008 Progress Report

#### 1. INTRODUCTION

##### 1.1. Preface

Since March 2002, the Commission has reported regularly to the Council and the Parliament on progress made by the countries of the Western Balkan region.

This progress report broadly follows the same structure as in previous years. The report:

- briefly describes relations between Bosnia and Herzegovina and the Union;
- analyses the situation in Bosnia and Herzegovina in terms of the political criteria for membership;
- analyses the situation in Bosnia and Herzegovina on the basis of the economic criteria for membership;
- reviews Bosnia and Herzegovina's capacity to implement European standards, i.e. to gradually approximate its legislation and policies with the *acquis*, in line with a Stabilisation and Association Agreement and the European Partnership priorities.

This report covers the period from 1 October 2007 to early October 2008. Progress is measured on the basis of decisions taken, legislation adopted and measures implemented. As a rule, legislation or measures which are being prepared or awaiting parliamentary approval have not been taken into account. This approach ensures equal treatment across all reports and permits an objective assessment.

The report is based on many sources. As usual, these include contributions from the government of Bosnia and Herzegovina and from the Member States, European Parliament report<sup>1</sup> and information from various international and non-governmental organisations.

The Commission draws detailed conclusions regarding Bosnia and Herzegovina in its separate communication on enlargement<sup>2</sup>, based on the technical analysis contained in this report.

##### 1.2. Context

Bosnia and Herzegovina is a potential candidate for EU membership. The Stabilisation and Association Agreement (SAA) between Bosnia and Herzegovina and the EU was signed in June 2008. The Interim Agreement, which focuses on trade-related areas, has been in force since July 2008. However, constitutional elements established by the Dayton/Paris peace agreement have been frequently challenged by key political leaders in both Entities, and EU-

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<sup>1</sup> The rapporteur for Bosnia and Herzegovina is Ms Doris Pack.

<sup>2</sup> Enlargement Strategy and Main Challenges 2008-2009.

related reforms have stagnated in recent months. There has been little consensus on the main reform priorities. A shared vision on the direction of the country remains necessary for a smooth operation of institutions, for creating more functional and efficient state structures, and for speaking with one voice on EU and international matters.

Bosnia and Herzegovina has continued to benefit from autonomous trade measures granted by the EU.

An international presence under UN auspices has been in place in Bosnia and Herzegovina since 1995. It will be terminated once the Office of the High Representative (OHR) is phased out. However, the closure of the OHR depends on Bosnia and Herzegovina's progress in addressing specific objectives and conditions, which have been determined by the Peace Implementation Council. In addition to substantial Community support, the EU has continued to deploy considerable resources in Bosnia and Herzegovina in the framework of the Common Foreign and Security Policy (CFSP) and the European Security and Defence Policy (ESDP). It has expressed its intention to reinforce its engagement in Bosnia and Herzegovina upon the closure of the OHR.

### **1.3. Relations between the EU and Bosnia and Herzegovina**

Bosnia and Herzegovina is participating in the **Stabilisation and Association Process (SAP)**.

Following progress in four key areas<sup>3</sup> which the Commission and the Council set in 2005 as a condition for concluding **negotiations** on the **Stabilisation and Association Agreement (SAA)**, the agreement was signed in June 2008, together with an Interim Agreement which focuses on trade and trade-related areas. The Interim Agreement entered into force on 1 July 2008. Bosnia and Herzegovina has developed an Action Plan and established joint bodies between the State level and Entity institutions for implementation of the SAA and the Interim Agreement. The implementation of customs-related provisions following the entry into force of the Interim Agreement has generally been satisfactory.

The EU provides guidance to the authorities of Bosnia and Herzegovina on reform priorities as part of the **European Partnership**. Following a proposal from the Commission, the Council adopted an updated European Partnership for Bosnia and Herzegovina in February 2008. Progress on these reform priorities is encouraged and monitored by Reform Process Monitoring (RPM) meetings and following the signing of the SAA, also by the bodies set up by the Interim Agreement. Eight RPM meetings have been held since the last progress report was published, including two Economic Dialogue meetings. The first meeting of the Interim Committee was held in October 2008.

The regular meeting between Members of the European Parliament and Members of the Bosnia and Herzegovina Parliamentary Assembly took place in February 2008. A first EU-Bosnia and Herzegovina troika at political directors' level was held in February 2008. A political dialogue meeting at foreign minister level followed in September 2008.

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<sup>3</sup> 1) Implementation of police reform in compliance with the October 2005 agreement on police restructuring; 2) full co-operation with the ICTY; 3) adoption and implementation of all necessary public broadcasting legislation; and 4) development of the legislative framework and administrative capacity to allow for proper implementation of the SAA

In addition to Community support, the EU has continued to deploy considerable resources in Bosnia and Herzegovina in the framework of the Common Foreign and Security Policy and the European Security and Defence Policy. The mandate of the EU Special Representative, who promotes overall political coordination and offers the EU's advice and facilitation to Bosnia and Herzegovina, has been extended until February 2009. The mandate of the EU Police Mission (EUPM) has been extended for a further two years (until the end of 2009). The EUPM will continue to mentor, monitor and inspect the police forces in Bosnia and Herzegovina. The EUFOR/Althea mission, which numbers some 2 500 troops on the ground, has continued to maintain a safe and secure environment. In June 2008, the Council concluded that the EU-led military presence would remain in Bosnia and Herzegovina for as long as necessary. The EU Monitoring Mission, with its headquarters in Bosnia and Herzegovina, closed by the end of 2007.

The visa facilitation and readmission agreements between the EU and Bosnia and Herzegovina entered into force on 1 January 2008. The first Joint Committee meetings on the Visa Facilitation Agreement and the Readmission Agreement between the European Commission and Bosnia and Herzegovina were held in June 2008. In May 2008, the EU launched a visa liberalisation dialogue with Bosnia and Herzegovina, which should gradually lead to abolition of visas for citizens of Bosnia and Herzegovina travelling to the EU. A detailed road map setting clear benchmarks to be met by Bosnia and Herzegovina for lifting the visa regime was presented in June 2008. Bosnia and Herzegovina adopted an Action-Plan for implementing the visa road map in August 2008.

As regards pre-accession **financial assistance**, the 2008-2010 Multi-Annual Indicative Planning Document (MIPD) for Bosnia and Herzegovina was adopted in September 2008. The EC allocated a total of €74.8 million to Bosnia and Herzegovina under the 2008 Instrument for pre-accession assistance (IPA) programme. The main areas of intervention are: strengthening the rule of law and public administration structures, economic and social development and democratic stabilisation, including support for civil society. In addition, €5.7 million has been provided from Community funds to support the budget of the Office of the High Representative until June 2009.

IPA and remaining CARDS assistance is implemented by the EC Delegation in Sarajevo. Decentralised management of aid remains a medium-term objective for Bosnia and Herzegovina. Preparations for decentralised implementation have advanced slightly. The National Fund and the Central Financial and Contracting Unit (CFCU) in the Ministry of Finance and Treasury (MoFT) have been partly staffed and further recruitment is in progress. The complex institutional and political environment, including significant delays in ratifying the IPA Framework Agreement and the 2007 IPA Financing Agreement, as well as difficulties in appointing a National IPA Coordinator, has delayed the start of the implementation of IPA. In accordance with the IPA Framework Agreement, Bosnia and Herzegovina needs to ensure that Community assistance is exempt from VAT.

Regarding financial assistance to **civil society**, the 2008 IPA programme will provide €3.5 million to support civil society development.

The framework agreement for Bosnia and Herzegovina's participation in Community Programmes entered into force in January 2007. To date, no memorandum of understanding for participation in specific Community programmes has been concluded.

## **2. POLITICAL CRITERIA**

This section examines progress made by Bosnia and Herzegovina towards meeting the Copenhagen political criteria, which require stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities. It also monitors regional cooperation, good neighbourly relations with enlargement countries and Member States, and respect for international obligations, such as cooperation with the UN International Criminal Tribunal for the former Yugoslavia (ICTY).

### **2.1. Democracy and the rule of law**

#### *Constitution*

Bosnia and Herzegovina's constitution, which is contained in Annex IV to the Dayton/Paris Peace Agreement (DPA), establishes a complex institutional architecture. The DPA put an end to the war and brought peace and stability to Bosnia and Herzegovina. Although progress has been made under the current constitutional structure, it still prevents swift decision-making and therefore hinders reform and the capacity to make rapid progress towards the EU.

Since the Bosnia and Herzegovina Parliamentary Assembly rejected a package of proposed constitutional amendments in April 2006, no further attempts have been made to amend the constitution. Consequently, there has been little progress in addressing the key European Partnership priority, requesting Bosnia and Herzegovina to establish more functional and sustainable institutional structures. There remains wide disagreement between the political parties on the scope of the future constitutional reform.

Nationalist rhetoric from political leaders from all the constituent peoples, challenging the Dayton/Paris Peace Agreement and, thus, the constitutional order, remained commonplace. The most frequent challenges came from the political leadership of Republika Srpska, who have continued to claim the right of self-determination for the Entity. Following Kosovo's<sup>4</sup> declaration of independence, the Republika Srpska National Assembly adopted a resolution that condemned Kosovo's declaration and stated that the Republika Srpska authorities may seek a referendum of independence if a majority of EU and UN Member States recognised Kosovo's independence. This resolution was widely rejected by the international community.

As a result of the failure to reform the constitution, elections continue to be conducted under provisions that are in violation of the European Convention on Human Rights (ECHR). The election of Bosnia and Herzegovina's tripartite Presidency continues to be in contravention of Protocol 12 of the ECHR, as it does not allow citizens not belonging to the three constituent peoples to stand as candidates and it determines the ethnicity of each candidate elected from the Entities.

On the basis of the Dayton/Paris Agreement, the international community continues to maintain a significant presence in Bosnia and Herzegovina. The Office of the High Representative (OHR) and the EU Special Representative's office have been working closely with the European Commission on issues related to European integration. The High Representative has continued to play a key role in facilitating reform and governance issues. The High Representative's use of his executive powers has remained low, and he has not enacted any new legislation in the reporting period.

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<sup>4</sup> Under UN Security Council Resolution 1244

In October 2007, the European Court of Human Rights ruled as inadmissible a number of applications lodged against the decision of the High Representative to remove the applicants from public office and to bar them from running for election. The Court considered that the High Representative was exercising lawfully delegated powers of the United Nations Security Council.

Due to the concerns over political stability in Bosnia and Herzegovina and in the region, the closure of the OHR has been further postponed. In February 2008, the Peace Implementation Council decided to make the closure conditional on Bosnia and Herzegovina's progress on addressing five specific objectives<sup>5</sup> and two specific conditions (signing of the SAA and a stable political situation). Of the five objectives, there has been little progress on addressing the issues related to State property and the Brčko final award.

The Entities have not yet finished bringing their constitutions into line with the March 2006 ruling by the Constitutional Court of Bosnia and Herzegovina that the Entity coats of arms, flags and anthems were not in line with the State-level constitution of Bosnia and Herzegovina. Republika Srpska has adopted a temporary emblem and issued a call for proposals for a new coat of arms. The Federation of Bosnia and Herzegovina is also still considering proposals for the Entity symbols.

Overall, nationalist rhetoric has prevailed and Bosnia and Herzegovina's leaders have made no progress towards creating, through the reform of the constitutional framework, more functional and affordable State structures which support the process of European integration.

### *Parliament*

Bosnia and Herzegovina has a bicameral State-level parliament, along with parliaments at the level of the Entities (the Federation of Bosnia and Herzegovina and Republika Srpska), Brčko District and Cantons.

Following the High Representative's recommendations to Bosnia and Herzegovina's Parliamentary Assembly to adopt measures to improve its efficiency, the House of Representatives and the House of Peoples each adopted amendments to their rulebooks in December 2007. These reduced the quorum necessary for holding a session in the House of Representatives and changed the decision-making mechanisms in both Houses. These decisions were designed to make the Bosnia and Herzegovina Parliamentary Assembly more functional and will reduce the possibility of boycotts undermining the performance of the Parliamentary Assembly.

Following the adoption of new rules and procedures, and reflecting the improved political climate which followed the initialling of the Stabilisation and Association Agreement, the Parliamentary Assembly adopted a number of important laws based on the European Partnership, including legislation concerning the police reform. The Joint Colleges of the

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<sup>5</sup> 1) Acceptable and sustainable resolution of the issue of apportionment of property between State and other levels of government; 2) Acceptable and sustainable resolution of defence property; 3) Completion of the Brčko final award; 4) Fiscal sustainability (promoted by an agreement on a permanent coefficient methodology on distribution taxation revenues and establishment of a National Fiscal Council); and 5) Entrenchment of the rule of law (demonstrated by adoption of a National War Crimes Strategy, of a Law on aliens and asylum and of a National Justice Sector Reform Strategy).

Parliamentary Assembly also adopted a Strategic Plan for 2008-2010, which provides for increases in staffing.

However, overall the Parliamentary Assembly's legislative work has continued to be adversely affected by the intransigent and ethnically oriented position of the country's political leaders. Members of Parliament generally continue to vote along ethnic lines and the Parliamentary Assembly's work is affected by the general political environment. The High Representative's recommendations to the Parliamentary Assembly in October 2007 to improve efficiency resulted in threats from Bosnian Serb representatives to boycott the legislative work. As a result, the Parliamentary Assembly met infrequently up to February 2008.

The chairmanship of the Parliamentary Assembly continues to rotate on an eight-monthly basis, which hinders efficiency. It is still hampered by inadequate technical and human resources. Cooperation with the Council of Ministers remains weak, and there is little coordination of legislative agendas between the State and Entity parliaments, even though initial discussions have been held in the context of European integration. Owing to the still complicated decision-making procedures which provide guarantees for the constituent peoples, parliamentary activities have continued to proceed slowly. Committee work has also been affected by inter-ethnic divergences and the general lack of resources. The Committee for European Integration does not yet deal with specific legislative issues related to European integration.

Overall, there has been some progress on improving the efficiency of the Parliamentary Assembly of Bosnia and Herzegovina. However, its work is still adversely affected by the unstable political climate, systematic voting along ethnic lines and insufficient administrative resources.

### *Government*

The Presidency of Bosnia and Herzegovina is responsible for foreign policy, proposing annual budgets and representing Bosnia and Herzegovina in international organisations. In line with the Constitution of Bosnia and Herzegovina, the Presidency members continue to rotate on an eight-monthly basis, which hampers efficiency and continuity.

The Presidency has met regularly. However, some of the members have continued to show first allegiance to their Entity and their constituent people. The Presidency members have invoked "vital entity interest" on a number of occasions and have generally shown little capacity to find common positions. They have continued to show their differences publicly when representing Bosnia and Herzegovina officially in international meetings.

In October 2007, the High Representative issued a decision amending the Law on the Council of Ministers in Bosnia and Herzegovina. This introduced changes to the obligatory quorum for holding government sessions and to the decision-making mechanisms. The decision also stipulated that the Council of Ministers needed to hold sessions on a weekly basis. The aim was to make the Council of Ministers more efficient and functional. Following these changes, and supported by a more favourable political climate in the first half of 2008, the Council of Ministers has met regularly. It has adopted a number of laws based on the European Partnership and held specific sessions on the European integration matters.

Following the High Representative's decision to amend the Law on the Council of Ministers, the political leadership from Republika Srpska considered the measures imposed to be unconstitutional and threatened to boycott the State-level institutions. As a result, the Chairman of the Council of Ministers (Prime Minister) resigned in November 2007. After the Prime Minister's resignation, the Council of Ministers met with a technical mandate until February 2008, when it was reconstituted with the same membership as before.

Overall, the Council of Ministers has continued to experience internal tensions, even though consensus on European integration has helped move the legislative agenda forward. Capacity problems, lack of political will, and diverging national interests in government and parliament nevertheless continue to delay adoption of legislation. The work of the Council of Ministers is also suffering from the limited powers of the Prime Minister.

The Directorate for European Integration (DEI) is directly attached to the Council of Ministers. It has continued to play an important role as Bosnia and Herzegovina's focal point for programming EU assistance. Units for European integration have been established in each ministry in the Council of Ministers. However, the DEI has continued to be adversely affected by limited resources for personnel and the difficult political climate. The adoption of the action plan for implementation of the European Partnership priorities, which was prepared by DEI, was significantly delayed as a result of Republika Srpska's challenges to the competences of the State-level in a number of areas.

The Directorate for Economic Planning (DEP), which is also linked to the Council of Ministers, has been strengthened through the appointment of a permanent Director and the consolidation of its role of coordinating the country development strategy process, as assigned by the Coordination Board for Economic Development and European Integration.

The staffing of the General Secretariat of the Council of Ministers has been improved, but it does not yet have the capacity for planning and policy coordination. Currently, policy coordination, including the process of preparing the annual work programme for the Council of Ministers, is carried out by the Office of the Chairman of the Council of Ministers. This division of tasks between the General Secretariat and the Office of the Chairman is not optimal. The staffing of the Legislative Office has improved, but the quality of draft legislation still remains unsatisfactory.

Fragmented policy-making between the State and the Entities remains the main obstacle to efficient work by the State Government. The Coordination Board for Economic Development and European Integration, which is designed to harmonise State and Entity agendas, does not play an effective role and has met only infrequently. Coordination between the different levels of authority is minimal and depends largely on personal and party interests. Due to its limited powers the Council of Ministers has occasionally been left out of negotiations on reforms, which have been conducted by the political parties. Another serious handicap for policy planning in Bosnia and Herzegovina as a whole is the lack of proper statistics, including an up-to-date population census. Major reforms are still based on the 1991 census, which does not reflect the current situation on the ground.

The Republika Srpska Government has continued to be efficient in adopting legislation. However, it has maintained its policy of strengthening its own legal framework, often without coordination with the Council of Ministers or with the government of the Federation. It remains generally opposed to the transfer of powers to State level and has often threatened to reverse previous transfers. The Federation Government has been less efficient in adopting and

implementing legislation, mainly owing to the difficult political climate and diverging party and ethnic interests in the governing coalition.

Both Entities have local self-government legislation largely in line with the European Charter for Local Self-Government. However, the impact on decentralisation of powers to local self-government units has been limited, and the lack of resources of the municipalities remains an issue both in the Federation and in Republika Srpska. Harmonisation of Cantonal legislation within the Federation has been uneven. The State-level authorities have no powers over local self-government, which complicates compliance with Bosnia and Herzegovina's international obligations in this area.

Municipal elections took place in October 2008. They were held in accordance with international standards. Considering the sensitivity of the balance of power within the Srebrenica local government, the Bosnia and Herzegovina Parliamentary Assembly agreed exceptionally to allow all 1991 residents to vote in the municipal elections for Srebrenica and not for their current place of residence, if they so chose.

Overall, Bosnia and Herzegovina has made limited progress on making the State-level government structures more functional and efficient to address their commitments regarding European integration. Lack of resources, lack of coordination, ethnic tensions, and internal conflicts continue to delay reform. Fragmented policy-making between the State and the Entities remains the main obstacle to efficient work by the State Government. There have been discrepancies between the Entities in the efficiency of the adoption and implementation of legislation.

#### *Public administration*

There has been some progress in the area of public administration reform, which is a key European Partnership priority.

The Public Administration Reform (PAR) Coordination Office has made significant progress in terms of staffing. The number of employees is 35. Implementation of the PAR Strategy and its accompanying Action Plan has been continuously monitored: by September 2008 the implementation rate had reached 28%. Operational cooperation with the coordinators for public administration reform appointed for the Federation Government, the Government of Republika Srpska and the Government of the Brčko District has been improved, but further efforts are needed. The PAR Coordination Office has strengthened its capacity, primarily for managing the Public Administration Reform Fund and coordinating various donor initiatives. The Public Administration Reform Fund has become operational and the first proposals for projects have been adopted, committing one third of total available funds. Tendering and contracting procedures have started.

Despite these developments, the administrative structures remain cumbersome, and in some cases fragmented, and prone to duplication and unclear division of powers, both between institutions at the same level and vertically, between different levels of government. Although recruitment by the State Civil Service Agency has improved, further efforts are needed to reinforce its staffing and to make the recruitment procedures more efficient. The State Civil Service Agency has remained active in organising and providing training on different topics for all civil servants. Coordination between the State- and Entity-level Civil Service Agencies has improved, with joint involvement in several large-scale training schemes. However,

harmonisation of the three Civil Service Laws, in particular to allow transfers of civil servants between government levels, is still pending.

The accommodation of State-level institutions remains a problem. The move to the newly reconstructed building of the Council of Ministers has taken place after considerable delays, but this building cannot accommodate all the employees of State ministries and standing bodies of the Council of Ministers.

No progress has been made on regulating ownership rights to State property. As a result, the High Representative has extended the temporary prohibition of disposal of State property beyond 30 June 2008.

The civil service is in need of professionalisation, transparent and efficient recruitment procedures and modern career development. Sustained efforts remain necessary to prevent political interference and to limit the role played by ethnic identity and party membership in public administration. The administration would benefit from modernisation of procedures and processes and from closer cooperation with other parts of the country.

The implementation of the Ombudsman Law, which was adopted in March 2006 and which provides for merging the three Ombudsmen Institutions, is awaiting the appointment of the Ombudspersons. The appointment process was re-launched in 2008 and a parliamentary committee was established for the selection process. However, due to blockages in the appointment process, no agreement has been reached. Further delays pose a risk of undermining the credibility of the State Ombudsman's Office.

Overall, there has been some progress in the area of public administration. However, Bosnia and Herzegovina is still in an early phase of the public administration reform, which needs to be accelerated. The country's complex and cumbersome institutional structure continues to undermine efficiency. Significant further efforts towards an efficient, professional, stable, accountable and transparent civil service are needed at all levels of government.

#### *Civilian oversight of the security forces*

The Joint Parliamentary Committees for Defence and Security and the Intelligence and Security Committee have continued to perform their duties efficiently, with the latter commencing both announced and unannounced inspections of the Intelligence Security Agency. As regards the defence reform, the issue of transferring responsibility for military weapons, ammunition, explosives and certain other movable defence property from the Entities to the State level was resolved in March 2008, when the Council of Ministers and the Entity Governments signed an agreement on this subject, which is now being implemented. The agreement will also allow the destruction of old and dangerous ammunition. The issue of transferring immovable defence property to the State remains unresolved. EUFOR handed over responsibility to Bosnia and Herzegovina for control of military movements of arms and ammunition in March 2008.

Bosnia and Herzegovina's progress on addressing the defence reform resulted in an invitation from NATO to start the "Intensified Dialogue". This signifies that contacts between Bosnia and Herzegovina and NATO will increase in order to prepare the country for an eventual Membership Action Plan, which is the last step before NATO accession.

#### *Judicial system*

Consolidation of the judicial system continued to make progress, but in a difficult environment. One ongoing major problem was the lack of a Supreme Court that could harmonise application of legislation across the four internal jurisdictions: the State level, the Federation of Bosnia and Herzegovina, Republika Srpska and the Brčko District. Another continuing structural problem was the absence of a single budget for the judiciary. Having 14 Ministries of Justice each preparing judicial budgets has been detrimental to judicial independence and overall implementation of the judicial reform. Political interference in the judicial system remains a cause for concern. In the parliamentary and executive branches of the governments, attempts are being made to reverse reforms already implemented so as to allow greater political influence in the work of prosecutors and judges. The jurisdiction and the competences of the State-level judicial agencies to operate freely in Republika Srpska have been challenged by the Republika Srpska government, which is a serious cause for concern.

At State-level, the system consists of a Ministry of Justice with limited powers and staff, the State Court and the State Prosecutor's Office with a common international registry and the High Judicial and Prosecutorial Council (HJPC), which substantially guides the judicial reform, but has only limited resources. The HJPC, as an independent and autonomous body, has continued to play an important role in improving the situation of the judiciary. It has contributed to increased professionalism, resources and efficiency. Cooperation between the HJPC and the ministries has been upgraded, in that it is now more common for budget drafts and budget proposals to be submitted to the HJPC for comments. However, these improvements need to be taken further if the HJPC's position is to be made more secure. The presence of international judges and prosecutors within the State judicial institutions was maintained. Despite some improvements owing to international donor funds, material conditions remain an obstacle to the judicial reform, in particular funding for suitable judicial premises and adequate financial means for the daily operation of courts and prosecutors' offices.

The Judicial and Prosecutorial Training Centres in the Entities implemented educational programmes for judges and prosecutors across the country and were relocated to better premises. A training strategy for the two centres was adopted and the training budgets were increased. Two legal documentation centres have been developed. However, there is a need to increase the staffing of the Centres.

The National Strategy for Development of the Justice Sector for 2008-2012 was adopted in June 2008. The Strategy includes provisions aiming at further strengthening the independence, accountability, efficiency, professionalism and harmonisation of the judicial system and at advancing the system of international legal assistance and the processes to guarantee equal access to justice. Owing to the lack of consensus, however, the Strategy makes no provision for establishing a Supreme Court of Bosnia and Herzegovina, a single judicial budget and a single criminal law.

Bosnia and Herzegovina has made some efforts to reduce the backlog of court cases. The Backlog Reduction Project, formalised by the signing of a memorandum of understanding in January 2008, is one positive step. However, the total number of pending court cases exceeded 2 million, of which approximately 1.2 million were cases of unpaid utility bills.

There has been progress with restructuring the minor offence courts. Consolidation of the minor offence courts into the regular first instance courts has been completed, in line with the European Convention on Human Rights. The influx of minor offence cases before the courts

has been reduced; the collection rate for fines imposed has increased and resolution of minor offence cases has been speeded up.

Cooperation between police officers and prosecutors remains weak. The majority of prosecutors and police officers still have difficulties understanding and applying the different substantive criminal codes which are in force. Progress in the area of harmonisation of State and Entity criminal legislation has been limited. Problems persist, especially with prosecution of war crimes and organised crime.

Some progress has been made in the area of juvenile justice. The Strategy against Juvenile Offences, which was adopted in July 2006, did not enter into force until February 2008. In May 2008, a coordination body was set up at State level to monitor implementation of the Strategy and held its first meeting. However, proper implementation of the Strategy and the Action Plan has not yet started. Lack of appropriate and well-regulated juvenile correctional facilities and alternative measures for juvenile offenders continued to seriously hinder the establishment of an effective system to address juvenile delinquency.

Local prosecution of war crimes has continued. At State level, trials have generally been held within a reasonable time and in compliance with internationally recognised fair trial standards. One of the main challenges facing the State Prosecutor's Office and the State Court is the large volume of war crimes cases. A strategy is needed to map and prioritise these cases. Furthermore, the Court needs to make more efforts on its outreach activities. Trials have also continued to be conducted more effectively before cantonal and district courts in the Entities, but there are several remaining major obstacles to be addressed. In particular, effective action needs to be taken to address the lack of witness protection and witness support, insufficient staffing and lack of specialisation among cantonal and district prosecutors, plus the lack of harmonisation of the legal codes used in war crimes trials at State and Entity levels. A clear and concrete national strategy dealing with war crimes issues has still to be adopted.

Overall, preparations by Bosnia and Herzegovina to develop an effective and efficient judicial system have been advancing. The adoption of the Strategy for Development of the Justice Sector for 2008-2012 is a positive development. However, fragmentation and disparities across the judicial frameworks continue to impair the efficiency of the judicial system. Sustained efforts are needed in order to improve efficiency and to ensure the independence and the accountability of the judicial system.

#### *Anti-corruption policy*

Bosnia and Herzegovina is a party to the UN Convention on Fighting Corruption (Mérida Convention), but has not signed the Additional Protocol to the Council of Europe Criminal Law Convention on Corruption. Bosnia and Herzegovina still needs to harmonise its legislation with the Council of Europe Civil Law Convention on corruption. No progress has been made towards ensuring proper implementation of the 2006 National Anti-Corruption Strategy and the associated Action Plan. There has been some progress on addressing the recommendations made by the second evaluation report adopted by the Council of Europe Group of States against Corruption (GRECO) in December 2006, namely to enforce the legal framework and to improve coordination and training of the agencies involved in fighting corruption and seizure of the instruments and proceeds of crime. The Bosnia and Herzegovina Central Election Commission was active in implementing the Law on conflicts of interest. However, some of its decisions have not been properly implemented.

As regards anti-corruption legislation, the amendments to the Law on financing of political parties are in the parliamentary procedure. Under the terms of these amendments the amount that political parties may receive via grants and donations from legal and physical entities is doubled, which is designed to increase transparency of financing of political parties.

There are no legal measures in place to ensure confidentiality and protection of civil servants reporting corruption. The amendments to the Law on conflicts of interest adopted in July 2008 reduce the scope of the law in terms of the persons to whom it applies and of the situations that are regarded as conflicts of interest. No independent anti-corruption agency has been established. Convictions for corruption remain very limited. There is lack of political will to implement actions to combat corruption in line with the 2006 strategy and action plan. The judiciary also faced difficulties in gathering evidence and mastering all aspects of the legal framework. The judicial and prosecutorial training centres need to create targeted training programmes dedicated to the prosecution of criminal offences of corruption, economic crime and organised crime. Transparency of public activities is hampered by political pressure on public external audit institutions and by limited implementation of the Freedom of Access to Information Act.

Media accusations and pressure from the Republika Srpska authorities against a corruption watchdog, which led to the temporary suspension of the operations of Transparency International in Bosnia and Herzegovina, are a serious concern.

Overall, Bosnia and Herzegovina has made very little progress on improving its tools to fight corruption. Corruption is widespread and remains a serious problem, especially within government. Bosnia and Herzegovina needs to improve its anti-corruption legislation. Proper implementation of the National Anti-Corruption Strategy needs to be ensured. More vigorous investigation and prosecution are necessary.

## **2.2. Human rights and the protection of minorities**

### *Observance of international human rights law*

As regards **ratification of human rights instruments**, Bosnia and Herzegovina has ratified the major UN and international human rights conventions, including the European Convention for the Protection of Human Rights and Fundamental Freedoms. Bosnia and Herzegovina also ratified the revised European Social Charter in July 2008. Delays in fulfilling reporting obligations have continued. The constitution includes most of the principles of the human rights conventions and guarantees that they supersede national legislation. Although the conventions are directly applicable, implementation needs to improve.

In a number of cases, the decisions of the Human Rights Commission of the Constitutional Court of Bosnia and Herzegovina were not properly implemented. This has led to cases being lodged before the **European Court of Human Rights** (ECtHR). During the reporting period, the Court delivered five judgments finding that Bosnia and Herzegovina had violated the European Convention on Human Rights (ECHR). A total of 1 020 new applications to the ECtHR were made during the reporting period. As of August 2008 the total number of cases pending before the Court regarding Bosnia and Herzegovina was about 800, around 500 of which concerned the applicants' inability to withdraw their old foreign currency savings.

As regards **promotion and enforcement of human rights**, the enforcement of the decisions of the Human Rights Commission remains unsatisfactory. In several cases, criminal proceedings have been instituted because of failure to enforce such decisions. Enforcement of decisions relating to amendments to laws and other regulations is particularly slow, as it requires more coordination between various institutions. Enforcement of decisions pertaining to financial compensation has been comparably faster. No progress has been made on addressing the question of the citizens and residents of Bosnia and Herzegovina who were sent to Guantanamo Bay in a breach of the Human Rights Commission's decision. This case has been referred to the European Court of Human Rights. Bosnia and Herzegovina needs to take determined action to have its citizens released.

Overall, Bosnia and Herzegovina has made limited additional progress on improving observance of international human rights law. Implementation of international human rights conventions needs to improve. Efforts to ensure proper enforcement of human rights need to increase.

#### *Civil and political rights*

As regards **prevention of torture and ill-treatment and the fight against impunity**, State and Entity constitutions prohibit torture and ill-treatment. Bosnia and Herzegovina is party to the Council of Europe Convention for the Prevention of Torture. However, it has failed to appoint a member to the Anti-Torture Committee. Recent assessment of the situation in prisons and in police detention has revealed a number of allegations of ill treatment of prisoners and detainees by the police or prison guards. In 2008, the European Court of Human Rights issued two decisions against Bosnia and Herzegovina in this regard. First, in May, the Court decided that the human rights of four applicants had been violated by not preventing violence and intimidation against them by other inmates. Then, in July, the Court issued a decision concerning the ill-treatment of prisoners in the psychiatric wing of Zenica prison and ordered Bosnia and Herzegovina to pay compensation to the applicants. There remains a need to improve the mechanisms for investigation of cases of alleged torture and ill-treatment by the police. In practice, units responsible for dealing with complaints are often composed of the same officers who are alleged to have perpetrated the ill-treatment. Their work is not supervised.

Bosnia and Herzegovina also needs to ensure adequate safeguards to ensure that people facing deportation following a negative citizenship review are protected from persecution, including torture and ill-treatment, upon return. There are still obstacles to the transfer of cases and extradition of suspects in cases of war crimes and crimes against humanity between Bosnia and Herzegovina, Croatia, Montenegro and Serbia. This is conducive to impunity.

The death penalty is prohibited by the constitution of Bosnia and Herzegovina and by the constitution of the Federation. Republika Srpska has taken steps to repeal the death penalty provisions from its constitution, but the process has not yet been completed.

**Access to justice** in civil and criminal trials remains a matter of concern, and equality before the law is not always guaranteed. Further efforts are needed to increase the budget of the defence counsel and to establish a nationwide legal aid scheme for criminal and civil trials. Legal aid in civil cases is primarily provided on an *ad hoc* basis by privately funded NGOs. The right to a fair trial is formally incorporated in the five criminal procedure codes of Bosnia and Herzegovina. However, the time from initiation of proceedings to a final decision remains very long. This is mainly due to a large backlog inherited by the courts and to excessive

referral of cases to first instance courts by district and cantonal courts in appellate procedures. Furthermore, in lower level courts, judges have tended to neglect the presumption of innocence.

Responsibility for the **prison system** remains divided between two entities and management of penitentiary institutions is split between the State and the Entities. There is no unified practice of criminal sanctions. The lack of coordination between the 15 different competent prison administrations and the absence of a harmonised legislative framework are major obstacles to improvement of the country's capacity to manage its prisoners. Some progress has been made with construction of a prison facility at State level. The Law on founding the institute for execution of criminal sanctions, detention and other measures, adopted in February 2008, provides the legal framework for construction of the State prison. The funds needed for construction have been secured and the preparatory works for the building started.

No progress has been made on addressing the problems of overcrowding, poor living conditions, inadequate medical treatment and physical abuse by prison guards. The lack of prison inspections, especially in the Federation, is a concern. The lack of special correctional/reform institutions for women, juveniles, persons with mental health problems, persons with disabilities and seniors needs to be addressed. The conditions under which persons in need of psychiatric treatment serve their sentences are a cause of particular concern. There is still a lack of acceptance of alternative penalties in the form of community work.

All the constitutions provide for **freedom of expression**. Proper implementation of the relevant legislation is required. Following the Federation Constitutional Court's rejection of a complaint that the draft public broadcasting law adversely affected the vital national interest of the Croat people in the Federation, the Federation Parliament adopted the law in July 2008. In line with the relevant key European Partnership priority, it is now necessary to ensure that all State and Entity-level legislation is harmonised, as well as full implementation, including the establishment of the Bosnia and Herzegovina Corporation of the Public Broadcasting Services.

The cases of physical attacks against journalists and editors have increased. Cases of physical violence against journalists and editors need to be prosecuted vigorously. The withholding of financial resources from certain media by the authorities, including the public broadcasting system, as a result of political pressure, is a matter of serious concern. A number of politicians have also encouraged the population not to pay the TV licence fee. The challenges to the independence of the Communications Regulatory Authority have increased, in particular as a result of the new Law on wages and allowances and the unresolved issue of the appointment of the authority's Director-General.

The constitutional framework of Bosnia and Herzegovina includes the right to **freedom of assembly and association**. However, there have been an increasing number of cases of intimidation against NGOs and civil society organisations. Harassment of certain collectives because of their sexual orientation has also occurred.

Some progress has been made as regards **civil society organisations**. A Civil Society Board was established in October 2007 in accordance with the Agreement on cooperation between the NGO sector and the Council of Ministers of Bosnia and Herzegovina. Even though the Board does not represent the whole of civil society, it has 31 sub-sectors, making it the strongest forum for NGOs in the country. However, more efforts by the authorities are needed

in order to establish regular and systematic communication with civil society and to encourage its participation in policy-making.

The constitution of Bosnia and Herzegovina provides for **freedom of religion**, and a State Law on freedom of confession and the legal status of churches and religious communities is in place. However, religious intolerance is still present in the country, including physical attacks on religious facilities. Cases of physical attacks against places of worship need to be prosecuted vigorously. Leaders of the religious communities have continued to intervene in political issues and they often play a divisive role in society.

Overall, Bosnia and Herzegovina has made limited progress in the area of civil and political rights. Some steps have been taken to support civil society development, but the sector remains weak overall. Some progress has been made with construction of a prison facility at State level, but the management of penitentiary institutions continues to be split between the State and the Entities. No progress has been made on fostering freedom of expression and freedom of assembly.

#### *Economic and social rights*

Overall the framework for **women's rights** is satisfactory, but there has been limited additional progress, especially on effective implementation. One positive development has been the revision of the Law on protection from domestic violence in Republika Srpska. Under the revised law, the entity and local authorities are responsible for funding safe houses for victims of domestic violence. The Gender Agency of Bosnia and Herzegovina has established a Working Group on work, employment and access to all economic resources which has made recommendations for implementation of the Law on gender equality. Overall, structures to support gender equality are in place, but there still is a general need to make mandates clearer and increase financial and human resources to ensure that these structures can function efficiently. Clear priorities are also needed for the effective implementation of the country's gender Action plan.

Trafficking in women and domestic violence remain causes for concern. Bosnia and Herzegovina has continued to be a country of origin, transit and destination for trafficking women and girls. The incidence of domestic violence has remained high. Criminal acts of violence in the family recorded by the authorities rose by more than 50 percent in 2007 compared to 2006. Shelters for victims of domestic violence lack financial resources and sometimes depend on foreign donors. Many women are not covered by health insurance. Women continue to be under-represented in politics and in the official authorities (*see also section 4.1.8, Employment and social policies*).

There has been only very limited progress in the field of **children's rights**. An Action Plan for children has been adopted, but problems due to insufficient State action in the fields of health, social protection, education and domestic violence against children remain. Entity governments have adopted a policy on children without parental care and families at risk of separation. Children's attendance of early childhood education programmes is still low. Children with disabilities still lack sufficient medical care and adequate educational opportunities.

Discrimination against **socially vulnerable people and people with disabilities** is prohibited by the legislation of both Entities. However, the fragmented legal and financial framework does not provide the same social protection for all citizens throughout the country. Legislation

on the professional rehabilitation and employment of persons with disabilities exists only in Republika Srpska. Many groups of the population are excluded from social protection and assistance benefits. The preferential treatment of war veterans in terms of social benefits continued to have adverse effects on other socially vulnerable persons and persons with disabilities, who often lack access to health protection and the labour market. Accessibility legislation is not being implemented and effective policies need to be put in place. Bosnia and Herzegovina has not signed the UN Convention on the Rights of Persons with Disabilities. The inadequacies in the social welfare systems adversely affect the conditions of the persons with disabilities, including the mentally ill. The latter remain particularly vulnerable to social exclusion. A study to analyse and evaluate the services for mental health protection in the whole country has been launched, but little progress has been made in terms of deinstitutionalisation. The Council for Disabled Persons has not yet been established.

Regarding **labour rights and trade unions**, the ratification of the revised European Social Charter is a progress, but the complex system of government and the fragmentation of legislation continue to hamper social dialogue across the country. There has been no development in establishing the trade union confederation (KSBiH) at State level, and as a result the trade unions continue to be based on the Entity structure. No country-wide Economic and Social Council has been established, due to opposition from Republika Srpska. The lack of clarity regarding trade union recognition has blocked further progress towards establishing collective bargaining and moving towards voluntary collective bargaining. The practice of disregarding employees' entitlement to social security, in particular during maternity leave for employed mothers and maternity for the unemployed, has been common. No steps have been taken to harmonise the legislative frameworks. The lack of a unified pension structure is also a problem, which has been recognised by the European Court of Human Rights in a decision issued in November 2007.

With regard to **anti-discrimination policies**, the State and Entity constitutions guarantee equal treatment of all people. A comprehensive anti-discrimination law has not yet been adopted. Anti-discrimination legislation exists in several areas, but implementation has been deficient. Social discrimination and exclusion of people belonging to the lesbian, gay, bisexual, transgender (LGBT) community is widespread. Acts of intimidation against these groups have occurred. This is exacerbated by the State's informal and formal support to such attitudes and the lack of a proper anti-discrimination legislation and implementing measures regarding sexual orientation and gender identity.

Progress has continued in the areas of **property rights** and land administration reform. The mandate of the Commission for Property Claims of Displaced Persons and Refugees was extended until the end of 2008 to address residual property repossession cases. Improvements to legal security of transactions were noted after notaries took office in Republika Srpska in March 2008 and in the Federation in May 2008. A new technical regulation on management of real estate cadastre information came into force in April 2008 in the Federation. However, the law on property rights is not yet in place in Republika Srpska.

Overall, little progress has been made in the area of economic and social rights. Progress on property rights has continued. Introduction and implementation of legal provisions to prevent discrimination and to protect the rights of women, children, disabled and socially vulnerable persons, as well as LGBT people, has been poor overall. There have been no improvements in the area of labour rights and trade unions.

*Minority rights, cultural rights and protection of minorities*

As regards **minority rights, cultural rights** and the **protection of minorities**, there are 17 officially recognised minorities in Bosnia and Herzegovina. The three constituent peoples – Bosniaks, Croats and Serbs – do not constitute minorities.

Bosnia and Herzegovina is party to the Council of Europe Framework Convention for National Minorities, but ratification of the European Charter for Regional or Minority Languages is still pending. The Council of National Minorities at State level, which performs an advisory function to the Parliamentary Assembly, was established in February 2008. A National Minorities Council is functioning in Republika Srpska, but has not yet been established in the Federation.

Bosnia and Herzegovina's legislation provides free broadcasting time for minorities. However, greater emphasis on capacity-building is necessary in order to allow minorities to exercise their rights to media representation. Access to education and employment continues to be difficult for disadvantaged and marginalized groups, such as ethnic minorities.

No progress has been made on reforming the Bosnia and Herzegovina constitution, and minorities therefore continue to be excluded from the House of Peoples and the tripartite Presidency.

Despite further improvements in the security situation, further progress on improving the socio-economic integration of **refugees and internally displaced persons** has been slight. The revision of the Strategy of Bosnia and Herzegovina for implementation of Annex VII to the Dayton Peace Agreement can be considered a significant effort on the part of the State and Entities to finalise the process of return. The number of returnees has substantially declined in recent years, but the process has not yet been completed. There are still some 125 000 persons who wish to return to their original place of residence. However, this is not matched by an adequate supply of reconstructed housing. Returnees still face discrimination in employment, access to health care, education, pensions and social rights - especially when returning to areas where they are in a minority position. This remains the biggest obstacle to a sustainable return.

The process of de-mining in Bosnia and Herzegovina is continuing. In April 2008, the Council of Ministers adopted a Strategy for Anti-mine Action for 2009-2019. De-mining is important to facilitating the return of refugees and displaced persons and is a precondition for development of a number of sectors of the economy, such as transport, agriculture or water management. Insufficient funds remain the main obstacle to faster progress with de-mining. As regards missing persons, the Bosnia and Herzegovina Institute for Missing Persons came into operation in December 2007. The main precondition before it could begin its work was the transfer of authority from the Entity commissions to the State level. Nevertheless, the institute's operations remain affected by the lack of support from the authorities of Republika Srpska.

A review of citizenship granted during and after the war was carried out during the reporting period. The State Commission for the Review of Decisions on Naturalisation of Foreign Nationals in Bosnia and Herzegovina has proposed to revoke the citizenship of over 650 persons. The State Commission is continuing its work.

As regards **Roma**, Bosnia and Herzegovina joined the Decade for Roma inclusion 2005-2015 in September 2008. At the same time, the Council of Ministers adopted an Action Plan on Roma housing, health and employment and a Decision establishing a Coordination Board to

monitor its implementation. It is important that sufficient financial resources are earmarked for implementation of this Action Plan.

However, despite these efforts, Roma continue to be the most vulnerable minority. Lack of civil registration of Roma continues to be problematic: many Roma families have no health insurance and cannot benefit from social services. No systematic housing assistance is provided to Roma. The 2004 Action Plan on the Educational Needs of Roma and Members of Other National Minorities is poorly implemented due to lack of financial resources and non-allocation of specific responsibilities for its implementation. The rates of school attendance and Roma refugee return remain much lower than for other citizens, with extreme poverty as one of the main causes of exclusion from education. Despite allocation of funds for the purchase and distribution of textbooks to Roma and other vulnerable pupils in the school year 2007/2008, some cantonal and municipal authorities reportedly failed to distribute the books.

Overall, Bosnia and Herzegovina's progress in the area of minority rights, cultural rights and protection of minorities has been limited. One positive development has been the establishment of the Council of National Minorities at State level. However, enforcement of provisions regarding minorities is weak. Bosnia and Herzegovina needs to take further steps and ensure sufficient financial resources to support the Roma population which continues to face very difficult living conditions and discrimination. Efforts to address the problems of returned refugees and internally displaced persons with access to employment, health care, education, pensions and social rights need to be stepped up.

### **2.3. Regional issues and international obligations**

Implementation of **the Dayton/Paris Peace Agreement** has continued, but nationalist rhetoric by political leaders from all constituent peoples challenging the Agreement and the constitutional order has been frequent (*see also section 2.1 Constitution - for further details*).

Bosnia and Herzegovina is still subject to the monitoring procedure of the Parliamentary Assembly of the **Council of Europe (CoE)** on verifying the obligations and commitments relating to its membership in the Council of Europe. There has been no significant improvement in addressing the outstanding issues. Bosnia and Herzegovina has failed to appoint members or candidates to several Council of Europe monitoring mechanisms and advisory bodies.

Bosnia and Herzegovina's cooperation with **the International Criminal Tribunal for the former Yugoslavia (ICTY)**, which is a key European Partnership priority, has continued to improve and has reached a generally satisfactory level. Cooperation between ICTY and the State level and Entity authorities is adequate at an operational level, and access to witnesses and archives has been good. In Republika Srpska, an Action-Plan on cooperation with the ICTY was drawn up in March 2008 and a coordination team for war crimes investigations was established. The arrests of Radovan Karadzic and Stojan Zupljanin in Serbia, indicted for war crimes committed in Bosnia and Herzegovina, is also a positive development. In January 2008, the Council of Ministers adopted a decision on provisional measures freezing the funds and economic assets of the fugitive ICTY indictees. In 2008, 38 proceedings against 41 individuals were initiated. In March 2008, the Council of Ministers aligned itself with the relevant EU Joint Action and issued a decision tightening controls on people banned from entering or transiting through Bosnia and Herzegovina.

However, Bosnia and Herzegovina needs to step up its efforts to combat the networks supporting indicted war criminals. According to the ICTY, Republika Srpska has failed to take appropriate action to have Radovan Stankovic re-arrested after his escape from prison there in 2007.

As regards **war crimes**, the State Court has continued to perform its duties well. Ten accused have been transferred from The Hague to the Special War Crimes Chamber in Bosnia and Herzegovina under rule 11 bis, and four of these trials have been completed. A significant number of other war crimes indictments and trials have been launched by prosecutors in Bosnia and Herzegovina. In September 2008, there were 61 ongoing war crimes cases, of which 23 were at State level, 23 in the Federation, 13 in Republika Srpska and two in the Brčko District.

Further funding will be required for the War Crimes Department in the Office of the Prosecutor of Bosnia and Herzegovina to secure continuity in the prosecution of war criminals. The number of untried war crimes cases remains high, with estimates varying between 10,000 and 16,000. The different courts in Bosnia and Herzegovina continue to use different criminal codes for trying war crimes. This practice leads to differences in the sentences imposed and does not make for a consistent system of justice. There is also a lack of witness protection and witness support, combined with insufficient cooperation between prosecutors and police.

In July 2008, Bosnia and Herzegovina ratified the European Convention on the Non-Applicability of Statutory Limitation to Crimes against Humanity and War Crimes.

As regards the **International Criminal Court (ICC)**, Bosnia and Herzegovina still maintains the bilateral immunity agreement with the United States of America granting exemptions from ICC jurisdiction which does not comply with the EU Common Positions on the integrity of the Rome Statute, as well as related EU guiding principles on bilateral immunity agreements. It needs to align with the EU position.

No significant progress has been made by the countries of the region on implementing **the Sarajevo Declaration**, the aim of which was to complete the regional refugee return process by the end of 2006. A working group meeting, held in October 2007, reached agreement on a number of issues concerning regional cooperation on refugee return. However, there has been no progress on resolving the issues related to compensation claims from those who lost occupancy and tenancy rights (OTRs).

**Regional cooperation** and good neighbourly relations form an essential part of the process of Bosnia and Herzegovina moving towards the European Union.

Bosnia and Herzegovina continues to be an active participant in regional cooperation initiatives, such as the transition from the Stability Pact to a more regionally-owned framework with the South-East European Cooperation Process (SEECP) and the Regional Cooperation Council (RCC), the Central European Initiative, the Adriatic-Ionian Initiative and the Danube Cooperation Process. The RCC, with its headquarters in Bosnia and Herzegovina, was officially inaugurated in February 2008. Bosnia and Herzegovina ratified the Host Country Agreement in April 2008.

In May 2008, Bosnia and Herzegovina, Croatia and Montenegro signed a Declaration on cross-border cooperation in the event of natural and other disasters and in the area of natural

resources management. Furthermore, the "Neum Initiative" has been established between neighbouring municipalities in Bosnia and Herzegovina, Croatia and Montenegro. The main focus of this initiative is to promote cooperation between local communities in the areas of tourism, environmental protection and development of transport and water supply infrastructure.

Bosnia and Herzegovina has been implementing the Central European Free Trade Agreement (CEFTA) and the European Common Aviation Area (ECAA) agreement. Bosnia and Herzegovina is party to the Energy Community Treaty but, due to opposition from Republika Srpska, continues to lag behind in meeting its obligations under the Treaty, especially in relation to the gas sector.

Bosnia and Herzegovina acceded to the Union for the Mediterranean/the Barcelona Process in July 2008.

As regards **peaceful settlement of border disputes**, there has been no progress on addressing the open border issues with Croatia. The 2005 Agreement between Bosnia and Herzegovina and Croatia on demarcation of the land and river borders has not yet been ratified. Moreover, the dispute over two islands – Veliki Skoj and Mali Skoj – remains unresolved, as does the issue of the border along the River Una. No border agreement between Bosnia and Herzegovina and Serbia has been signed yet. There are no open border issues with Montenegro.

On the whole, **bilateral relations with other enlargement countries** have continued to be good. However, there has been very little progress in resolving outstanding issues, which is a key European Partnership priority.

Relations with *Croatia* have remained stable. An agreement on police cooperation has been concluded. However, there has been no progress on addressing other outstanding issues. Bosnia and Herzegovina has not yet ratified the agreement on dual citizenship. There have been no developments on the agreement on use of the Port of Ploče. Bosnia and Herzegovina objects to Croatia's plans to construct a bridge on the Peljesac peninsula, which it claims could restrict Bosnia and Herzegovina's access to the sea. Other unresolved issues include property and refugees.

Relations with *Serbia* have remained stable. However, no meetings of the Interstate Cooperation Council have taken place and there has been no progress on addressing issues related to property. The Serbian political leadership assessed the High Representative's decisions concerning the decision-making procedures in the Bosnia and Herzegovina Council of Ministers and in the Parliamentary Assembly as a violation of the Dayton/Paris Agreement. This led to exchanges of sharp statements between Bosnia and Herzegovina and Serbia. Despite Serbia's progress in complying with the International Court of Justice's 2007 ruling on the case concerning the application of the Convention on the Prevention and Punishment of the Crime of Genocide, opinions about the implementation of that ruling continue to differ.

Republika Srpska has continued to cooperate closely with Serbia on the basis of the Special Parallel Relations Agreement. In January 2008, the Republika Srpska National Assembly and the Serbian parliament signed a Protocol on Cooperation.

Bosnia and Herzegovina has not recognised *Kosovo's* declaration of independence.

Relations with *Montenegro* are good and have further intensified. Agreements on cooperation in the area of defence, police cooperation, civil protection and cross-border cooperation have been signed.

Relation with *the former Yugoslav Republic of Macedonia* are good, both in the bilateral and the regional context. Agreements on readmission, police cooperation and civil protection have been concluded.

Relations with *Albania* have intensified, and Bosnia and Herzegovina has decided to open an Embassy in Tirana.

Relations with *Turkey* have remained good.

**Bilateral relations with the EU Member States** remain good. The EU is Bosnia and Herzegovina's main trading partner, in particular *Germany, Italy, Austria* and *Slovenia*.

Overall, Bosnia and Herzegovina has continued to implement the Dayton/Paris Peace Agreement, although political statements challenging it have become more frequent. The country has made progress on cooperation with the ICTY.

Bosnia and Herzegovina has continued to participate actively in regional cooperation. Good neighbourly relations have prevailed, but there has been little progress on addressing the outstanding issues, notably relating to the settlement of border disputes, property and refugees.

### **3. ECONOMIC CRITERIA**

In examining the economic developments in Bosnia and Herzegovina, the Commission's approach was guided by the conclusions of the European Council in Copenhagen in June 1993, which stated that membership of the Union requires the existence of a functioning market economy and the capacity to cope with competitive pressure and market forces within the Union.

#### **3.1. The existence of a functioning market economy**

##### *Economic policy essentials*

In December 2007, the government submitted its second Economic and Fiscal Programme for 2008-2010, which aims to consolidate the fiscal position and to improve the quality of public finances, inter alia by reducing the share of public spending in GDP. To a large extent, however, the objectives are not backed by concrete policy measures and the budgets adopted for 2008 do not fully reflect the scenario described above. Progress was made by reaching consensus on the fundamentals of economic policy and inter-entity cooperation in a number of important areas. In particular, a commitment was made to improve fiscal coordination through the adoption of the law on the National Fiscal Council and the inauguration of the Council in early September. Also, the Governing Board of the Indirect Taxation Authority agreed on a methodology for the coefficient to determine the allocation of indirect tax revenues. Direct taxes were reduced and legislative measures were taken to avoid double taxation in Bosnia and Herzegovina (BiH), albeit the latter remains an issue with regards to the Brčko District. On the other hand, in the Federation of Bosnia and Herzegovina (Federation) the commitment to pursue structural reforms has remained weak and the quality

of public spending has actually deteriorated. Overall, political consensus on market-based economic policy was maintained. Inter-entity consensus on cooperation in certain economic policy areas improved, but the commitment to structural reforms and sound public finances remained uneven across the country.

### *Macroeconomic stability*

Real GDP growth remained high at 6.8% in 2007, close to the 6.7% recorded in 2006. Economic growth in 2007 was driven by a strong increase in domestic demand, as evidenced inter alia by a widening of the current account deficit and a pick-up in core inflation (excluding food and energy prices). The acceleration of domestic lending together with fiscal relaxation fuelled economic growth by stimulating both consumption and investment. The good economic performance was achieved against a background of unfavourable domestic and external conditions, namely: a drought that affected agricultural output and the production of electricity from hydro-power plants, the evolving international financial crisis, the increase in international energy and food prices and volatility of the price of aluminium. As a result, gross value added was almost flat in real terms in the agriculture and utilities sectors, detracting from the double-digit growth rates recorded in financial intermediation, construction and manufacturing.

Growth in industrial output more than halved in 2007 compared to 2006 in the entire country and was close to stagnation in the Republika Srpska (RS). The growth of industrial production in the Federation slowed from 10.4% in 2006 to 8.6% and declined significantly to 1.4% in the RS following a record level of 19.1% in 2006. The slowdown in the RS was primarily due to the overhaul of production capacities in the mining and oil industry and declining output in the utilities sector, while the manufacturing sector moved ahead by 4.1%. Also in the Federation, utilities underperformed in 2007, but output growth rates in manufacturing and mining were strong at 11.7% and 5.6%, respectively. In the first eight months of 2008, the year-on-year growth of industrial production stood at 5.4% in the Federation and 8.4% in the RS. In both entities, energy production recovered and even outstripped the processing industry whose output increased by only 5.6% in the Federation and 2.6% in the RS. The shift towards higher value-added activities remains sluggish in both entities. There has been only a modest improvement in the quality of statistical information. The per capita income of Bosnia and Herzegovina, measured in purchasing power standards (PPS), was 26% of the EU-27 average in 2006 and increased by around two percentage points in 2007. Overall, economic growth in 2007 remained fairly high.

After narrowing temporarily to 8.4% of GDP in 2006, the current account deficit widened again to 12.7% of GDP in 2007. This development reflects the adverse effect of global food and energy prices on BiH's imports and the large swings in import and export patterns following the introduction of VAT in January 2006. As a result, the trade deficit widened from 35% of GDP in 2006 to around 37% of GDP in 2007, as imports rose by around 19% year-on-year, outperforming the 15% growth of exports. The positive balances of services, income and current transfers declined as a percentage of GDP from 2006 to 2007, compounding the deterioration of the trade deficit. During the first half of 2008, the current account deficit widened notably by almost 60% compared to the same period a year earlier. This deterioration was due to the expansion in the trade deficit by 24.1% year-on-year, as the value of imported goods rose by 19.6% year-on-year, exceeding the corresponding increase in exports by 5.6pp. A number of branches, such as mining and manufacturing of wood products, base metals and motor vehicles, showed signs of slowing down. Other components of the current account improved in an annual comparison with the first half of 2007: The

services balance rose by 19.9% on the back of well performing tourism and transport sectors, while the income balance increased by 24.3%. In conclusion, despite a temporary improvement in 2006 external imbalances widened again in 2007 and 2008.

In 2007, the current account deficit was fully financed from net FDI, as the major privatisations of Telekom Srpska and the RS refineries contributed to a surge in net FDI to 13.3% of GDP, thus replacing, albeit temporarily, the financial sector as the traditional main destination for FDI. Together with other strong financial inflows, such as private sector remittances that accounted for around 17% of GDP, net FDI led to an annual increase of around 23% in official foreign exchange reserves at the end of 2007. In the first six months of 2008, however, net FDI declined strongly compared to the same period in the previous year and covered only 24% of the current account deficit, highlighting its overdependence on privatisations and insufficient green-field investment and revealing potential vulnerabilities in the context of global financial turmoil. As a result, it was mainly financed through portfolio investments, a drawdown of the commercial banks' foreign assets, new external trade credits and a marginal fall in the central bank's official foreign exchange reserves. Total external debt is estimated at around 50% of GDP. So far, the international financial crisis has had only a limited direct impact on the economy although it may have contributed to declining FDI inflows and decreasing external loans. Moreover, the widening current account deficit creates additional external financing needs rendering the economy vulnerable to possible disruptions in capital flows. The risk of a sudden stop or reversal of capital flows seems limited, but higher risk premiums and refinancing costs could put further pressure on the external side.

The results of the Labour Force Survey (ILO standards) of May 2008 show the unemployment rate in BiH falling to 23.4% of the labour force, from 29% a year earlier. Labour force participation remains very low, at about 44% of the total working age population and informal employment is still high. Informal economic activities are fuelled by a poor regulatory framework, inappropriate tax and expenditure policies and weaknesses in law enforcement. Labour market indicators continue to be somewhat more favourable in the RS, where the activity rate remained around 47% against 42.4% in the Federation, while the unemployment rate declined to 20.5% and to 25% in the Federation. Starting in the second half of 2007 and continuing in 2008, registered labour data show employment growing faster in the Federation. However, the increase in registered unemployment in 2007, largely as a result of the Law on Demobilised Soldiers and Their Families, prevented the unemployment rate falling even more. Slow expansion of productive capacities and structural rigidities - high rates of social contributions, distorted wage-setting mechanisms, high and poorly targeted social transfers and low labour mobility - hamper job creation and labour market participation. On the other hand, the setup of a pension reserve fund and the drafting of the law on voluntary pension funds sets off the reform of the pension system towards individualised savings plans in the RS. Overall, unemployment remains very high, although improvements can be noted.

The monetary policy of the Central Bank of Bosnia and Herzegovina (CBBH) continued to be conducted under a currency board arrangement, with the euro as the anchor currency. As of January 2008, the CBBH increased the reserve requirements rate from 15% to 18%, with a view to slowing down credit growth, which had accelerated from an annual 23.4% at the end of 2006 to 28.5% at the end of 2007. The measure was successful in the sense that the credit growth rate did not continue this upward trend but stabilised at around 29% during the first half of 2008, though the trend could also not be reversed. Credit growth was also influenced by the relaxation of the banking prudential regulations on liquidity risk management, rising input prices translating into a higher demand for working capital loans and greater overall

credit availability through the operation of the RS Investment-Development Bank. The annual growth of broad money slowed from around 25% at the end of 2006 to 14% at the end of June 2008. Its coverage by foreign exchange reserves declined marginally, but remained sufficient at around 84% at the end of June 2008. Inflation started to pick up in the second half of 2007, driven by an increase in the prices of food, energy and transport and reached an annual rate of 4.9% in December. It further accelerated to 9.9% in July 2008, before coming down to 9.5% in August. The annual average inflation of the first eight months of 2008 stood at 8.0% in BiH, after 1.5% in 2007. In conclusion, the currency board arrangement continued to function smoothly, despite a relative acceleration in the growth of domestic lending.

The large increase in public spending that was initiated in 2006 in the context of the fiscal space created by the introduction of VAT continued in 2007 and 2008. From 2005 to 2007, public spending in BiH increased by 4.5% of GDP from an already high level. In 2007, the good performance of budget revenues growing by around 15% from 2006 could not prevent a deterioration of the fiscal position. Moreover, collection of indirect revenues is projected to decelerate in 2008, following trade liberalisation under the Stabilisation and Association Agreement (SAA) and increasing VAT refunds, even though for the first half of 2008 an annual increase of 8% can be registered. As a result, the surplus of close to 3% of GDP recorded in 2006 which declined to 1.3% of GDP in 2007 may turn into a deficit in 2008. In 2007, public spending grew strongly in both entities and less so at the State level. In the Federation, the quality of public spending worsened, as the increase in expenditures was mostly accounted for by higher government consumption and higher social transfers fuelling private spending. Following the adoption of the laws on demobilised soldiers and civilians with disabilities, social transfers surged at an annual rate of close to 30% in 2007. Expenditures rose further in 2008 and led to liquidity problems in May. In 2008, total public spending in the Federation is projected to increase by another 3% of GDP. At the same time, there was an acceleration of public investment in both entities, which is necessary in order to make up for the declining number of donor-financed projects. However, only in the RS did it account for a large part of the overall increase in spending, reaching almost 6% of GDP last year. The public sector wage bill rose sharply in 2007, by around 19% in the RS and 15% in the Federation. In the RS, there was a further acceleration in the growth of public sector salaries in 2008, as they are gradually catching up with those at State and Federation levels. In general, slippage in public sector wages and social transfers is undermining the competitiveness of the private sector and fiscal sustainability.

The reform of direct taxation continued its progress as the Federation followed up on the changes initiated last year by the RS and reduced the corporate income tax rate from 30% to 10%, aligning it with the rates in the RS and Brčko District. The law also avoids double taxation within BiH. In addition, the Federation simplified the personal income tax system by introducing a 10% income tax rate on overall income as of 1 January 2009. The Federation enacted changes to the social security legislation, but the reduction of the overall rate of social contributions does not address sufficiently the issue of the high labour tax wedge. The adoption of the law on salaries in the BiH institutions and the reform of public wages in the RS simplified the wage structure and consolidated some allowances with wages. At the same time, the reforms are expected to increase the wage bills further in 2008 (this is already being seen in the RS) and also to establish a wage indexation mechanism at State level, with negative fiscal spill-over effects beyond 2008. The establishment of the National Fiscal Council should contribute to better fiscal coordination and discipline in the country. In conclusion, there has been continued fiscal slippage in 2007 and 2008, accompanied by a deterioration in the quality of public spending in the Federation.

The external public debt of Bosnia and Herzegovina continued to decline, from around 21% of GDP at the end of 2006 to 18% at the end of 2007, and it further decreased by 2.1% during the first half of 2008. Domestic public debt, on the other hand, accumulated further as both entities are implementing the legislation on the settlement of liabilities from frozen foreign currency deposits and from war damages. It is estimated at around 12% of the entity's 2007 GDP in the Federation and 24% in the RS. Total public debt is estimated to have increased from 22% of GDP in 2006 to 30.5% of GDP in 2007. In addition, the bill on restitution, which has not yet been adopted, may jeopardise fiscal sustainability if it fails to align financial compensation with the budget's long-term ability to pay. Finally, the issue of quasi-fiscal deficits stemming from the accumulation of budget arrears and other liabilities by state-owned enterprises (SOEs) in respect of employees and suppliers remains largely unaddressed in the Federation, which further adds to the fiscal risks. Debt management improved as the Federation adopted a new Debt Law which limits government borrowing, similar to the laws passed in the RS and at State level. In conclusion, progress has been made in settling domestic claims, which will gradually increase the current level of indebtedness.

The macroeconomic policy mix worsened in 2007 and in the first half of 2008. Fiscal risks are mounting, in particular in the Federation, where large commitments on social spending were made in a context of decelerating budget revenues. In addition, the public sector wage policy has been relaxed at all government levels through wage increases and wage indexation mechanisms that weaken fiscal sustainability and external competitiveness. The monetary policy was aimed at tightening credit conditions, but was not fully coordinated with decisions in the area of banking prudential regulations. Overall, the macroeconomic policy mix worsened as the fiscal policy became strongly expansionary, fuelling inflationary pressures and the widening of the current account deficit.

#### *Interplay of market forces*

After the large privatisations in 2007, RS continued to make progress in privatisation, and so far around 68% of the initial stock of state-owned capital slated for privatisation has been sold and about 15% of the same stock was transferred into public funds for pension insurance and restitution. Apart from the successful sale of strategic enterprises, the process was slowed somewhat by changes in the legal framework, which transferred privatisation sales and management competences to the RS Investment-Development Bank. In 2007, around 18 companies were privatised, while in the period from January to September 2008, 13 additional companies were sold. In July, the new Law on Takeover of Shareholding Companies in the RS entered into force. The privatisation process almost came to a halt in the Federation in 2007 and the first half of 2008, mainly due to the conflicting interests involved, a complex decision-making structure and sizable social and financial obligations accrued by the SOEs. Between October 2007 and June 2008, the Federation sold stakes in only five companies and the privatised capital remained at around 41% of the initial stock slated for privatisation. The cancelled tenders for some strategic companies (e.g. Energoinvest and Hidrogradnja) were not reissued and the sale of Aluminij d.d. Mostar remains in limbo due to negotiations over the subsidised power price. The Federation government submitted a new privatisation strategy to the Parliament, which – if approved – should unblock the privatisation process, also by defining options for the sale of the telecom operators. Neither entity yet has any concrete plans regarding the privatisation of the utilities sector. The share of the private sector as a percentage of GDP rose to approximately 60% in 2007. In conclusion, progress in privatisation continued to be uneven across the country.

#### *Market entry and exit*

The implementation of a single business registration system has largely been completed and the number of days and the procedural requirements to register a business have been reduced. Courts in the BiH, the fiscal administration offices and the statistics agencies have been networked. The regulatory impact analysis aimed at reducing red tape, known as the "guillotine process", was completed in the RS, while the Federation started it. Bankruptcy procedures have improved and the number of cases initiated and closed by the courts has gradually increased. The RS has amended the Law on Bankruptcy Procedure, which includes limiting the bankruptcy procedure to a maximum of one year. Over one hundred non-viable SOEs are in bankruptcy procedures in the RS. It is also now quicker and easier to obtain construction permits and to register property. At the same time, only limited progress was made in improving the procedures for obtaining licences, enforcing contracts, employing workers or paying taxes – all of which make doing business rather difficult. Overall, company and property registration, and dealing with construction licences and bankruptcy procedures have improved, but market exit remains ineffective, in particular for insolvent SOEs. Further efforts are needed to improve the business environment.

### *The legal system*

The functioning of the judicial system improved slowly and the courts processed a higher number of cases than those submitted in 2007. Even so, a total backlog of about 1.9 million cases was recorded at the end of 2007 (including approximately 1.2 million cases of unpaid utility bills). A Backlog Reduction Project has been launched and concrete results are expected in particular with regard to utility bills and minor offence cases. A Case Management System has been gradually introduced into courts, leading to an improvement in the management of cases. The authorities have not yet established commercial courts. Closing a business and enforcing contracts has become somewhat easier as a result of improvements in bankruptcy legislation. Widespread corruption, and also criminal activities, affect the business climate and have a negative impact on the quality of public services. Overall, the judicial system has slowly improved; however, the existing backlog of unsolved cases and the slow processing times are hampering the enforcement of creditor and property rights.

### *Development of the financial sector*

Banks continue to dominate the financial sector and their assets surged to around 93% of GDP in 2007, up from around 77% in 2006, triggered by the acceleration in the growth of domestic credit and a significant increase in short-term foreign assets on the basis of the funds received from the privatisation of RS Telecom. There were 31 banks operating at the end of 2007 (compared to 55 in 2000), with foreign capital controlling about 83% of the total bank capital. Only three banks remain in public hands, and all three are under provisional administration. The five largest banks held around 57% of the total assets of the banking system at the end of 2007, slightly less than in 2006. Together with the narrowing of interest spreads, this shows that bank consolidation is not obstructing competition in the market.

The non-bank financial sector is expanding rapidly. Four new leasing companies began operating last year, bringing the total number of companies to ten. Leasing contracts worth approximately € 380 million (3.6% of GDP) were concluded in 2007; this figure was 62% higher than in 2006. At the end of 2007, there were 12 microcredit organisations active in the Federation and six in the RS. The sector originated some € 500 million in new loans (4.6% of GDP) - a 61% increase over 2006. In the insurance sector, 25 active companies collected around € 200 million in insurance premiums (1.9% of GDP) in 2007, which was 12% more than in 2006. The adoption of new bylaws on financial reporting and solvency margins in

2007 is expected to enable the uniform functioning of the insurance sector in the country. The stock markets have undergone a major correction since the second half of 2007 and the main indices have lost around 60% of their value since October 2007. Nonetheless, total turnover at both the Sarajevo and Banja Luka Stock Exchanges in 2007 increased by more than 90% over 2006. Their combined market capitalisation increased to 111% of GDP in 2007 from 99% of GDP in 2006, but declined in 2008. The bond market started to develop through the issuance of government securities, municipal and corporate bonds. In conclusion, the financial sector develops rapidly.

Financial stability indicators continued to strengthen in 2007, as they too were influenced favourably in the short-term by the high rate of credit expansion. Non-performing loans as a percentage of total loans fell to 1.8% in 2007 from 2.5% in 2006. The capital adequacy ratio was 17.1% at the end of 2007, i.e. marginally higher than the previous year and well above the legal minimum of 12%. At the end of 2007, the average return on equity increased further to 8.9%, indicating an improvement in profitability. However, profitability indicators strongly deteriorated in the first quarter of 2008 compared to the first quarter 2007. The liquidity situation of banks also tightened, even though it could still be considered as good with the financial sector being able to meet its obligations. The authorities strengthened certain areas of financial supervision with a view to increasing the stability of the financial system. Overall, despite the volatility in international financial markets and the rapid expansion of the financial sector, financial stability has largely been maintained and the financial sector so far remained relatively immune from first-wave effects of the global financial crisis.

### **3.2. The capacity to cope with competitive pressure and market forces within the Union**

#### *Existence of a functioning market economy*

Macroeconomic stability has weakened and economic operators need to be able to deal with increased risks stemming from expansionary fiscal policies, higher inflation and widening external imbalances. Structural reforms advanced in some areas and the consensus on economic reforms and coordination of policies strengthened. However, the continuing excessive influence of the public sector in the economy, in particular slow privatisation and restructuring or liquidation of insolvent SOEs in the Federation, is hampering the efficient allocation of resources by market mechanisms.

#### *Human and physical capital*

Enrolment rates for secondary and higher education, including graduation rates, remain fairly low. The Law on Vocational Education Training has been adopted, but implementation of the Higher Education Law has been slow. Coordination between the 14 ministries of education has improved somewhat. In general, the education reform has been lagging behind. Participation in the labour market remains very poor. Active labour market programmes are being implemented, some of which focus on training and improving the skills of job-seekers. However, only limited progress has been made in removing structural rigidities and building up the productive capacity. Overall, the weak performance of the education system contributes to the skills mismatch that hampers the proper functioning of the labour market.

Investment increased to around 26% of GDP in 2007, of which about half was allocated to machinery and equipment and some 45% to construction works in the Federation. The increase of FDI inflows into Bosnia and Herzegovina in 2007 brought the total stock of FDI

per capita to around € 1,150. Upgrading of the telecommunications and transport infrastructure, and particularly of local roads, has continued. The penetration of landline telephones, mobile connections and internet usage has increased further. However, the growth of the local IT market of 13.4% in 2007 was moderate considering the very low base. Contracts have been signed for several large investments in energy and infrastructure. In 2007, there was a strong acceleration in public investments, primarily in the RS, where they more than doubled in nominal terms compared to the previous year. In conclusion, the upgrading of physical capital continued at a faster pace, based on FDI inflows and higher public spending.

### *Sectoral and enterprise structure*

The restructuring and liquidation of SOEs has made very slow progress. This process has been hampered by the SOE's accumulated unsettled arrears against the budget, employees, utilities and suppliers and by the vested interests of enterprise managers, trade unions and decision-makers. In the RS, more than a hundred SOEs are in liquidation, and the RS Investment-Development Bank has been carrying out financial restructuring programmes for those enterprises being privatised. The Federation has similar enabling legislation in place, but instead has come forward with plans to financially consolidate the loss-making mines and provide them with debt relief from the budget and from the electricity companies with whom they are subsequently to be merged. This has significant fiscal implications and may actually hold back the process of enterprise restructuring. Liberalisation of network industries has continued at a slow pace. As of 1 January 2008, the electricity market was liberalised for all buyers, except for households. Furthermore, the unbundling in the energy sector has been further complicated by the Federation's plan to merge the mines with the electricity companies. Little progress has been made as regards the gas sector. Current plans to privatise the two telecom companies in the Federation may facilitate the further liberalisation of the telecommunications sector. To conclude, progress in the restructuring and liquidation of SOEs has been slow and uneven across the country. Liberalisation of network industries continued at a slow pace.

There was a further shift in the sectoral structure of the economy towards services, i.e. retail and wholesale trade, financial intermediation and real estate. At the same time, the contribution of public administration, education and health to gross value added in the economy remains fairly large, given that they have not displayed enough of an improvement. Exports and industrial production reveal a gradual but slow shift towards higher value-added goods. The small and medium-sized enterprises (SME) sector is growing, and enjoys increased access to financing from private, public or EU funds. Lending by microcredit and leasing companies grew by around 60% in 2007. In addition, in the RS some of the proceeds of privatisation are being channelled to SMEs through the RS Investment-Development Bank, with the Federation following suit by establishing its own development bank through the transformation of the previous Investment Bank. Improvements in the business environment are primarily benefitting the SME sector, mainly in the shape of improved access to finance. The informal sector remains large. Overall, structural shifts in the economy are slow and SMEs continue to operate in a complex business environment.

### *State influence on competitiveness*

After an initial State aid inventory for 2004-2006 was carried out in 2007, no further progress on improving the transparency of state-aid was made. The inventory showed that State aid was increasing. In 2007, budget subsidies increased slightly as a share of GDP and are largely

allocated to loss-making SOEs in an *ad-hoc* and non-transparent manner. In addition, quasi-fiscal deficits continue to accumulate through the build-up of arrears to the budget, state-owned utilities or employees. Overall, State intervention in the economy is still too high.

#### *Economic integration with the EU*

Bosnia and Herzegovina is an open economy with total trade equivalent to around 95% of GDP in 2007, up from about 87% of GDP in 2006. The real effective exchange rate declined by 1.7pp from June 2007 to June 2008. The EU continues to be the most important trading partner with shares of around 57% of Bosnia and Herzegovina's total exports and of 48% of its total imports in 2007, although its weight is slightly declining. This decline should be seen in the context of the price increases for energy, commodities and food and of deeper regional trade integration through CEFTA. At the same time, the signing of the SAA and the entry into force of the Interim Agreement are likely to deepen this relationship and expand trade integration with the EU. The share of FDI inflows from the EU declined temporarily in 2007, after the major privatisations in the RS with non-EU buyers. Overall, the level of integration of trade and investment with the EU remained fairly high.

## **4. EUROPEAN STANDARDS**

This section examines Bosnia and Herzegovina's capacity gradually to approximate its legislation and policies to the *acquis* related to the internal market, sectoral policies and justice, freedom and security, in line with the Stabilisation and Association Agreement and the European Partnership priorities. It also analyses Bosnia and Herzegovina's administrative capacity. In each sector, the Commission's assessment covers progress achieved during the reporting period, and summarises the country's overall level of preparations.

### **4.1. Internal market**

#### *4.1.1. Free movement of goods*

Limited progress has been made in the area of free movement of goods.

There have been some developments in the area of **standardisation**. The Institute for Standardisation (BAS) has increased its human resources and currently has a staff of 27. Progress in adopting European standards (ENs) has continued; the Institute has adopted approximately 13,000 national standards, out of which around 8,000 are European standards. BAS has become an affiliate member of the European Committee for Standardisation (CEN). As part of regional cooperation, in November 2007 BAS signed the Agreement on Professional and Technical Cooperation with the Standardisation Institute of Montenegro.

No progress has been made on **conformity assessment**. With a few exceptions, conformity assessment procedures are not performed on locally manufactured and imported products before they are released onto the market. There is no clear and coherent system for verifying the conformity of products. Enforcement of existing regulations is weak. No technical regulations based on the product-specific *acquis*, including relevant conformity assessment procedures, have been adopted. There is a lack of proper conformity assessment infrastructure (testing and calibration laboratories, certification and inspection bodies).

Some progress has been made as regards **accreditation**. The Institute for Accreditation (BATA) has so far granted 32 accreditations. Fourteen testing laboratories, five calibration

laboratories, two certification bodies and eleven inspection bodies have been accredited. Currently, there are a total of 40 assessors and technical experts in addition to the permanent staff of 11. Further human resources are necessary to enable BATA to respond to future needs, e.g. to establish technical committees, to update the quality system documentation and policies and to develop accreditation schemes in the areas where BATA is not yet active. Action is also necessary to prepare the Institute for future international recognition of Bosnia and Herzegovina's conformity assessment results and for the signature of multilateral agreements with European co-operation for Accreditation (EA).

Limited progress has been made in the area of **metrology**. Three additional civil servants have joined the Institute for Metrology (IMBiH), bringing the number of staff to 38 out of a planned total of 72. The Council of Ministers appointed 15 members to the Bosnia and Herzegovina Metrology Council in July 2008. A memorandum of understanding fostering scientific and technical cooperation was signed in May 2008 between IMBiH and the Office of Metrology of the Republic of Slovenia. Efforts to establish the necessary metrology infrastructure, including laboratories, have continued. However, the legislation on metrology is not harmonised with the EU requirements: separation between legal, scientific and industrial metrology is lacking, and the legal framework is not harmonised within the country. Cooperation and coordination is needed between the IMBiH and the Metrology Institutes of the Entities in order to avoid duplication of efforts and to create a harmonised approach to the competence criteria for laboratories dealing with verifications.

There has been some progress in the area of **market surveillance**. The market surveillance system comprises the State-level Market Surveillance Agency as an umbrella/coordination body and the market surveillance authorities of the Entities and Brčko District, which carry out the actual surveillance activities. The Agency's administrative capacity has been strengthened with 8 additional staff, bringing it up to a total of 11 employees. The European Commission Decision laying down guidelines for the notification of dangerous consumer products by producers and distributors has been transposed, but has yet to be implemented. In March 2008, the Agency signed a memorandum of understanding with the Indirect Taxation Authority, laying down cooperation methods for exchanges of data on dangerous products. Nonetheless, Bosnia and Herzegovina's market surveillance system remains largely based on mandatory standards and pre-market control. Further development of the system based on adequate horizontal legislation and appropriate product-specific legislation is needed in order to enforce the legislation on free movement of goods efficiently.

Limited progress has been made on technical regulations transposing the new and old approach directives into national legislation. The Council of Ministers adopted a decision establishing coordination at decision-making level in the field of quality infrastructure. However, no technical regulations transposing the *acquis* have been adopted yet and no internal consultation and notification mechanisms have been established. No progress has been achieved as regards the old approach directives. Administrative capacity requires strengthening.

The Law on pharmaceuticals and medical devices was adopted in June 2008. This law will contribute towards achieving a single internal market within Bosnia and Herzegovina in this sector. A set of by-laws for the proper implementation of this Law is still needed. In line with the Law, the Council of Ministers adopted a Decision on the beginning of the work of the Agency for Pharmaceuticals and Medical Devices, which has an official seat in Banja Luka.

As regards **consumer protection**, some progress has been made. The Council for Consumer Protection convened its first constitutional session in February 2008. For the first time, the country's consumer protection associations have been granted the possibility to apply for funds from the State Budget. However, the State Annual Programme for Consumer Protection in Bosnia and Herzegovina for the period 2008 to 2011 has not yet been adopted.

Overall, Bosnia and Herzegovina's preparations in the fields of standardisation, accreditation, conformity assessment, metrology, market surveillance and consumer protection remain at an early stage. Continued efforts are necessary in order to further approximate the legal framework to the Community legislation on free movement of goods and to efficiently implement and enforce it. Progressive transposition of product-specific *acquis* needs to be ensured. Further strengthening of institutional and administrative capacity and increasing cooperation between the relevant institutions is necessary in order to create conditions favourable to the internal market and trade.

#### *4.1.2. Movement of persons, services and right of establishment*

Little progress has been made regarding **movement of persons**. Bilateral agreements on social insurance and social security have been signed with Hungary and Montenegro. Bosnia and Herzegovina has also concluded agreements with the employment agencies of Croatia and Slovenia. However, movement of persons within the country remains constrained by fragmented internal labour legislation and social security systems. There is no portability of pensions within the country. In November 2007, the European Court for Human Rights issued a decision on this subject against Bosnia and Herzegovina. No steps have been taken towards granting social security benefits for resident family members of foreign nationals working in Bosnia and Herzegovina.

Bosnia and Herzegovina is lagging behind with preparations in the field of movement of persons.

Concerning **freedom to provide services**, limited progress has been made. The rules on operators from EU-Member States who provide cross-border services and those who are permanently established in the country are not transparent. The banking sector has continued to develop and to contribute to economic growth. Some progress can be reported with regard to information sharing between the Central Bank and the banking supervision agencies, as a memorandum of understanding was signed in June 2008. However, no progress has been made towards approximation with the EU banking *acquis* nor towards the establishment of a single State-level supervisory agency for banking. Separate banking legislation at Entity level still prevails, and banks continue to be licensed and supervised by two separate Entity agencies. The capacity of banking regulators and supervisors needs to be reinforced. Immunity from legal prosecution, in line with the "Basel principles", has not been introduced for the staff of the Republika Srpska Banking Agency. The cooperation with home banking sector supervisors of foreign banks operating in the country is still not satisfactory.

Some progress has been made as regards insurance. All the requisite implementing legislation affecting market access, including that on solvency margins, has been adopted in both Entities. This has opened the way for companies from one Entity to operate in the other, even though administrative procedures remain cumbersome. The State Insurance Agency became observer in the International Association of Insurance Supervisors (IASA) and member of the International Insurance Foundation (IIF): However, the role of the agency remains limited, with licensing and supervision remaining the responsibility of the Entity agencies. Little

action has been taken to upgrade the supervisory enforcement capacity in this sector. A working group for the harmonisation of the Entities and Brčko District insurance laws has been established. Sectoral statistics have been prepared. The Insurance Ombudsman has been appointed, but the legal framework for his activities has not yet been finalised.

No progress has been made with regard to the adoption of the State-level legislation on leasing and obligations, in particular due to the opposition of Republika Srpska. Instead, the Entities have moved unilaterally to develop their regulatory frameworks on leasing, with Republika Srpska adopting the legislation and establishing leasing supervision under the auspices of its Banking Supervision Agency. There has been progress in the supervision of the micro-credit sector, with all operators integrated under the supervision of the existing banking supervision agencies.

The Entity securities markets still lack a coherent legislative and regulatory framework. Oversight remains fragmented between the two Entity-level securities commissions. The institutional arrangements for coordination of capital markets policies and regulation between the two Entities are not in place.

There has been limited progress with respect to postal services. A Bosnia and Herzegovina postal agency was established in 2006 and is now operational. Nonetheless, there are impediments to the proper functioning of this sector. Legislation governing these services remains inconsistent between the State and the Entities.

As regards the **right of establishment** for companies, there has been progress towards establishment of a simplified and more efficient business registration system. Court registration time has been shortened. However, the overall time needed to register a business is still above the average. Bosnia and Herzegovina remains one of the most difficult and costly places in the region for setting up businesses. Continued action is necessary to further facilitate business registration and to simplify administrative procedures for companies and the self-employed. No progress can be reported in the area of mutual recognition of professional qualifications.

No progress has been made on developing State-level **company law**.

Bosnia and Herzegovina's preparations in the area of services, establishment and company law remain at an early stage.

#### *4.1.3. Free movement of capital*

There have been no significant developments in the area of **movement of capital**.

Bosnia and Herzegovina has continued to apply relatively liberal rules on inward capital flows. However, no further steps have been taken to remove the existing restrictions on outward transfers by individual residents and non-residents. Restrictions also remain with regard to holding of foreign accounts by resident entities. There is a need to ensure that legislation concerning foreign currency operations is harmonised across the country in line with EU legislation.

Restrictions on foreign direct investment apply only to the armament and media sectors, where the foreign capital stake is limited to 49%. Transfers and repatriation of profits and remittances along with foreign currency transfers by domestic and foreign companies have been liberalised. The Law on the Central Bank of Bosnia and Herzegovina stipulates that the

authorities must not set any restrictions on payments and international transactions unless this is necessary in the light of possible international obligations.

Bosnia and Herzegovina has a modern **payment system** for giro clearing and real-time gross settlement operations. The clearing platform for international payments between Bosnia and Herzegovina and Serbia came into operation in February 2008, making transactions through the payment system between the two countries cheaper and faster. Commercial banks will use this platform to execute payment orders for their clients.

Overall, Bosnia and Herzegovina's preparations are on track. However, further legislative initiatives are needed with regard to movement of capital, in order to approximate the legal framework to the *acquis*, to ensure countrywide harmonisation and to achieve further liberalisation.

#### 4.1.4. *Customs and taxation*

Bosnia and Herzegovina has made good progress in the field of **customs** and has been addressing its priorities. The implementation of customs-related provisions following the entry into force of the SAA Interim Agreement on 1 July 2008 has been adequate. As regards verification of the origin of goods, the Indirect Taxation Authority (ITA) became the single authority in Bosnia and Herzegovina authorised to request and verify EUR 1 movement certificates for trade with the EU and CEFTA. A number of training sessions on implementation of rules of origin have been organised for ITA staff, the business community and the Chambers of Commerce. Nevertheless, there is a need for specialised training on rules of origin (diagonal cumulation). Bosnia and Herzegovina's nomenclature for the classification of goods has been aligned with the EU Combined Nomenclature. Regular updates are now necessary.

The instructions regarding the minimum valuation price list for imports of certain goods have been abolished, and GATT-compliant instructions on valuation have been issued. However, additional efforts, including clearer instructions and training of customs officers, remain necessary to ensure harmonised implementation of the valuation rules across the country.

Five free-trade zones exist in Bosnia and Herzegovina and operational surveillance of these zones comes under the authority of the ITA Customs Department. It is important that legislation applicable in free zones is compatible with the *acquis* and that adequate supervision is performed in these areas.

The compliance with the Interim Agreement of Bosnia and Herzegovina's regime for the import of used cars needs to be determined.

In accordance with the SAA, since 1 July 2008 Bosnia and Herzegovina has not been applying any charges having an equivalent effect to customs duties on products originating in the EU.

ITA's Law Enforcement Unit has achieved significant results. Compared with 2006, the value of temporarily seized goods increased by 146% in 2007 and totalled approximately €7.0 million. The number of reports submitted to the Prosecutor's offices increased by 17%. The memorandum of understanding on cooperation between ITA and the border police is operational. ITA has been involved in joint operations against organised crime, resulting, for instance, in the discovery of an illegal cigarette factory and confiscation of cigarette-making

machinery, including several tonnes of tobacco and of counterfeit excise banderols.

ITA is carrying out a gap needs assessment and formulating a long-term strategy paper on the basis of the EU customs blueprints. In 2008, ITA became member of the World Customs Organisation (WCO).

Overall, preparations in the area of customs, both as regards legislative alignment and administrative capacity, are advancing. However, Bosnia and Herzegovina needs to continue its efforts to align its customs legislation with the *acquis*. Problems of enforcing the legislation properly remain; operational instructions are to be drafted and agreed. Particular efforts are necessary to enforce intellectual, industrial and commercial property rights. Furthermore, a customs strategy on business, human resources management, information technology and training has to be developed.

Some progress can be reported as regards **taxation**. In January 2008, ITA established the Single Indirect Taxpayers Register. This covers value-added tax (VAT) taxpayers, excise duty products, registration for foreign trade exchange and international forwarding registration.

VAT collection improved in 2008 as a result of increasing economic activity and the growing number of registered VAT taxpayers. The VAT legislation is largely in line with the *acquis*. Attempts to introduce a 0% or reduced VAT rate on certain goods have been unsuccessful. Bosnia and Herzegovina needs to ensure that any amendments made in this area do not undermine the achievements so far in terms of approximation to EU legislation. It also needs to develop computerised management and analysis tools, together with a risk management system, so as to ensure proper VAT enforcement.

The Law on excises has been implemented, but is not yet fully in line with the *acquis*. Any new legislation on excises must refrain from introducing discriminatory elements against imports, as this would be contrary to WTO rules and the SAA.

In July 2008, the Law on the National Fiscal Council was adopted. The Council, a permanent body in charge of overall fiscal policy coordination in the country, was inaugurated in early September. In June 2008, the methodology for allocation of indirect tax revenues to the State, Entities and Brčko District was agreed. Smooth implementation of this methodology is now essential. The State-level Minister of Finance and treasury has also taken over the function as the Chairman of the ITA Governing Board.

In relation to direct taxation, in December 2007 the Federation adopted a new Corporate Income Tax Law, which came into force in January 2008. This law harmonised the applicable tax rate of 10% with those in the Republika Srpska and Brčko District. It adopted the Personal Income Tax Law, which significantly simplified personal income taxation. The law will enter into force on 1 January 2009.

A gap analysis on business taxation has been carried out to identify existing measures that might be contrary to the Code of Conduct for Business Taxation. However, no follow-up to the report and the proposed measures has been carried out by the authorities. Companies in the Federation that earn in revenue more than 30% from exports remain exempted from corporate income tax, which is not in compliance with the Code of Conduct. Discrepancies with regard to double taxation persist between the tax laws of Republika Srpska and the Federation on the one hand, and Brčko District on the other.

As regards **administrative and operational capacity**, the staffing of ITA has not been reinforced, but its overall performance has been good. In 2007, it collected about €2.7 billion, comprising VAT, customs duties and excise taxes, which is an increase of 18% over 2006. Efforts need to continue to improve ITA's administrative capacity to implement customs and tax legislation and, together with other law enforcement bodies, to make it more effective in fighting corruption, cross-border crime and fiscal evasion. There is a need for additional advanced training with regard to complicated VAT areas and risk analyses. An overall training strategy is to be presented and an IT strategy is to be defined.

ITA became a member of the Intra European Organisation of Tax Administration.

Overall, Bosnia's preparations in the area of taxation are progressing. Its tax legislation is aligned with the EU *acquis* to a large extent, especially in the field of VAT. It is necessary to ensure that amendments to the existing legislation remain in line with EU provisions. Significant efforts are also needed to reinforce the administrative capacity and to fight against corruption, in order to improve tax collection and reduce the size of the informal economy.

#### 4.1.5. *Competition*

Progress in the field of **anti-trust** control has continued, even though no action has been taken to bring the Competition Law closer to the *acquis*. The Competition Council has increased its staff to 26. Its activities have focused mostly on mergers and abuses of dominant position. During the reporting period, the Competition Council started 42 procedures and concluded 28. Nine opinions were issued. It collected around €350,000 of penalties from economic entities which were not acting in accordance with the Competition Law. It signed a memorandum of understanding on competition policy and relevant market legislation with its counterparts in the former Yugoslav Republic of Macedonia and Bulgaria.

Overall, Bosnia and Herzegovina's preparations in the area of anti-trust are moderately advanced. No progress has been made as regards State aid. Preparations in this area remain at an early stage.

#### 4.1.6. *Public procurement*

Limited progress has been made in the area of public procurement.

The Public Procurement Agency employs 15 people. A new rulebook on the internal organisation of the Agency was adopted in April 2008. It provides for 31 posts to be filled in the next four years. A number of training activities have taken place. A new website of the Agency and the Procurement Review Body has been set up.

There has been no major progress in terms of legislative alignment. In early 2008 the Parliamentary Assembly of Bosnia and Herzegovina overruled an attempt to modernise the current primary law and the Public Procurement Agency was tasked to draft a new law by the summer 2008. This has not been done. Domestic preferential treatment remains in force, except for the electricity sector. The current legislation provides for the phasing out of such preferential treatment by 2011.

Efforts necessary to enhance the administrative capacity of the Public Procurement Agency and the Procurement Review Body have been limited. Insufficient staffing continues to hamper the performance of the Procurement Review Body (PRB). Nevertheless, the PRB was

able to address all complaints received in 2007, as well as some of the backlog of cases which had built up in 2006 as a result of the lack of a quorum to take decisions.

Proper implementation of public procurement procedures across the country is not yet ensured. Although some training was provided, the overall administrative capacity of contracting authorities and their level of knowledge of public procurement legislation is low, which has negative effects in terms of law implementation and enforcement.

Overall, Bosnia and Herzegovina's preparations in the field of public procurement have started, but further efforts remain necessary. Public awareness and accountability in public expenditure needs to be further consolidated.

#### 4.1.7. *Intellectual property law*

Little progress has been made with regard to **intellectual, industrial and commercial property rights (IPR)**. No steps were taken to draft a comprehensive strategy to enhance the legislative framework, administrative capacity and enforcement of IPR.

Bosnia and Herzegovina has ratified the Washington Agreement on Intellectual Property and Integrated Circuits, the Hague Agreement concerning the International Deposit of Industrial Designs, the Strasbourg Agreement concerning the International Patent Classification, the Convention for the Protection of Producers of Phonograms against Unauthorized Duplication of their Phonograms, the Protocol to the Madrid Agreement concerning the International Registration of Marks and the International Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations. The implementation of these Conventions and Agreements should now proceed.

The Institute for Intellectual Property has 32 employees, with staff working in the Mostar headquarters and in the Sarajevo branch office. Office space for the Banja Luka branch has been provided, but staff still have to be recruited. A number of measures have been taken to improve the Institute's operation, including enhancing existing databases (on patents, trademarks and industrial designs). New databases on geographical indications have been established. The Complaints Commission has been set up. The new Law on wine, spirits, and other grape and wine products aims at responding to the obligations imposed by the TRIPS Agreement and the *acquis*. However, overall alignment with the TRIPS Agreement and with the *acquis* is still at an early stage.

No progress has been made in relation to administrative procedures on copyrights and related rights. The regulatory framework for the collective management organisations operating in the country is inadequate and needs to be improved in line with experience and best practice in the region and in the EU. Awareness-raising among right-holders and users of the protected subject-matter is also necessary.

No significant development has taken place concerning **industrial property rights**. Under the current legislation, the Institute grants patents without prior substantive examination of applications, shifting the burden of proof of the validity of such patents on to the patent-holder. Application of this model for granting patents is hampered by deficiencies in the legislation and the lack of capacity in the Institute. As a result, a total of 1 660 patent applications have still to be processed. The waiting time for applications is almost five years.

Trademarks and designs are granted on the basis of prior substantive examination of applications. The constant increase in trademark applications and the limited capacity of the Institute have resulted in an extremely long waiting time - four years on average. The waiting time for design applications averages one year, but this is due to the relatively small number of design applications and the limited document base to be examined (only prior domestic applications and granted rights). No applications for protection of geographical indications and topographies of integrated circuits have yet been filed with the Institute.

Administrative enforcement of IPR by various inspectorates is the responsibility of the Entities, Cantons and Brčko District, while the State level is responsible for enforcement of criminal law. IPR enforcement remains weak. Bosnia and Herzegovina is not yet able to implement and enforce its legislation and its international obligations in this field. The performance of the Indirect Taxation Authority, responsible for implementation of border measures for IPR protection, is hampered by the lack of expertise and deficiencies in the legislation on this subject. Awareness among rights-holders and users is very low. No unified track record of enforcement measures is being kept. High levels of counterfeiting and piracy persist and the country remains a point of distribution to the rest of Europe.

Bosnia and Herzegovina's preparations in the field of intellectual property law remain at an early stage. In order to accelerate preparations, rapid action is necessary to develop a comprehensive IPR strategy, to strengthen the capacity of the Institute and law enforcement agencies, to provide additional training to the various stakeholders and to implement broad awareness-raising campaigns.

#### *4.1.8. Employment and social policies*

Limited progress has been made in this area.

The fact that there are no powers at State level in the field of **employment** and social policies remains an obstacle to the development of a countrywide strategy for employment. Based on constitutional arguments, Republika Srpska systematically objects to giving a role to the State level in internal labour market issues. Employment strategies and projects for active employment measures have been developed by the two Entities and Brčko District. However, there is little coordination between them.

There has been some progress as regards the labour market. According to the Labour Force Survey (LFS), the employment rate increased by 1.7% (from 35% in 2006 to 36.7% in 2007). However, job creation cannot absorb the growing labour force and informal employment remains high.

The causes behind persisting high unemployment in Bosnia and Herzegovina, estimated at around 30%, have not changed. The labour market still suffers from significant structural rigidities in the form of wage-setting mechanisms and high taxation of labour. The complex institutional and administrative structure and extreme fragmentation of the market are major obstacles to improving its functioning. Substantial, persistent deficiencies in the employment administration, regulatory framework and labour market institutions do not allow effective development of employment policies.

Active labour market programmes are still being implemented, some of which focus on training and improving the skills of job-seekers, but resources are lacking to develop the latter on a wide scale. Development and implementation of these programmes remain fragmented.

In the Federation, unemployment cash benefits paid to demobilised soldiers are stretching the budgets of employment services and making further financing of active labour market programmes difficult.

As regards **social policies**, no progress has been made on either policy development or implementation. *Labour legislation* has not yet been harmonised across the country. Little action has been taken to comply with EU provisions on *health and safety at work*. The revised European Social Charter has been ratified but, apart from this, little has been achieved in terms of *social dialogue*. The Trade Union Confederation (KSBiH) has not been able to register at State level and no specific measures have been taken to clarify the rules on recognition of trade unions. The complex social organisation in the country continues to affect dialogue between social partners and solutions do not seem immediate. No countrywide Economic and Social Council has been established.

Limited progress has been made on *social inclusion and anti-discrimination*. Social inclusion of vulnerable categories, including returnees, remains a challenge. Monitoring, in particular of severe poverty, needs to be given priority with a view to promoting social cohesion and reconciliation within the country. Poverty and social exclusion indicators and analyses in line with EU standards are necessary. Discrimination against the Roma population remains an issue, as well as discrimination in employment on the basis of ethnicity and sexual orientation.

There has been no significant progress as regards *social protection*. The existing system does not provide equal access to social protection services. Key shortages in the reform of social protection are related to the lack of a clear vision of the scope and content of the reform and the non-existence of a policy at State level. The diversity of social security systems acts as an obstacle to workers' mobility within the country.

As regards *equal opportunities*, no serious measures have been undertaken to address the problems related to women's access to labour market. As a consequence, discrimination of workers on the basis of gender remains widespread, women continue to be under-represented in business and politics, and their salaries are generally lower than those of men.

The diverse **social security** systems in Bosnia and Herzegovina continue to have an adverse effect on workers and citizens in general. Rights to health insurance and other social protection, including unemployment benefits, continue to depend on which Entity and, to some extent, which Canton the claimants live in. There is no political consensus on establishing a harmonised social security system, with Entities and Cantons maintaining their constitutional rights to set policy and deliver services.

Decision-making and coordination in the **public health** sector have improved. A "Conference of Health Ministers of Bosnia and Herzegovina" has been established and meets regularly. A Strategic Plan for development of the health sector for 2008-2013 was adopted by the Council of Ministers.

There has been some progress on statistical reporting. Relevant stakeholders have been trained and reports on the national health accounts were produced for 2005, 2006 and 2007. Republika Srpska has adopted a health information system strategy, but no such document has been developed in the Federation. A Supplemental Immunisation Activities (SIA) Expert Committee has been established and handed the task of preparing a situation analysis, a SIA strategy (including social mobilisation plan), a detailed operational plan and a training

programme. Bosnia and Herzegovina's annual polio information update for the European Regional Certification Commission (ERCC) for 2007 is not yet finalised, but activities to maintain polio-free status are being implemented. Some steps have been taken towards implementing the WHO Framework Convention on Tobacco Control (FCTC) and the International Health Regulations (IHR). However, further efforts are necessary in order to achieve implementation. Mental health policies have been adopted at Entity level, based on the principle of protection in communities of those who depend on assistance, and on the principle of non-discrimination. Action Plans, which follow these principles, are carried out. Deinstitutionalisation at State level has made almost no progress; only an analysis of the situation and evaluation of services for mental health protection in Bosnia and Herzegovina as a whole has been launched as preliminary phase for the establishment of a coherent Action Plan for the whole country.

Bosnia and Herzegovina's overall preparations regarding employment and social policies are at a very early stage and are undermined by the extreme fragmentation of the relevant institutional and legislative frameworks.

#### *4.1.9. Education and research*

Some progress has been made in the area of **education**.

Coordination between the fourteen Ministries of Education has improved as a result of the establishment of the Conference of Ministers chaired by the Minister of Civil Affairs. The Law on vocational education and training has been adopted. A strategy paper on the reform of the education sector, entitled "Directions for Education Development in Bosnia and Herzegovina 2008-2015", has been adopted. As regards higher education, a set of documents relevant for the implementation of the Bologna process have been adopted. The Council of Ministers has taken a decision to join the European Quality Assurance Register for Higher Education. An acting Director for the Agency for development of higher education and quality control was appointed in June 2008. Some additional progress has been made in eliminating divisive and discriminatory symbolism from schools.

Nonetheless, a number of shortcomings remain. Harmonisation of legislation at Entity and Canton level was not completed by the end of April 2008, as provided for by the Higher Education Law, and equal implementation throughout the country is not being ensured. The planned integration of universities is making slow progress. The 2003 Framework Law on primary and secondary education, which gave a mandate for the introduction of nine-year primary education in schools, is not yet fully implemented in certain Cantons. Establishment of State-level agencies responsible for standards and assessment, quality assurance, curriculum development and accreditation in education needs to be completed. Separation of pupils in schools ("two schools under one roof") remains a serious issue in the Federation, despite reported improvements in the Zenica-Doboj Canton.

No measures have been taken to improve the efficiency of public spending in education. There is no systematic approach to improving education outcomes.

Concerning culture, Bosnia and Herzegovina has ratified the UNESCO Convention for the safeguarding of the intangible cultural heritage, as well as the UNESCO Convention on the Protection and Promotion of the Diversity of Cultural Expressions. The Council of Ministers has taken a decision to establish a State-level Agency for anti-doping in sports.

As regards **research**, Bosnia and Herzegovina has requested to become associated to the Seventh Research Framework Programme (FP7) and expects full participation as from 2009. Until then, Bosnia and Herzegovina is participating under FP7 as a third country partner. Compared to the previous year there is a slight improvement in the success of cooperation with EU partners under FP7.

There has been some progress in the work, organisation and output of the National Contact Points. However, there is no integrated research policy and budgetary allocations to support research are very limited. Research policy is still designed and implemented at Entity level, with no real coordination. No progress has been made on preparing a country-wide policy. The research infrastructure remains poor.

Preparations have started in the area of education and research. Sustained efforts remain necessary.

#### *4.1.10. WTO issues*

Some progress has been made recently in the negotiations for the WTO accession. To meet its accession target, Bosnia and Herzegovina will have to intensify its market access negotiations, while continuing to bring its legislation into conformity with WTO requirements.

## **4.2. Sectoral Policies**

### *4.2.1. Industry and SMEs*

Limited progress has been made in the area of industry and SMEs.

As regards **industry**, no countrywide industrial policy strategy has been established. At local level, a large number of municipalities have adopted their own economic development strategies. Little has been done as regards the harmonisation of Entity regulations, and the corporate governance environment remains incoherent. No corporate governance code applicable across the whole country has been developed.

The institutional framework for export promotion has been strengthened and the Export Promotion Council has continued to be active. The Council of Ministers has adopted the Council's recommendations, *inter alia* on incentives for exporters and on the process for preparing an export promotion strategy. The Export Promotion Agency has improved its corporate image and has organised a number of promotional events. However, no country-wide export promotion strategy has been developed. Exporters would benefit from improved information channels. The institutional framework for export development and promotion is relatively young and both human resources and quality infrastructure need to be further developed.

Limited progress has been made in the area of **SMEs**. The sector has enjoyed increased access to financing.

Bosnia and Herzegovina has continued to implement the European Charter for Small Enterprises, even though the non-harmonised legal and institutional framework for SMEs, combined with the persisting lack of capacity at State level, are still hampering the country's capacity to meet the requirements of the Charter and to better support the development of the sector. A State-level strategy for SMEs development remains necessary.

Overall, preparations in the area of industry and SMEs are at an early stage. The adoption of country-wide strategies for industry and SMEs, together with the creation of robust capacity at State level to conduct and coordinate policies on SMEs, industry, competitiveness and innovation would be significant steps forward. Further improvements in the business environment remain crucial for facilitating business and trade.

#### 4.2.2. *Agriculture and fisheries*

Some progress has been made in the field of **agriculture and rural development policy**. The State-level Law on wine was adopted in February 2008 and the important Framework Law on agriculture, food and rural development, defining the competencies and responsibilities among institutions of the sector, was adopted in May 2008. Despite the adoption of this Law, no progress has been made in establishing the Ministry of Agriculture, Food and Rural Development at the State level. There has been no progress on adoption of the State-level agriculture strategy. The Strategic Plan for Harmonisation of Agriculture, Food and Rural Development for 2008-2010 and its operating programme have not yet been adopted by the Council of Ministers.

The staffing of the Agriculture, Food, Forestry and Rural Development Sector in the Ministry of Foreign Trade and Economic Relations has been increased. Following the recommendations made in the functional review of the agriculture sector, there has also been a notable increase in staffing in the Entity-level ministries with the aim of improving policy formulation and implementation capacities. In line with the State-level decision on farm and client registers, Entity-level regulations on farm registers were harmonised in order to ensure application of unified farm registration procedures in Bosnia and Herzegovina.

In order to improve coordination of all aspects of agriculture, a ministerial-level task force for agriculture was set up in March 2008 within the overall coordination body for quality infrastructure.

The support earmarked for agriculture and rural development in 2008 totalled €73 million, an increase of 35% as compared to 2007." While the structure of the support is gradually shifting from production-linked support to capital investment and rural development, the capacity for monitoring and evaluating the impact of support is still limited. Weaknesses persist in the areas of land ownership, land use, market access and market restructuring, hampering the productivity and economic potential of the sector.

Collection and processing of agricultural data still remain weak. Although the first Agriculture Report (for 2007) was adopted, in the absence of accurate and standardised data collection, it gives no more than an indication of the main trends and opportunities for development of the agri-food sector in Bosnia and Herzegovina. Overall, the lack of reliable and comprehensive statistics is hampering the development of agricultural policy.

Some progress has been made on **food safety**. The Food Safety Agency has further increased its staff.

To enhance implementation of the 2004 Food Safety Law, implementing legislation has been adopted in nine areas (alcoholic drinks, labelling of packaged foods, labelling of nutritional values, use of food additives, use of colours in food, use of sweeteners, use of other food additives, fruit juices and non-alcoholic drinks). However, the comprehensive Action Plan required for implementing the Food Safety Law has still not been adopted. The enforcement

capacity remains weak in the absence of implementing legislation on food hygiene and official control. Overall responsibilities along the food safety control chain remain to be clarified, in particular those of the inspection services and authorised testing and reference laboratories. Upgrading of agri-food establishments has not advanced. Bosnia and Herzegovina is on the list of third countries for the export of fishery products to the EU, but no establishment intending to export fishery products to the EU has so far obtained approval. Progress has been made on international cooperation, as Bosnia and Herzegovina is now a member of the Codex Alimentarius Commission.

There has been limited progress in the field of **veterinary and phytosanitary policies**. The staffing of the State Veterinary Office has increased significantly under the new management. No progress has been made with revision of State-level legislation. The Entity legislation has been revised, but further legal harmonisation, in the form of a new State Veterinary Law, is necessary. The quality of enforcement of legislation has improved and two veterinary diagnostic laboratories have been accredited by the State-level accreditation body (BATA) in accordance with the ISO 17025 standard.

There has been no progress in the field of animal health. There is no strategy for the control of animal diseases. This prevents efficient implementation of the existing animal disease programmes. Some efforts have been made, but the animal identification and movement control scheme is not yet operational. Some progress has been achieved regarding the control of residues, as the residue monitoring plan for fishery products has been approved by the EU. Overall, inspection capacity remains weak.

There has been no progress in the phytosanitary sector. The State Plant Health Agency has not been fully operational, even though it was established in 2006. Only temporary employment contracts were concluded and the process of selecting and employing civil servants is in its initial phase. No implementing legislation has been adopted. Due to weak veterinary and phytosanitary standards, Bosnia and Herzegovina is not able to use the export potential offered to them by the EU, including through the SAA Interim Agreement.

Overall, Bosnia and Herzegovina's preparations in the area of agriculture are advancing slowly, although the adoption of a State-level legal framework will facilitate gradual approximation to the *acquis*. The adoption of a countrywide strategic plan for the development of the agricultural and rural development remains urgent. Progress in the field of veterinary and phytosanitary policies has been slow, and overall preparations remain at an early stage.

#### 4.2.3. *Environment*

There has been limited progress in the field of the environment.

Limited progress has been made as regards **horizontal legislation**. Transposition and implementation of the *acquis* in this field requires further improvement, and shortcomings need to be dealt with. Environmental impact assessment needs particular attention including for projects with possible trans-boundary effects. Bosnia and Herzegovina ratified the Aarhus Convention in July 2008. However, further efforts are needed to ratify and implement other relevant international conventions, notably the Espoo Convention.

No developments can be reported with regard to **air quality**.

Regarding **waste management**, there has been little progress on construction of regional sanitary landfills and on rehabilitation and closure of unregulated landfills. Some progress has been made on adoption of implementing regulations on waste products that can no longer be disposed of in landfills if untreated, such as medical waste. Further efforts are required to initiate management of waste streams of animal origin. No progress has been made on legislative support for recycling and recovery of priority waste streams, such as packaging, motor oil and tyres.

Some progress can be reported on **water quality**. Bosnia and Herzegovina has started to implement the requirements of the Water Framework Directive by means of the Entity Water Laws. Water agencies have been in operation in the Federation since January 2008. Establishment of water agencies in Republika Srpska is in progress. Further efforts are required to ensure uniform river basin planning, public consultation and monitoring between the Entities. Implementing legislation for water laws, water fees and harmful and dangerous substances and their maximum levels in surface water have been adopted. However, much of the implementing legislation still needs to be put in place in order to ensure further alignment with the *acquis*. Untreated discharges of waste water remain a key environmental challenge.

There has been limited progress in the field of **nature protection**. Bosnia and Herzegovina has drafted a biodiversity strategy and Action Plan, as required by the Convention on Biological Diversity. The Convention on the Conservation of European Wildlife and Natural Habitats was ratified in August 2008. As regards declaration of protected areas, the Federation has adopted the Law on the Una national park, making this the first national park in the Federation. Transposition of the Habitats and Wild Birds Directives, including aspects required under the Energy Community Treaty, is at an early stage.

In the field of **industrial pollution control and risk management**, some progress can be reported. Transposition of the Integrated Pollution Prevention and Control Directive is relatively advanced. The implementing legislation on establishment of polluter and pollutant registries, adoption of best available techniques and eco-labels is in place. The Federation has initiated a public campaign on the issuing of environmental permits to raise the awareness of relevant operators.

No progress can be reported in terms of approximation to the *acquis* as regards **chemicals, genetically modified organisms (GMOs) and noise**.

Bosnia and Herzegovina suffers from weak **administrative capacity** in the environment sector. A State-level Environmental Law ensuring harmonised nationwide environmental protection has not been adopted, and no State Environment Agency has been established. Comprehensive monitoring is difficult in the absence of this State-level agency. The administrative capacity of the Ministry of Foreign Trade and Economic Relations to act, in the meantime, as the national authority in this field is also undermined by the lack of an adequate legal or institutional framework. Implementation of the environmental legislation remains a concern. The human and technical capacity of the inspectorates to ensure compliance with environmental legislation at Entity, Canton and local levels is insufficient. Integration of environmental concerns in other sectors remains weak.

Bosnia and Herzegovina is at an early stage of investment in solid waste management, drinking water and wastewater infrastructure. Further efforts are required to prioritise and coordinate investment programmes, as financial resources are scarce. Some progress has been

made with the Entity-level Environment Funds. The Republika Srpska Environment Fund is operational, but there have been delays in establishing the Federation Fund.

Overall, Bosnia and Herzegovina's preparations in the field of the environment remain at an early stage. Bosnia and Herzegovina needs to strengthen its environmental protection institutions, in particular at State level. It also needs to mainstream environmental concerns in other sectors. Establishment of a harmonised legal framework for environmental protection, of the State Environmental Agency and of a functioning environmental monitoring system would be significant steps forward. Bosnia and Herzegovina needs to step up its efforts with regard to its obligations under international conventions.

#### 4.2.4. *Transport policy*

There has been good progress on development of the **trans-European transport networks**. Bosnia and Herzegovina has continued to actively participate in the implementation of the 2004 Memorandum of Understanding for the development of the core regional transport network. It has also been active as regards the South-East Europe Transport Observatory (SEETO), in particular through the updating and implementation of the multi-annual plan 2008-2012.

The upgrading of Pan-European Corridor V-c is continuing. In 2008, a new 10 km section of the motorway from Sarajevo to the north has been opened. Work has also started on the bypass road of Sarajevo and funding has been secured for another 30 km motorway section. Tenders have been launched for reconstruction of an additional 170 km of priority railway in the SEETO core network. Bosnia and Herzegovina and Montenegro have signed a memorandum of understanding on preparatory action for construction of the railway link between the two countries. Financing has been ensured for electrification of the Doboj-Tuzla Zvornik and Brčko-Banovici sections, contributing to better efficiency and environmental protection. The total volume of freight transport has been substantially increased (2 billion etkm in 2007, 1.2 billion etkm in first half of 2008).

Some progress can be reported in the area of **road transport**. Since the entry into force of the SAA Interim Agreement, on 1 July 2008, Bosnia and Herzegovina is granting unrestricted access through its territory to Community transit traffic. The State Law on public roads and the legislation on digital tachographs have been adopted. However, the impact of the Law on road safety is limited by the poor road infrastructure. Significant investments are required in order to achieve sufficient levels of safety and efficiency.

There has been limited progress in the area of **rail transport**. Network statements, providing train operators with a single information source on rail infrastructure, have been prepared. Some legislative steps have been carried out by Republika Srpska. However, railway companies do not yet meet the preconditions for functioning as vertically integrated - in accordance with the *acquis* - since independent audits for effective separation between infrastructure managers and railway undertakings have not been performed. The Railway Regulatory Board (RBB) has yet to complete its recruitment and training. In order for the RBB to function to its full capacity, the railway technical and safety regulations need to be aligned with the *acquis*, and the Railway Package II Directives remains to be implemented. Furthermore, there is a need to accelerate coordinated harmonisation of legislation at State level in order to achieve full interoperability, in accordance with the "Addendum to the Memorandum of Understanding on the Development of the South East Europe Core Regional Transport Network for a South East European Railway Transport Area".

Some progress has been made in the area of **inland waterways**. A feasibility study for rehabilitation and re-establishment of navigability on the River Sava has been presented by the Sava River Commission. In addition, under the same Commission, a number of *acquis*-compliant rules for water transport, including on navigation and transport/traffic safety, and on the marking of the navigation route on the Sava, have been adopted. Application of these rules is mandatory for all the countries along the Sava. A study was produced on the market and demand for inland waterway transport, paying particular attention to the Sava route.

As regards **maritime transport**, Bosnia and Herzegovina is not a yet party either to the SOLAS Convention (International Convention for the Safety of Life at Sea) or to the ISPS Code (International Ship and Port Facility Security Code).

Some progress has been made in the area of **combined transport**. Bosnia and Herzegovina finalised a study on inter-modal transport, which confirmed the potential of this transport mode and identified ways to meet possible demand for capacity and quality of services.

Good progress can be reported in the area of **air transport**. The market for commercial air carriers has been opened following ratification of the European Common Aviation Area (ECAA) Agreement, even though administrative burdens and unnecessary delays still limit the efficiency and effectiveness of its application. The final organisational set-up of the air navigation provider and civil aviation authority has been adopted and their seats established. An action plan was drawn up for the transposition and implementation of the ECAA Agreement. Implementation of the air traffic management strategy has started and contracts have been concluded with the supplier of the equipment. Privatisation of B&H Airlines, owned by the Federation, is ongoing. In the meantime, Republika Srpska established "SkySrpska". Alignment to aviation *acquis* under ECAA is still needed in the areas of aviation safety, security and air traffic management, and further efforts are necessary in terms of staff training.

Overall, Bosnia and Herzegovina's preparations in the transport sector are advancing. The country has made steady progress both on strengthening its institutional set-up and on adjusting the regulatory framework. However, further efforts are needed to complete the transformation of the country's institutional set-up and to meet the conditions for opening every sector of the transport market.

#### 4.2.5. *Energy*

Overall, progress in reforming the energy sector has stalled.

There have been no new developments as regards **oil stocks and security of supply**. Bosnia and Herzegovina still does not provide for the 90 days reserve of oil stocks.

Bosnia and Herzegovina is a Party to the Treaty Establishing the Energy Community in Southeast Europe. As such, it was bound to apply the relevant energy-related *acquis* as from 1 July 2007, with the exception of the provisions on market opening to which a specific timetable applies. This deadline was extended to July 2008, but has not been met. As a result, Bosnia and Herzegovina is significantly lagging behind in a number of energy-related areas.

Over the years, there has been good progress on the roadmap for electricity, but still none on the roadmap for the gas sector. Since a country-wide legal framework for gas has yet to be developed (the State-level law does not yet exist), no national regulator has been established.

Instead, separate Entity legislation has been put in place to establish operators and regulatory functions in the Entities. In Republika Srpska, the regulatory powers over the gas sector have been given to the electricity regulator, whereas in the Federation these powers lie with the Ministry. Preparations in this area are lagging behind.

Regarding the **internal energy market**, the independent system operator (ISO) and the transmission company (Transco) for the electricity sector have been operating in compliance with the legal framework. Cooperation between Transco and the ISO remains to be improved. A proposal by Republika Srpska to split the company along Entity lines could have jeopardized the progress achieved in the electricity sector. Instead, efforts need to focus on identifying and addressing the company's possible shortcomings.

There has been no progress as regards the generation plan. Coordination between the Entities on investment planning has not improved and there is still a lack of data for finalising the plan. The procedure for providing the ISO with the data needed remains unresolved, as does the procedure for ranking proposed investment projects. Transco's investment planning for development of the transmission network depends on this definitive generation plan.

As regards the opening of the electricity market, from January 2008 all consumers (except households) can become eligible consumers. However, the benefits of a more open market continued to be watered down by system, technology or metering barriers. Consumers have little incentive to change suppliers due to persisting differences between regulated and market prices (regulated tariffs remain below the costs of generation). Full opening for major industrial customers has been delayed until 2009.

Regarding regulation of the electricity market, the State Electricity Regulatory Commission (SERC) and the two Entity regulators have adopted new tariffs for the current year, as well as key rulebooks on market opening. Regarding connection to the grid, only the Republika Srpska regulator has announced the general conditions for electricity supply (regulating connection to the distribution grid), while the Federation regulator is still finalising such implementing legislation. New draft legislation is putting regulatory independence at risk in the Federation. There have been continued attempts by the authorities to influence the regulators, notably in relation to tariff setting. Furthermore, the new Law on Wages and Allowances poses an additional potential threat to the independence of regulators.

Bosnia and Herzegovina has not developed any comprehensive energy strategy. A study on the energy sector in Bosnia and Herzegovina, which should provide a basis for the strategy, was finalised in May 2008. Little progress has been made as regards the diversification of energy sources. No progress has been made on **energy efficiency and renewable energy**.

On **nuclear safety and radiation protection**, a new Law on radiation was adopted in November 2007. Rapid establishment of an efficient national regulatory agency (NRA) is required. The NRA's seat will be in Sarajevo. The acting director of the NRA was appointed by the Council of Ministers in June 2008 and deputy directors are planned for the NRA regional offices in Banja Luka and Mostar.

Radiological issues in Bosnia and Herzegovina are dominated by management of sealed radioactive sources. In the absence of specific legislation, particular efforts need to be made to ensure that these sources are under proper regulatory control. Prevention of illicit trafficking of nuclear and other radioactive materials is an important issue. In this respect, portal monitors have been installed at some of the main border crossing points of the country.

Overall, Bosnia and Herzegovina's preparations to meet EU standards in the field of energy have started, but remain at an early stage.

#### 4.2.6. *Information society and media*

Overall, Bosnia and Herzegovina has made some progress in this area.

Progress as regards **electronic communications and information technologies**, however, has been limited. Few new entrants have become operational since liberalisation of the sector and no new licences for fixed telephony services have been granted in the reporting period. So far, 13 interconnection agreements have been concluded between new and incumbent operators. Four operators offer carrier selection services. The rules on number portability and local loop unbundling were adopted in 2008 by the Communications Regulatory Authority (CRA), but the timeframe for implementation has not been decided by the Council of Ministers, pending the adoption of the new sector policy. Tariff rebalancing - a key element for creating a competitive market - is ongoing, but still at an early stage.

The CRA has improved its administrative capacity by acquiring new spectrum monitoring equipment. However, further human, financial and technical resources are needed to enable the CRA to support the development of the sector, including on market regulation and creating a competitive market.

The challenges to the CRA's independence have increased over the reporting period, due to the adoption of a new Law on wages and allowances and the unresolved issue of the nomination of the CRA's Director-General. All stakeholders in Bosnia and Herzegovina need to work constructively to solve the outstanding issues and to guarantee the CRA's independence. In the meantime, CRA decisions submitted to the Council of Ministers need to be properly dealt with.

Little progress has been made in the area of **information society services**. Bosnia and Herzegovina has ratified the e-SEE Agenda Plus for the development of information society in South-East Europe 2007-2012, which is implemented under the umbrella of the regional cooperation council (RCC). With regard to the status of the citizen identification protection system (CIPS), the Law on the Agency for Identification Documents, Record-keeping and Exchange of Bosnia and Herzegovina came into force in July 2008. This Law provides for the establishment of an agency which will take over the tasks of the CIPS Directorate. Rules implementing the e-signature law of November 2006 are still pending. Legislation on conditional access services has not yet been adopted. The legislation to establish a State-level Information Agency in charge of implementing the information society strategy throughout the country has not yet been adopted.

Progress has been made on **audiovisual policy and media**. The CRA adopted several codes and decisions: the Broadcasting Code of Practice, the rules on licences for audiovisual media services providers and the establishment of the Digital Terrestrial Television (DTT) forum. In particular, the Broadcasting Code of Practice is an important step towards harmonisation of the legislation with the European Convention on Transfrontier Television and the Audiovisual Media Services Directive. The Code was adopted after wide public consultation and includes provisions on promotion of European works, protection of minors, protection of privacy, reporting on criminal trials, trials involving minors, dangerous behaviour, erotic and pornographic programmes, the obligation to inform viewers about programme content and

stricter rules on the watershed (restricting programmes unsuitable for minors to the night-time).

The Constitutional Court of the Federation ruled against the claims that the proposed public broadcasting law was contrary to the national interest of one of the country's constituent peoples. As a result, the Federation Parliamentary Assembly adopted the Law on Public Broadcasting Service, which formally completed the legal framework for public broadcasting in Bosnia and Herzegovina. The Federation's Law on Public Broadcasting Service still needs to be fully aligned with the Public Broadcasting System Law of Bosnia and Herzegovina. Proper implementation of the whole legal framework for public broadcasting will be necessary to meet the relevant key priority of the European Partnership.

Bosnia and Herzegovina's preparations in the field of the information society and media are advancing. Particular efforts are necessary to implement the legal framework in the area of public broadcasting, to carry out the reform of this sector and to ensure the functional independence of the Communications Regulatory Authority.

#### 4.2.7. *Financial control*

Bosnia and Herzegovina has made limited progress in the area of financial control.

Some developments have been reported in the area of **Public Internal Financial Control (PIFC)**. Internal audit laws have been adopted by the State and the Entities. A working group has been established to draft comprehensive PIFC policy papers to guarantee balanced development of control and audit systems. However, no tangible results have been produced so far. No Central Harmonisation Unit for PIFC has been established.

As regards **external audits**, the three supreme audit institutions (SAIs) in the country are continuing to implement their common strategic development plan for 2007-2012 on the basis of the three External Audit Laws. The three SAIs cooperate via a Coordination Board. After a two-year delay, the State level Auditor-General was appointed in June 2008. The State Auditor has 34 staff. The follow-up to the SAIs' reports and recommendations remains insufficient. The existence and independence of the SAIs have not yet been anchored in the constitutions of Bosnia and Herzegovina.

Overall, Bosnia and Herzegovina's preparations in the area of financial control remain at an early stage. The introduction of comprehensive PIFC policies is still awaiting the outcome of the PIFC Policy Working Group. Further work relating to the status of the SAIs and of the quality of external audit is needed.

#### 4.2.8. *Statistics*

Some progress has been made in the area of statistics.

As regards **statistical infrastructure**, cooperation between the State Agency for Statistics (BHAS) and the Institute for Statistics in the Federation has improved considerably. However, further efforts are necessary to improve coordination with the Republika Srpska statistical office. BHAS has developed a new organisation chart which provides for a significant increase in staff and coverage of more sectors. Similar organisation charts are being developed for the Entity statistical institutes. Capacity-building throughout the statistical sector in Bosnia and Herzegovina is paramount and should remain a priority.

The Law on statistics and the 2005 Agreement to strengthen the coordinating role of BHAS in harmonising methodologies and disseminating State level data have not been properly implemented. A protocol between BHAS and the Indirect Taxation Authority (ITA) regarding exchange of external trade data has been signed; however, implementation is still pending.

Some progress has been made on **classifications** and registers. The classification of products by activity (CPA) has been harmonised with the European CPA 2002 classification. The classification of individual consumption by purpose (COICOP) has been finalised and a high degree of harmonisation with international standards has been achieved. The development of a statistical business register is advancing.

Some progress has been made on **sectoral statistics**, including statistical research. In the area of demographic and social statistics, initial steps have been taken to prepare a population and housing census. However, the political decision confirming that the census will be conducted in 2011 is still pending. BHAS produced a countrywide publication on gender issues.

Regarding labour statistics, the 2007 Labour Force Survey (LFS) was the first conducted by BHAS in cooperation with the two Entity statistical institutes. Preparations for the 2008 Labour Force Survey are under way. A Household Budget Survey (HBS) was also conducted in 2007 on a sample of 7 600 households. The publication of quarterly and semi-annual data on salaries, employment and unemployment began in August 2008.

BHAS has initiated regular monthly publication of tourism statistics. The methodology still needs to be brought fully into line with EU recommendations.

Some progress has been made in the area of macro-economic statistics. A draft master plan for development of national accounts has been prepared, although not yet approved by the Statistical Office of Republika Srpska. For the first time, GDP figures from the expenditure side in current and constant prices for 2006 were published. Quarterly national accounts statistics do not yet exist.

Some action has been taken to improve the quality of business statistics, primarily concerning industrial statistics, statistics on the construction industry and structural business statistics. BHAS has started to publish monthly data on external trade, based on data provided by the Indirect Taxation Authority. As regards agricultural statistics, several pilot surveys on agricultural prices have been conducted. However, continued efforts are necessary: structural business statistics are still not based on business registers, and almost no transport and energy statistics are available at State level.

Bosnia and Herzegovina's preparations in the field of statistics are advancing, but remain at an initial stage. Therefore, it is essential to strengthen the administrative capacity of the BHAS and the cooperation with the institutes in the Entities.

### **4.3. Justice, freedom and security**

#### *4.3.1. Visa, border, control, asylum and migration*

Progress in the field of **visa** management has continued. The Visa Facilitation Agreement between the EC and Bosnia and Herzegovina entered into force in January 2008. The first meeting of the Joint Committee on implementation of the agreement took place in June 2008. In July 2008, bilateral agreements on visa facilitation were signed with Denmark and Norway. The visa liberalisation dialogue was launched in May 2008 and a roadmap towards visa

liberalisation for Bosnia and Herzegovina was presented to the authorities in June 2008. In May 2008, the Council of Ministers appointed an Inter-Agency working group for the dialogue on visa liberalisation.

Further steps have been taken towards introduction of biometric passports. Following adoption of the amendments to the Law on travel documents, in May 2007 the Council of Ministers adopted a decision to introduce biometric passports during 2009. Secure and effective management of the CIPS would benefit from the establishment of an improved legal framework placed under State-level authority.

The number of visas issued at the border has been further reduced from 927 in 2006 to 735 in 2007. The new Law on movement and stay of aliens and asylum, adopted in April 2008, includes transition to and introduction of the four categories of visas provided for in the Schengen *acquis*. Bosnia and Herzegovina's visa lists have not yet been aligned with the EU visa lists.

The migration information system, including the visa module for electronic data storage and transfer between consular offices and the central administration in Bosnia and Herzegovina, came into operation in September 2007. However, the authorities are not adequately supporting the wide use of this new system. Full and proper use of the system by all the institutions concerned is needed so that the system can be used to its full capacity.

Overall, progress in the field of visa management has continued, but Bosnia and Herzegovina needs to make further efforts to align with EU standards and to use the migration information system to its full capacity.

Bosnia and Herzegovina has continued to make progress in the area of **border control**. Cooperation and information-sharing between the border police and the ITA have improved. The number of joint training activities and joint operations at the border has increased. The border police and the ITA have taken steps towards harmonising collection and registration of data at border crossing points in order to avoid duplication. Contacts have been established with Frontex with a view to concluding a working arrangement.

Further action needs to be taken to improve cooperation with the State Veterinary Office and the State Plant Health Agency. The agencies involved in border management have agreed on common risk analysis documents and a border control model. The border police needs effectively to address the high number of vacancies.

A revised integrated border management (IBM) strategy was adopted in July 2008. The strategy and the Action Plan that forms an integral part of the strategy define the central coordinating roles in relation to border management issues and include a financial implementation framework. The Decision establishing a Commission for Integrated Border Management, in charge of IBM coordination and implementation of the strategy, the action plan and the implementation of border crossing agreements, was adopted in July 2008. A draft Law on border control clarifying, *inter alia*, responsibility for management of border posts has not yet been adopted.

Bosnia and Herzegovina still has a number of unresolved border demarcation issues which continue adversely to affect control of the green border. A decision establishing the State Border Commission, responsible for identification and demarcation of the border line, was adopted in June 2008, filling the vacuum left after the mandate of the previous State Border

Commission expired in July 2007. Four protocols implementing the 2007 Agreement on border control between Bosnia and Herzegovina and Croatia were signed in June 2008, covering the following fields: cooperation and official transit over State territory; establishment of joint task forces for crime prevention; mixed patrols; and liaison officers.

Delays in adopting the IBM strategy, lack of definition of tasks and responsibilities between the main stakeholders for border management, incomplete land expropriation, reclassification of border crossing points (BCPs) and insufficient political attention have been obstacles to sustained improvement of the country's BCPs. These factors reduced the efficiency of EU financial assistance and led to the cancellation of a number of projects.

Overall, Bosnia and Herzegovina has made progress in the area of border management. Further efforts are needed, in particular to address the unresolved border demarcation issues and the improvement of border crossing points.

**Asylum** procedures in Bosnia and Herzegovina are largely in line with international standards. The number of asylum applications has increased substantially compared with 2006, mainly as a consequence of refugees from Kosovo losing their temporary admission status in September 2007.

A new Law on movement and stay of aliens and asylum entered into force in May 2008. The necessary implementing legislation remains to be adopted. The roles and tasks of the Ministry of Security and the Ministry for Human Rights and Refugees, both of which are responsible for dealing with asylum-seekers and refugees, have been clarified. As regards improving the capacity to manage evidence of persons with recognised refugee status or other forms of international protection, greater efforts are needed to develop software requirement specifications for a database which will be part of the migration management project. The Ministry for Human Rights and Refugees is to be connected to the migration information system. The use of the asylum module of the migration information system needs to be enhanced. The capacity of the Ministry will need to be upgraded in order to implement the new legal framework adequately.

Bosnia and Herzegovina still lacks an appropriate permanent asylum reception centre. However, a temporary centre was opened in May 2008. The design for a new permanent centre has been completed and the construction project is in its final stage. The centre is expected to become fully operational in 2011. However, Bosnia and Herzegovina has not yet assumed full responsibility for managing and financing the existing asylum centres.

Overall, some progress has been made in the field of asylum.

Some progress has been made on **migration**. Construction and equipment of the temporary reception centre for irregular migrants has been completed and the centre was opened in May 2008. All staff members recruited for the temporary reception centre have received the required training.

The Readmission Agreement between the EC and Bosnia and Herzegovina entered into force in January 2008. The first meeting of the Joint Committee on implementation of the Agreement took place in June 2008. Bosnia and Herzegovina has continued its efforts to establish readmission agreements with non-EU countries. No difficulties have been observed in handling cases concerning readmission of third-country nationals, mainly from Croatia and Albania. Bosnia and Herzegovina has continued to readmit its own nationals even when no

readmission agreement is in place. The number of readmitted persons increased (240 in 2007 compared with 174 in 2006).

There has been a significant decrease in interceptions during attempts to cross the border unlawfully. In 2007, 851 persons were intercepted when trying to enter or leave the territory of Bosnia and Herzegovina (1 289 in 2006) and, in the first half of 2008, 231 persons were intercepted at the borders. The number of nationals deported back to Bosnia and Herzegovina decreased (to 1 117 in 2007, from 1 350 in 2006). Border control activities in combating illegal migration need to be stepped up.

Out of the approximately 3 000 refugees originating from Kosovo whose temporary admission status was withdrawn in September 2007, 870 persons submitted an asylum request. The Foreigners Affairs Service of Bosnia and Herzegovina has taken measures to finalise the status of those still residing on the territory of Bosnia and Herzegovina.

There has been good progress on the Service for Foreigners' Affairs under the State-level Ministry of Security. The legal basis for operation of the Service has been adopted and the transfer of staff from the previous Departments for Aliens completed. Nevertheless, the staff levels need to be further reinforced and more training courses need to be conducted. The legal basis requires some clarification.

The National Migration Strategy has not been adopted. The staffing of the Migration Sector at the Ministry of Security has improved, but further efforts in this regard are needed. The legislation in the area of migration to implement the new Law on movement and stay of aliens and asylum has still to be adopted. Use of the migration module of the migration information system needs to be enhanced.

Overall, some progress has been made in the area of migration.

#### *4.3.2. Money laundering*

Limited additional progress can be reported on implementation of anti-money laundering measures. The Financial Intelligence Unit (FIU) in the State Investigation and Protection Agency has not been significantly reinforced in terms of staff. There have been limited improvements in cooperation between the FIU and other law enforcement agencies and prosecutors' offices by means of joint training and joint investigations. A multi-agency Working Group for Prevention of Money Laundering and Funding of Terrorist Activities has recently been set up, in order to better coordinate the investigative and regulatory bodies dealing with money laundering and terrorism. However, Strategy and Action Plan for this Working Group have not yet been adopted. Cooperation at international level has improved, with the aid of EGMONT but also of the relevant provisions in bilateral conventions with Member States. The Council of Europe Convention on laundering, search, seizure and confiscation of proceeds of crime and financing of terrorism entered into force in May 2008. Bosnia and Herzegovina needs to harmonise its legislation with this Convention.

Political disagreements between the State level and the Entities persist with regard to legal solutions in respect of confiscation of illegally acquired property. The Law on confiscation of illegally acquired property has not yet been adopted. As a result, confiscation continues to be regulated in a non-harmonised manner by the State and Entities' criminal procedure codes. Money laundering and tax evasion remain among the most common criminal cases handled

by the State Court. Weak preventive measures for supervision of non-banking financial institutions and intermediaries make it easier for such offences to be committed.

Further efforts are needed in order to reinforce the administrative capacity to fight money laundering. Bosnia and Herzegovina needs to improve its legislation against money laundering, including in relation to implementation and enforcement. Following analysis of the existing framework, this should be carried out as part of a State-level strategy for preventing and fighting money laundering and financing of terrorism.

Overall, Bosnia and Herzegovina has taken a number of steps in this area, but efforts need to be increased. Money laundering continues to be a serious problem.

#### *4.3.3. Drugs*

Bosnia and Herzegovina remains primarily a transit country for drug trafficking, with rising local consumption. This trend has led to an increase in violent drug-related crime, mainly in urban centres even though such incidents remain relatively rare.

There has been some progress in the fight against drugs. The Commission on Narcotic Drugs was established in October 2007. The Ministry of Civil Affairs has been designated national contact point for the European information network on drugs and drug addiction. A joint campaign by the Ministry of Security and the EU police mission is aiming to raise public awareness of the dangers of drugs. Moreover, telephone hotlines and local press coverage have focused public attention on issues related to smuggling of drugs.

However, no State-level strategy on illicit drugs and Action Plan has been adopted. Bosnia and Herzegovina needs to implement standards for information collection set by the European Monitoring Centre for Drugs and Drug Addiction. The State-level coordination on the fight against drugs remains understaffed and weak.

As regards enforcement, Bosnia and Herzegovina's law enforcement bodies are not adequately equipped to fight trafficking. Inter-agency and international cooperation needs to be enhanced. Border controls have improved, but the overall measures against narcotics trade are often below EU standards.

Overall, Bosnia and Herzegovina has made some progress in the field of drugs, mainly as regards awareness-raising, but drug trafficking remains a serious concern. Sustained efforts are required.

#### *4.3.4. Police*

There has been some progress in reforming the police forces in Bosnia and Herzegovina, although the fragmentation of the police has not been addressed. Cooperation and information exchange between law enforcement agencies remain weak. Following a political agreement between the political leaders in November 2007 (Mostar agreement), and in line with the relevant key European Partnership priority, the Law on independent and supervisory bodies of the police structure of Bosnia and Herzegovina and the Law on the Directorate for Coordination of Police Bodies and Agencies in Bosnia and Herzegovina were adopted in April 2008.

These laws provide for establishment of seven new agencies at State level. Given that no agreement was reached on a transfer of policing powers, the new bodies have no coordination

role vis-à-vis the Entities', cantonal and Brčko District police forces. However, the new institutions have generated forward momentum for closer cooperation on police matters and may become a platform for streamlining the overall police structure in the years ahead. In this context, transitional provisions in the laws stipulate that future steps will be considered after the constitutional reform. This approach is essential to ensuring full compliance with the three European Union principles on policing. These laws now need to be implemented and the directors of the new agencies need to be appointed.

In terms of operational policing, some steps have been taken to facilitate the work of the State Investigation and Protection Agency. Its director has been appointed, and new and adequate premises are under construction. However, there have been some attempts by the authorities of Republika Srpska to undermine the proper functioning of the State Investigation and Protection Agency. The issues relating to the fragmentation of telecommunications systems, databases, computer-based investigation, criminal analysis systems and forensics are not addressed by the police reform laws.

Police cooperation agreements with Bulgaria, Montenegro and Romania were ratified in February 2008. Some reinforcement of the staff of the State Investigation and Protection Agency took place. Bosnia and Herzegovina has started implementing the strategic agreement with Europol and took steps towards conclusion of an operational agreement.

Despite some progress having been made, small arms and light weapons, as well as explosives and remnants of war, remain a serious problem in Bosnia and Herzegovina. In particular, illicit arms possession is widespread, leading to rising levels of crime and private violence; legislation in this regard is still not sufficiently developed.

Contrary to the opinion of the United Nations Security Council and the Council of Europe, decertified police officers are still prevented from applying for vacant jobs in the Bosnia and Herzegovina police forces.

Overall, Bosnia and Herzegovina's preparations in the police field are advancing. Particular efforts are now necessary to implement the new policing legislation fully and to continue with the police reform.

#### *4.3.5. Fighting organised crime and terrorism*

There has been limited progress on fighting **organised crime**. In April 2008, Bosnia and Herzegovina acceded to the UN Protocol against illicit manufacturing and trafficking of firearms. The Ministry of Security has started to prepare its contribution to the common threat assessment for the South-East Europe region.

No additional Action Plans, except the one on the fight against vehicle-related crimes, have been developed to implement the national strategy to combat organised crime and corruption. The responsible sector within the Ministry of Security is assessing and revising the strategy. Some cases of corruption in the field of economic crime and of tax evasion and other obligations were discovered and processed in Republika Srpska, but few of them have been completed.

No amendments to the Criminal Code have been adopted. Difficulties in applying the criminal procedure based on the accusatorial system persist, resulting in inadequacies in the

cooperation between police and prosecutors and inconsistencies in the implementation of the codes.

Bosnia and Herzegovina has not yet signed the additional protocol to the Council of Europe Convention on mutual legal assistance in criminal matters. Bosnia and Herzegovina is also not yet party to the Council of Europe Convention on the international validity of criminal judgements and the additional protocol to the Council of Europe Convention on the transfer of sentenced persons.

The State Investigation and Protection Agency has successfully conducted investigations, which have ended the activities of several organised crime groups operating in the country. The most common examples of organised crime were underrated taxation, smuggling of persons and money laundering. However, the national statistical instruments for measuring crime rates need to be improved.

Some progress has been made in the area of **trafficking in human beings**. The Council of Europe Convention against Trafficking in Human Beings entered into force in May 2008. Bosnia and Herzegovina has undertaken further efforts to implement the national action plan for combating trafficking in human beings for 2005-2007. The Action Plan for 2008-2012 was adopted by the Council of Ministers in May 2008. The number of related investigations, indictments and convictions has decreased. One major case of prostitution and pandering of minors was solved. Sufficient financial resources need to be secured for the office of the national coordinator for the fight against trafficking in human beings.

With regard to protection of witnesses and victims of trafficking, the necessary amendments to the Law on the witness protection programme have not yet been adopted. A handbook on universal procedures for different professions in the protection and treatment of victims of trafficking was issued. The Ministry of Security has concluded protocols on cooperation on provision of assistance for victims of trafficking with several non-governmental organisations which run safe houses. The Ministry of Security finances these safe houses from its budget. The cooperation is based on referral mechanisms, which stipulate that law enforcement agencies accommodate victims in safe houses.

There has been some progress in the **fight against terrorism**. Bosnia and Herzegovina has ratified the Council of Europe Convention on the Prevention of Terrorism, and it entered into force in May 2008. The capacity of the State Investigation and Protection Agency to collect and analyse information, to conduct investigations and to assess possible targets has been enhanced. There have also been some improvements in information sharing with the police bodies of the Entities. Nevertheless, the staffing of the SIPA Criminal Investigation Unit needs to be further reinforced.

Little follow-up has been given to the 2006 anti-terrorism strategy. A number of Action Plans remain to be adopted, including on protection of civil aviation and on civil-military cooperation in the event of a terrorist attack.

Overall, some progress has been made in the fight against organised crime, trafficking in human beings and terrorism.

#### 4.3.6. *Protection of personal data*

Limited progress has been made in this area. The Director of the future Data Protection Agency of Bosnia and Herzegovina was appointed in June 2008. Despite some progress, the administrative framework for establishing the agency needs to be completed, including adequate staffing. The agency needs to become operational, and proper implementation of the rules for protection of personal data needs to be ensured.

## STATISTICAL ANNEX

### STATISTICAL DATA (as of 29 September 2008) Bosnia and Herzegovina

Basic data	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Population (thousand)	1)	3 550	3 689	3 753	3 790	3 813	3 830	3 837	3 843	3 843	3 844
Total area of the country (km <sup>2</sup> )		51 209	51 209	51 209	51 209	51 209	51 209	51 209	51 209	51 209	51 209

National accounts	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Gross domestic product (GDP) (million national currency)	2)	:	:	10 713	11 599	12 829	14505b	15 786	16 927	19 121	21 641p
GDP (million euro)	2)	:	:	5 477	5 930	6 559	7416b	8 071	8 655	9 777	11 065p
GDP (euro per capita)	2)	:	:	1 449	1 561	1 714	1935b	2 103	2 252	2 544	2 880p
GDP (in Purchasing Power Standards (PPS) per capita)		:	:	:	:	:	:	:	:	:	:
SI: GDP (in PPS per capita, EU-25=100)		:	:	:	:	:	:	:	:	:	:
SI: Growth rate of GDP (national currency, at constant prices, % change on previous year)		:	:	:	:	:	:	6.3	3.9	6.7	6.8p
SI: Employment growth (national accounts, % change on previous year)		:	:	:	:	:	:	:	:	:	:
Labour productivity growth: GDP growth per person employed (% change on previous year)		:	:	:	:	:	:	:	:	:	:
SI: Unit labour cost growth (national accounts, % change on previous year)		:	:	:	:	:	:	:	:	:	:
SI: Labour productivity (GDP in PPS per person employed, EU-25=100)		:	:	:	:	:	:	:	:	:	:
Gross value added by main sectors (%)											
Agriculture		:	:	11.8	11.5	10.8	9.7	10.5	10.3	10.2	9.5p
Industry		:	:	20.3	20.0	18.7	19.2	19.4	19.3	19.2	19.6p
Construction		:	:	5.2	4.7	4.6	5.2	4.9	5.0	5.0	5.8p
Services		:	:	62.8	63.8	65.9	65.9	65.2	65.4	65.6	65.2p
Final consumption expenditure, as a share of GDP (%)		:	:	:	:	:	:	113.7	113.4	107.8	:
Households and NPISH, as a share of GDP (%)		:	:	:	:	:	:	92.2	93.0	88.2	:
General government, as a share of GDP (%)		:	:	:	:	:	:	21.5	20.4	19.6	:
Gross fixed capital formation, as a share of GDP (%)		:	:	:	:	:	:	24.6	25.4	23.0	:
Changes in inventories, as a share of GDP (%)		:	:	:	:	:	:	2.9	0.1	-0.9	:
Exports of goods and services, relative to GDP (%)		:	:	:	:	:	:	29.4	30.7	36.6	:
Imports of goods and services, relative to GDP (%)		:	:	:	:	:	:	70.7	69.6	66.4	:

Industry	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Industrial production volume index (2000=100)		:	:	100.0	105.3e	112.4e	118.0e	132.8e	144.7e	159.3e	170.4e

Inflation rate	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
SI: Consumer price index (CPI), (total, % change on previous year)	3)	:	:	4.8	3.1	0.4	0.6	0.4	3.8	6.1b	1.5

Balance of payments	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Balance of payments: current account total (million euro)		-311	-471	-429	-834	-1 253	-1 439	-1 319	-1 555	-817	-1 401
Balance of payments current account: trade balance (million euro)		-2 803	-3 095	-3 000	-3 308	-3 524	-3 671	-3 678	-3 962	-3 406	-4 142

Balance of payments current account: exports of goods (million euro)		597	781	1 226	1 268	1 169	1 303	1 677	2 060	2 687	3 092
Balance of payments current account: imports of goods (million euro)		3 400	3 875	4 227	4 577	4 692	4 974	5 355	6 022	6 093	7 234
Balance of payments current account: net services (million euro)		171	168	203	254	232	297	347	402	501	548
Balance of payments current account: net income (million euro)		728	683	641	595	539	473	408	378	326	340
Balance of payments current account: net current transfers (million euro)		1 594	1 773	1 727	1 626	1 499	1 462	1 604	1 628	1 762	1 853
of which government transfers (million euro)		393	458	339	450	347	298	261	251	237	186
Foreign Direct Investment (FDI) in the reporting economy (million euro)		60	166	159	133	282	338	567	478	564	1 478

<b>Public finance</b>	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General government deficit/surplus, relative to GDP (%)		:	:	:	:	:	0.7	1.6	2.4	2.9	1.3
SI: General government debt, relative to GDP (%)		:	:	37.9	38.1	33.4	27.7	25.5	25.6	21.3	18.3

<b>Financial indicators</b>	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Gross foreign debt of the whole economy, relative to GDP (%)		:	:	:	:	:	:	:	:	:	:
Gross foreign debt of the whole economy, relative to total exports (%)		:	:	:	:	:	:	:	:	:	:
Money supply: M1 (banknotes, coins, overnight deposits, million euro)		159	562	717	1377b	1 538	1 592	1 808	2 098	2 593	3 149
Money supply: M2 (M1 plus deposits with maturity up to two years, million euro)		791	1 107	1 262	2387b	2 593	2 810	3 493	4 129	5 150	6 263
Money supply: M3 (M2 plus marketable instruments, million euro)		:	:	:	:	:	:	:	:	:	:
Total credit by monetary financial institutions to residents (consolidated) (million euro)		1 496	1 422	1 543	1 707	2 189	2 619	3 031	3 857	4 759	6 117
Interest rates: day-to-day money rate, per annum (%)		:	:	:	:	:	:	:	:	:	:
Lending interest rate (one year), per annum (%)	4)	:	:	:	:	12.6	10.9	10.3	9.6	8.0	7.2
Deposit interest rate (one year), per annum (%)	5)	:	:	:	:	1.4	1.1	0.9	0.7	0.5	0.4
euro exchange rates: average of period - 1 euro = ... national currency		1.969	1.956	1.956	1.956	1.956	1.956	1.956	1.956	1.956	1.956
Effective exchange rate index (2000=100)		:	:	:	:	:	:	:	:	:	:
Value of reserve assets (including gold) (million euro)	6)	145	443	525	1 385	1 270	1 428	1 779	2 160	2 787	3 393

<b>External trade</b>	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Trade balance: all goods, all partners (million euro)		:	:	:	:	:	-2 019	-2 667	-3 750	:	:
Value of exports: all goods, all partners (million euro)		:	:	:	:	:	908	1 299	1 920	:	:
Value of imports: all goods, all partners (million euro)		:	:	:	:	:	2 928	3 966	5 670	:	:
Terms of trade (export price index / import price index)		:	:	:	:	:	:	:	:	:	:
Share of exports to EU-27 countries in value of total exports (%)		:	:	:	:	:	53.4	54.2	53.8	:	:
Share of imports from EU-27 countries in value of total imports (%)		:	:	:	:	:	58.5	53.0	51.9	:	:

<b>Demography</b>	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Natural growth rate: natural change (births minus deaths) (per 1000 inhabitants)	1)	4.4	3.7	2.4	1.9	1.5	0.9	0.6	0.1	0.2	-0.2
Net migration rate: immigrants minus emigrants (per 1000 inhabitants)		:	:	:	:	:	:	:	:	:	:
Infant mortality rate: deaths of children under one year of age per 1000 live births		11.0	10.1	9.7	7.6	9.2	7.6	7.4	6.7	7.5	:
Life expectancy at birth: male (years)		70.5	70.5	71.3	71.3	71.3	71.3	71.3	72.1	72.1	72.1
Life expectancy at birth: female (years)		75.9	75.9	76.7	76.7	76.7	76.7	76.7	77.5	77.5	77.5

<b>Labour market</b>	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Economic activity rate (15-64): share of population aged 15-64 that is economically active (%)		:	:	:	:	:	:	:	:	51.3	52.2
SI: Employment rate (15-64): share of population aged 15-64 that is in employment (%)		:	:	:	:	:	:	:	:	35.0	36.8
Share of male population aged 15-64 that is in employment (%)		:	:	:	:	:	:	:	:	46.1	48.7
Share of female population aged 15-64 that is in employment (%)		:	:	:	:	:	:	:	:	24.0	25.0
SI: Employment rate of older workers (55-64): share of population aged 55-64 that is in employment (%)	7)	:	:	:	:	:	:	:	:	30.6	31.9
Employment by main sectors (%)											
Agriculture		:	:	:	:	:	:	:	19.6	20.6b	19.9
Industry		:	:	:	:	:	:	:	21.4	30.7b	32.6
Construction		:	:	:	:	:	:	:	4.9	:	:
Services		:	:	:	:	:	:	:	54.1	48.7b	47.5
SI: Unemployment rate: share of labour force that is unemployed (%)	8)	:	39.4	39.7	40.0	41.1	41.6	41.8	43.9	31.1b	29.0
Share of male labour force that is unemployed (%)		:	:	:	:	:	:	:	:	28.9	26.7
Share of female labour force that is unemployed (%)		:	:	:	:	:	:	:	:	34.9	32.9
Unemployment rate of persons < 25 years: share of labour force aged <25 that is unemployed (%)		:	:	:	:	:	:	:	:	:	:
SI: Long-term unemployment rate: share of labour force that is long-term unemployed (%)	9)	:	:	:	:	:	:	:	:	28.4	26.4

<b>Social cohesion</b>	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Average nominal monthly wages and salaries (national currency)	10)	296.0	343.0	372.0	408.0	446.0	484.0	505.0	538.0b	:	:
Index of real wages and salaries (index of nominal wages and salaries divided by the CPI) (2000=100)		:	:	:	:	:	:	:	:	:	:
SI: Early school-leavers: share of population aged 18-24 having not completed upper secondary education and not currently in education or training (%)		:	:	:	:	:	:	:	:	:	:

<b>Standard of living</b>	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Number of passenger cars per 1000 population	11)	:	:	:	:	116.4	112.1	116.3	117.2	:	114.5b
Number of subscriptions to cellular mobile telephone services per 1000 population		7.1	:	:	117.3	196.4	274.1	:	:	:	:

<b>Infrastructure</b>	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Density of railway network (lines in operation, per 1000 km <sup>2</sup> )		:	:	:	:	:	:	20.1	20.1	20.1	20.1
Length of motorways (thousand km)		:	:	:	:	:	:	:	:	:	:

<b>Innovation and research</b>	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
SI: Spending on human resources (public expenditure on education) relative to GDP (%)		:	:	:	:	:	:	:	:	:	:
SI: Gross domestic expenditure on research & development, relative to GDP (%)		:	:	:	:	:	:	:	:	:	:
SI: Percentage of households who have Internet access at home (%)		:	:	:	:	:	:	6.6	:	:	:

<b>Environment</b>	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
SI: Total greenhouse gases emissions, CO2 equivalent (tons, 1990=100)		:	:	:	:	:	:	:	:	:	:
SI: Energy intensity of the economy (kg of oil equivalent per 1000 euro GDP)		:	:	:	:	:	:	:	:	:	:
SI: Share of renewable energy in electricity consumption (%)		:	:	:	:	:	:	:	:	:	:
SI: Road freight transport as a share of total inland freight transport (modal split of freight transport) (%)		:	:	:	:	:	:	:	:	:	:

<b>Energy</b>	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Primary production of all energy products (thousand TOE)		:	:	:	:	:	:	:	:	:	:
Primary production of crude oil (thousand TOE)		:	:	:	:	:	:	:	:	:	:
Primary production of hard coal and lignite (thousand TOE)		:	:	:	:	:	:	:	:	:	:
Primary production of natural gas (thousand TOE)		:	:	:	:	:	:	:	:	:	:
Net imports of all energy products (thousand TOE)		:	:	:	:	:	:	:	:	:	:
Gross inland energy consumption (thousand TOE)		:	:	:	:	:	:	:	:	:	:
Electricity generation (thousand GWh)		:	:	:	:	:	:	:	:	:	:

<b>Agriculture</b>	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Agricultural production volume index of goods and services (producer prices, previous year=100)		:	:	:	:	:	:	:	:	:	:
Total utilised agricultural area (thousand hectare)		:	:	:	2 126	2 122	2 192	2 196	2 187	2 194	2 139
Livestock: cattle (thousand heads, end of period)		:	:	:	:	:	:	453	460	515	468
Livestock: pigs (thousand heads, end of period)		:	:	:	:	:	:	596	654	712	535
Livestock: sheep and goats (thousand heads, end of period)	12)	:	:	:	:	:	:	893	903	1 005	1 103
Production and utilisation of milk on the farm (total whole milk, thousand tonnes)		:	:	:	:	:	:	580	629	662	724
Crop production: cereals (including rice) (thousand tonnes, harvested production)		1 184	1 369	930	1 139	1 309	793	1 439	1 350	1 341	1 000
Crop production: sugar beet (thousand tonnes, harvested production)		:	:	:	:	:	:	:	:	:	:
Crop production: vegetables (thousand tonnes, harvested production)		274	279	176	190	247	204	276	257	297	254

SI: Structural Indicator

e : estimate

f : forecast

p : provisional

b : break in series

Source: Eurostat.

1. For 2000-2002, the value of non-observed economic activities is not included, thus values are estimated.
2. Until 2006, the growth rate of retail prices is presented, from 2006 onwards growth rate if the consumer price index (CPI) is used.
3. Short-term lending rates in national currency to private enterprises and cooperatives (weighted average).
4. Demand deposit rates in national currency to households (weighted average).
5. Data as of 31 December; reserve assets do not include gold.
6. Population aged between 50 and 64.
7. Before 2006 data based on administrative sources, from 2006 onwards data based on the labour force survey.
8. Unemployed for 24-59 months.
9. For 1998 to 2004 net salaries; 2005 including data from Brcko District.
10. 2002 to 2005 data refer to the Federation of Bosnia and Herzegovina only and considers the total vehicle fleet (official data for the state level are not available). 2007 data contain only passenger cars and are official data delivered by Ministry of Civil Affairs Excluding goats.