

Poslovne studije/ Business Studies, 2015, 13-14

Časopis za poslovnu teoriju i praksu UDK 339.923:061.1EU(4)(497.6)

The paper submitted: 20.03.2015.

DOI: 10.7251/POS1514523K

The paper accepted: 21.04.2015.

Review

Tatjana Klincov Vujaković, dipl.oec.¹

Dragana Kalabić²

Sanja Jakovljević, MA³

ABILITY OF BOSNIA AND HERZEGOVINA FOR ACCEPTING OBLIGATIONS RELATING TO MEMBERSHIP IN THE EUROPEAN UNION

Summary: *BiH Integration Strategy in the EU reflects the political aims and interests of Bosnia and Herzegovina as a whole. EU development showed that each country must find its own way to adopt common rules, whereby the EU institutions evaluate it upon its merits and results. BiH shares the objectives, values and principles of the EU and would take the necessary steps to be ready to take on the obligations of membership in the EU.*

Key words: *integration, internal market, monetary union, taxes, EU*

Jel Classification: *E61, E62, E63, F15*

¹ Bachelor of the Economics, University of Business Studies, Jovana Dučića 23a, Banja Luka, tatjana.klincov@gmail.com

² Kenyongasse 1070, Vienna, dkalabic@ymail.com

³ Master of the Economics, ZP Elektrodistribucija a.d., Alekse Šantića 7, Pale, sanjajakovljevic87@yahoo.com

INTRODUCTION

BiH is a subject of a regional approach of the European Union to the Western Balkans countries through the Stabilisation and Association Process, as well as an element of the strategy of conditioning from 1997. The political dialogue, trade liberalization, cooperation in the field of justice and internal affairs, and the Stabilisation and Association process are guidelines for integrating BiH in the political and economic mainstream of the Union. Together with the autonomous trade measures and financial assistance, a key instrument of the process is the Stabilisation and Association Agreement, and by its signing on June 16th 2008 BiH entered into the first contractual relationship with the European Union, confirming the status of a potential candidate for membership in the EU from 2000, and also a European perspective offered many times before. Based on the gradual establishment of a free trade zone as well as on the aim of final accession, the Agreement promotes a framework for reforms designed to encourage the adoption of EU standards, with the aim that BIH society in all its essential aspects gets closer to the achievements of European values on which the Union is founded. Through the first contractual relationship with the EU, BiH took on itself the responsibility of enjoying the rights, but also the responsibility for the fulfilment of the obligations embodied in the basic elements of the Agreement, which range from general principles of the Agreement, political dialogue, regional cooperation, through key segments of the internal market, harmonization and implementation of legislation, to the financial and cooperation policies in general, which have the legal effect in terms of international law.

1. ABILITY OF OVERTAKING AND IMPLEMENTING ACQUIS COMMUNAUTAIRE

The ability of a candidate country to take over the obligations of membership, as the third accession criterion, refers primarily to the ability of accepting and implementing the *acquis communautaire*, including also adherence to the aims of political, economic and monetary union (Hitiris 2003, 104). This criterion cannot be treated separately from the so-called

Madrid criteria, construction of appropriate administrative and judicial structures as a kind of framework which would guarantee the effective acceptance and implementation of the *acquis*, and even less it can lead to independent fulfilment of political and economic criteria. It illustrates mutual conditionality and coherence of all the accession criteria as a whole, which, though described and evaluated separately, only through parallel achievement can result in adequate changes as a guarantee of capability for membership. An important document in the process of adoption of the EU is White Paper – preparation of CEE countries for accession, drafted by the European Commission as a support to CEE countries on the road to membership (Hitiris 2003, 125), which today, for BiH, structurally and methodologically may be a kind of landmark for planning priority areas of harmonization, while content-wise it requires significant updating. According to this document, the advantage is given to regulations concerning the creation of preconditions for integration into the internal market, which should facilitate market liberalization and promote economic development, and without whose acceptance the benefits offered by the EU internal market cannot be realized.

Acceptance and implementation of the *acquis* is primarily the obligation of national governments, legislative bodies and state administration as a whole. Experiences from previous enlargements indicate considerable difficulties in its effective application faced by the state administration as well as by manufacturers and other businesses. Effective acceptance and implementation of the *acquis* require qualified staff, existence of administrative procedures and secured funding.

At the moment, BiH has no legal obligation to accept and harmonize its legislation with the EU (given the absence of a contractual relationship with the EU which would imply responsibility of that nature), but according to its political determination to integrate it undertook a series of activities to prepare and build the concept of harmonization of BiH legislation with the *acquis*. This process imposes two aspects that can be defined as follows:

- Organizational-functional, that requires clear identification of legislative and institutional powers in management, coordination and super-

vision of the process, and development of optimum mechanisms and other forms of cooperation between the legislative and executive bodies on the horizontal and vertical level in particular;

- Programme, which implies adoption of appropriate methodology of harmonization and multi-year planning of acceptance of *acquis* with defined priorities, actors, dynamics and financial resources.

The Constitution of BiH does not contain explicit provisions on harmonization of the legal system and legislation with the *acquis*, except for the general provision that clearly establishes international-legal subjectivity, which means that BiH may enter into agreements in international relations, and therefore to the EU. The process of integration of BiH into the wider European community is also the principal generator of integration of the internal legal order of BiH. Harmonisation of legislative with the *acquis* is the primary obligation of relevant ministries and other administration bodies of BiH within the established jurisdictions. The Ministry of Justice of BiH is responsible for ensuring that BH legislation and its implementation at all levels is complied with the obligations of BiH which derive from international agreements, while coordination of work on the harmonization of the legal system of BiH with the *acquis communautaire* and verification of compliance of draft laws and other regulations, which proposal establishes the Council of Ministers, is assigned to the Directorate for European Integration.

2. INTERNAL MARKET

2.1. Importance of integration in the internal market

The process of European integration in terms of creating an internal market in BiH can be considered from two aspects. By participating in the Stabilisation and Association process, on the one hand, BiH has assumed an obligation to establish its own internal market referred to as a single economic space and modelled after the EU internal market. On the other hand, entering into contractual relations with the EU, i.e. signing of the Stabilization and Association Agreement, a single economic space of BiH will be

gradually integrated into the EU internal market. The internal market is the basis of the present structure of the EU, because it is one of the most important instruments for achieving goals such as sustainable development, a high level of employment and social protection, better standards of living and quality of life, economic and social cohesion (Jovanovic 2004, 98). Free movement of goods, services, capital and persons, competition policy, common customs tariff to the third countries, and legislation made up of a whole series of directives and laws are the basic principles of the internal market. Acceptance and adherence to these principles encourages economic reforms and competitiveness of the economy as a whole, stimulates trade and investment, and contributes to development and consolidation of macroeconomic stability. Moreover, harmonization of legislation creates a legal framework for maximizing economic effects, with special attention given to institutional development. Regarding the situation in Bosnia and Herzegovina, the free movement of goods, services, capital and people is guaranteed by the Constitution of BiH: *“Movement throughout whole Bosnia and Herzegovina is free. Bosnia and Herzegovina and the Entities shall not impede full freedom of movement of persons, goods, services and capital throughout whole Bosnia and Herzegovina. Neither Entity shall establish controls at the border lines between the entities”* (BiH Constitution, Article 1, Paragraph 4). Considering the individual existence of all segments of the internal market, it can be concluded that the single economic space in BiH is established, but that work on its strengthening in certain areas is still needed.

2.2. Four Freedoms

Generally, it can be said that the “four freedoms” are the driving force of the entire integration process (Babic 2003, 201), which can be best seen in the example of the EU itself. In economic terms, integration has had several levels – the original free trade area gradually grew into a customs union, and by ensuring the “four freedoms” the creation of the EU internal market started, and reaches its climax in the establishment of economic and monetary union.

Existing laws in the field of standardization, metrology, accreditation and technical regulations and general product safety has been largely harmonized with EU regulations, and their full implementation is pending.

Free movement of persons can be seen through ensuring freedom of employment of domestic workers (BiH citizens) – persons within BiH, and free employment of foreigners. Segments of the free movement of persons – the question of labour relations, social insurance and education, according to the BiH Constitution, is the responsibility of the entity. The main hindrance to the free movement of domestic workers in BiH is an economic situation and the inability of employment. In addition, throughout whole Bosnia and Herzegovina the recognition of professional qualifications and validity of legally issued diplomas and certificates is provided. Employment of foreigners is regulated by the entity laws on which foreign citizens residing in BiH may have access to employment depending on the obtained work permit. A work permit is issued to foreigners provided they have a permanent or temporary residence permit, and that the employment office has no registered unemployed persons who meet the requirements for the job.

Free movement of services and business establishment, along with the other three freedoms, is an important factor in the creation and strengthening of a single economic space in BiH. Generally, the characteristic of the service sector in BiH is one with relatively non-discriminatory manner, which can be illustrated by examples of the banking sector, transportation and courier services, which are mostly foreign-owned. In financial services, the banking sector is regulated by the legislation at the entity level, which, among other things, enables domestic and foreign natural and legal persons to establish banks in the territory of BiH (with relevant authorizations for foreign parties). When it comes to non-financial services, it can generally be said that the process of establishing the legal and institutional framework is in line with European standards at the outset and that the process of harmonization in various sectors goes with different pace – in the telecommunications sector the legal and institutional frameworks are established, some progress has been made in the field of broadcasting, and foundations for e-business are at the very beginning. One of the basic prin-

principles of free movement of services is the freedom of establishment, which in BiH also features a non-discriminatory manner – companies from EU are able to establish and perform free actions based on the principle of the national treatment or the principle of Most Favourable Nations, whichever is more favourable in a given case. Closely related to the freedom of establishment is the issue of incorporation. The European integration process conditioned a transfer of competences in this field at the state level. An example of it is the adoption of the Framework Law on Business Registration at the state level, in line with EU standards, followed by harmonization of entity legislation in this area. This law accelerated, uniformed and simplified procedures of incorporating, and in the courts a unique business register at the state level was established.

Overall, previous work in this area of free movement of capital has resulted in securing and maintaining a stable exchange rate of BAM through currency board arrangements of the Central Bank and successful transformation and modernization of payments, loans for the transfer of profits from foreign investments. As for individual areas, current activities in capital market development have resulted in the establishment of the institutional, legal and material-technical basis which allows the functioning of securities markets, from the primary market, i.e. emission of securities, electronic system of registration and transfer of securities, to securities in the secondary market where trading in securities is mainly done on the stock market as a regulated market.

2.3. Competition

The process of transition and harmonization with European standards introduces into BiH society numerous new concepts, which are a prerequisite for the normal functioning of the market economy. Competition policy, as one of these concepts, supports the transition process by creating healthy economic structure and an acceptable regulatory framework which prevents monopolization of the market and unacceptably large profits. The legal framework in the field of competition was launched in the earliest stage of European integration process. The adoption and implementation

of the Law on Competition was one of the requirements of the Road Map, and the Feasibility Study defined competition as one of the priority areas. Shortly after the Law on Competition came into force, there were changes in EU legislation, so that the existing law became not harmonized with the EC *acquis*. Therefore, the drafting of a new Law on Competition in BiH, fully compliant with current EU regulations was started. The need for such a successful organization of the institutional framework and harmonization with EU standards conditioned the powers of the competition to be on the state level. Ministry of Foreign Trade and Economic Relations of BiH is responsible for the implementation of political competition.

2.4. Consumer protection

This area is closely related to competition, and establishing a legal and institutional framework has also started in the early stage of the process of European integration. The adoption of the Law on Consumer Protection was also one of the requirements of the Road Map. Also, here the recommendations of the Feasibility study of identifying consumers as one of the priority areas are given. Overall, the new law on consumer protection is in full compliance with European standards in this area – regulates relations between consumers, producers and traders in the territory of BiH, and contains provisions on obligations of performing commercial activities in a fair manner, price marking, labelling of products, loans, advertising of products and services, economic services of general interest, contracts concluded away from business premises, distance contracts, consumer loans, electronic payment instruments, tourist package-arrangements, time-rental of tourist facilities, unfair terms in consumer contracts.

Furthermore, the protection of life and health of consumers in the area of security of goods is regulated by the Law on General Product Safety, which adopted the Directive on general product safety. In the area of food safety, the Law on Food was adopted, which is entirely based on the requirements of the WTO Agreement on the Application of Sanitary and Phytosanitary Measures, as well as on the requirements of European legislation in the field of food safety.

2.5. Corporate management

The field of corporate management is particularly important for any country in transition, including Bosnia and Herzegovina. The term of transition in the economic sense means a transition from a planned to a market economy that means the process of transformation of ownership and manner of enterprises management (Blanchard 2005, 255). This field is closely related to other segments of the internal market, primarily with the free movement of capital and services – instance of this is the field of privatization and registration of companies. The field of corporate governance in BiH is entirely within the jurisdiction of the entity. Entity legislation regulating this field is uniform, and their common feature is an absolutely liberal system of establishment for all legal and natural persons, domestic and foreign. If the founder is a foreign natural or legal person, then, in addition to this, an additional regime relating to foreign investments is applied.

2.6. Intellectual property

The focus of current activities in this area was in the field of industrial property rights, where a legal framework and procedures are established, so that significant results in the field of protection and trade of patent rights, trademarks and service names and industrial design are achieved. Registries of all rights in electronic form are established. In the field of copyright and related rights, a legal framework and set the criteria for the enjoyment of these rights are established. Furthermore, the criteria for representation in the field of industrial property protection are also established. Today, in BiH there are several legal and natural persons as patent agents and representatives for industrial design and trademarks, capable not only to protect rights before the Institute, but also to act before courts, customs, sales inspection, and other relevant institutions. For protection of copyright and related rights there are two specialized agencies which meet the requirements and have been given permission for their work by the relevant BiH Institute. The area of intellectual property is regulated by the Law on Industrial Property in BiH and the Law on Copyright and Related Rights in BiH and regulations to implement them. These laws and regulations estab-

lish administrative procedures, provided measures, and define the role of judicial and other competent authorities for more effective protection of intellectual property.

3. INNOVATION

Transformation from classic to information society is a prerequisite for integration into the European Union (Dujsin 2009, 89). Activities started towards the establishment of an information society and strategic information systems are a kind of catalyst for the development in our country. The development project of policies and strategies of development of information society in BiH includes the policy of development and infrastructure of ICT, industry, e-commerce, e-government and e-education. A prerequisite for the establishment of information society lies in the developed and wide ICT infrastructure, as a medium for information flow, consisting of telecommunications networks and strategic information systems. The existing infrastructure network, however modern technologically, is not fully utilized.

Implementation of reforms in the field of education is an important task for Bosnia and Herzegovina. The pre-school, primary, secondary and education for children with special needs is regulated at the state level. BiH already participated in the various programmes of the European Union, and its strategy in this sector will be in accordance with defined European guidelines and started processes and priorities set within the Bologna Process and the Lisbon Strategy. The international community, particularly the OSCE, assist in the development and implementation of the education strategy with the aim of its reforming and modernizing. Education is a priority for governments of all member states of the European Union. It is characteristic that the structures of the education system vary within all countries and also between member states of the European Union. In this field, the European Union created a cooperation policy: exchange of ideas and practices. There is no "common education policy". Each member state is responsible for the content and organization of its education and training system.

In BiH there are not enough organized activities in terms of research and development, also there is no policy or a programme of improvement. Positive examples, such as the successful exchange of knowledge and training of local capacities at universities and several medical institutions, or the innovations movement, do not change the general picture. A country which had significant research capacity and capability of technical development in the 80's, is at the beginning today. In the following years, this will become a problem for economic development in BiH, regardless of the integration in the EU. In the EU, research is considered a key driver of innovation; it aims to increase the competitiveness of the EU and to reach the aspirations of its citizens. The EU has superb capacities and rich expertise at universities, research centres and industrial laboratories. "Centres of Excellence" in the EU can attain results of the highest level, and the diversity of cultures in Europe contributes to the originality and creativity of researchers and research teams. Therefore, the concept of European Research Area - ERA as a true internal market of science and knowledge is developed. The aim of the ERA is to reorganize the overall Community assistance for better coordination of research activities and the transformation of research and innovation policies at national and European level.

4. ECONOMIC AND FISCAL ISSUES

4.1. Economic-monetary union

Monetary policy in BiH is within the exclusive jurisdiction of the Central Bank, whose independence and the prohibition of financing government deficits are prescribed by the law. BiH is in the currency board regime, with fixed exchange rate against the euro. The establishment of economic and monetary union serves as a mean of achieving economic and social progress (Dimitrijevic and Fabris 2007, 125), a high level of employment and a balanced sustainable development of the EU. Four basic criteria that will ensure long-term convergence of national economies and stability for the base of the single currency is adopted (CBBH 2014). The condition for accession to economic-monetary union comes down to the ability to meet the basic criteria (Maastricht criteria) relating to price stability, the

annual government deficit and public debt, currency stability, interest rates on long-term loans, yet in a sustainable manner.

4.2. Taxes

Indirect taxes make up half of the tax revenue, whereas the other half originates from direct taxes and contributions. Intensive reform of the tax system is in progress. Legislation on Value Added Tax at the state level was adopted, and institutions have been established. The legal solution prescribed a single VAT rate of 17%. Currently, in the tax in force in BiH, there are four forms (models) of turnover taxation (consumption): the general sales tax, expenses, as an individual tax on turnover, customs, as a tax on foreign consumption with the elements of foreign, a tax on real estate transfers. The most important form of indirect taxation is a general turnover tax with a share of tax revenues above 20% (Indirect taxation authority 2014). Given the significance of indirect taxation for the functioning of the single market, considerable efforts on harmonization of the tax rates of indirect taxes (turnover tax, expenses and duties) were done. The introduction of VAT in the tax system of the state is the most significant segment of the reform of economic and financial system of BiH. In the category of direct taxes, income tax was selected as the most important form of taxation and as a long-term policy of Bosnia and Herzegovina. This ensures overcoming of the shortcomings arising from modest financial capacity of other forms of direct taxation (profit tax, income tax and property tax).

4.3. Statistics

The availability of reliable statistical data is a prerequisite for the development of a democratic society and market economy. Statistical institutions in BiH have adopted principles of modern statistics: quality, reliability, objectivity, relevance, validity of contents, confidentiality and transparency. The bearers of statistical activities in BiH are: Agency for Statistics of BiH, Institute of Statistics of FBiH, Institute of Statistics of RS and Statistical Bureau of the Brcko District (a branch office of the Agency for Statistics of BiH).

Principles of statistics in the European Union are formulated by the provisions of Article 285 of the Treaty on establishing the European Community (BHAS 2014). National (state) statistics institutions of EU member states have the competence to implement statistical research and production of statistical indicators. Regulation of the EU Council set the responsibility of national (state) governments regarding the production of Community statistics, in accordance with the principle of subsidiarity. To become a part of the European statistical system the candidate countries must strengthen their institutions and capacities parallel to full adoption of the *acquis* in the field of statistics.

5. ECONOMIC – SOCIAL COHESION

Unemployment and social security are the biggest economic and social problems in BiH. Social policy is a constitutional obligation of the entities, but the Federation of BiH shares its jurisdiction with cantonal governments. The cantonal authorities are responsible for the implementation of established policies and implementation of measures of minimal social security. Brcko District adopts and realizes social policy measures, including minimal social security. Entity ministry of labour determines regulations pertaining to labour, employment and social security for the unemployed as well as the regulations for the operation of the institutions in this field. The regulations define the obligations of the entity employment institutes to pay cash sums as aid and health and pension insurance for the unemployed. Monetary aid for unemployment insurance, receive persons who fulfil the prescribed legal requirements. The obligation of the entity Employment institutes in the monitoring of the situation on the labour market and employment mediation is defined by the Law. In the FBiH Employment Bureau is organized into 10 public employment institutions in the cantons and employment offices in all municipalities. In the RS, the Employment Institute is a centralized institution with six regional offices and bureaus in municipalities. Employment Agency as a public institution operates also in Brcko District. Employment institutes are financed by taxes on salaries.

Integration objective of EU social policy is to improve the living and working conditions, to stimulate employment, equal opportunities and minimal social protection (Vukadinovic 2005, 96). Social policy is an integral part of realizing freedom of movement of workers. The principles are defined in the Treaty of establishment of the European Community and the Protocol on Social Policy. Mode of work is based on the programs adopted by the Community, on coordination and cooperation of member states and the adoption of legislative measures for improvement of the harmonization of national legislation in the field of social policy (ARZ BiH 2014). Harmonization of the development strategy and employment policy, adopted in the Amsterdam Treaty obliges Member States to prepare three documents in the field of employment: annual review of the labour market, long-term employment strategy and annual action program for employment, in conformity with the guidelines of the EU Council.

6. ENVIRONMENT

Environmental Policy is based on the principles of sustainable development, i.e. integration of environmental policy into sectorial policies. Sustainable development is, according to the traditional definition, “development that meets the needs of the present generation without compromising the ability of future generations to meet their own needs”. Proper use of natural resources and proper economic growth will ensure a healthy life for present and future generations. Sustainable development policy will, in addition to improving the state of the environment, help BiH make progress on its path towards full membership in the EU. Segment of environment is financially and legally very demanding for future EU member states, because it is necessary to adopt a number of new regulations. The development of environmental policy in BiH is supported through the CARDS program, and the goal is to strengthen the central government institutions responsible for the environment and the development of relevant policies so as to improve the sustainable management of the environment throughout whole BiH.

Laws on environment regulate the use of natural resources in the economy and spatial planning. In recent years in BiH, environment management

system based on the principles applied in the EU is created, and in its realization great importance is given to international aid programs in BiH, including the CARDS. Thus, in the framework of the project "Preparation of laws and environment policies in BiH (BH 99-03)" a set of (entity) laws on environment was drafted, such as: (1) Framework Law on Environmental Protection, (2) Law on Air Protection, (3) Law on Water Protection, (4) Law on Waste Management, (5) Law on Nature Protection, and (6) Law on the Fund for Environmental Protection. Laws are based on key EU directives on the environment. In addition to laws, the Inter-Entity National Plan of Action relating to environment for BiH (NEAP) was adopted. The project REReP also gave a significant contribution to capacity building for environmental management. BiH accessed to most international agreements (conventions) on the environment.

7. JUSTICE AND INTERNAL AFFAIRS

Cooperation in the field of justice and internal affairs was established within the third EU pillar and entails the concept of establishing a common area of freedom, security and justice (Maastricht Treaty of 1993) where a high level of public safety was ensured in parallel with the development of measures on border controls, asylum, immigration and the prevention and the fight against organized crime. With the aim of adopting the principles of the European Union in the field of justice and internal affairs, Bosnia and Herzegovina shall take the necessary measures and reforms in areas such as strengthening the rule of law, fight against organized crime, corruption and illegal immigration.

Since 2002, the complete reform of the judicial system in Bosnia and Herzegovina is implemented. As part of the reform, the High Judicial and Prosecutorial Council of BiH was established, while a network of courts and prosecutors' offices was rationalized and the number of judges and prosecutors was reduced. Furthermore, the Court and the Prosecutor's Office of BiH have become operative and their financing is provided. Within the Court of BiH, a special Council for War Crimes and within the BiH Prosecutor's Office the War Crimes Department were established.

Ministry of Justice of BiH is gradually taking over its role in adapting and developing the internal legal system in accordance with the European and ensuring international and inter-entity legal assistance and cooperation. In the system of the Ministry of Justice of BiH, the Judicial Police was established. By completing post-accession commitments of the Council of Europe, BiH is taking a substantial number of conventions, including the adoption of United Nations conventions.

Ministry of Security of BiH in its organizational structure includes the State Border Service, State Investigation and Protection Agency and the Interpol Office. The visas policy is within the competence of the Ministry of Foreign Affairs of BiH and to a lesser degree of the Ministry of Security of BiH. For the purpose of bridging the institutional lack on the state level, in 2003 a position of Coordinator for the prevention of human trafficking and illegal immigration was established. As a result of the establishment of the State Border Service and exacerbating the visa regime and the conditions for entry into Bosnia and Herzegovina, there was a significant reduction in the number of illegal immigrants.

8. FOREIGN POLICIES

The situation in BiH in terms of foreign trade should be viewed in terms of the current requirements of the Stabilisation and Association Process (SAP), and the future requirements that will come with the signing of the Stabilisation and Association Agreement (SAA) and negotiations on membership in the European Union (EU). The current requirements as well as the emphasis on certain segments or instruments of trade policy are closely related to the volume of BiH trade with foreign countries, its structure and geographic distribution (Vukadinovic 2005, 78), and the strategic aspirations of BiH to become a member of the EU and the World Trade Organization (WTO).

In the period January-July 2014, exports amounted to 4 billion 974 million BAM, which is 0.4% more than in the same period of 2013, while imports amounted to 9 billion 39 million BAM, which is 5.4% more than in the same period of the previous year (Council of Ministers of BiH 2014).

Export-import ratio was 55%, while foreign trade deficit amounted to 4 billion 65 million BAM. Exports to CEFTA countries amounted to 730 million BAM, which is 0.4% less than in the same period of 2013, while imports amounted to 981 million BAM, which is 10.2% more than in the same period last year. Export-import ratio stood at 74.3%. Exports to EU countries amounted to 3 billion 665 million, which is 0.9% less than in the same period of 2013, while imports amounted to 5 billion 477 million, which is 4.6% more than in the same period of 2013. Export-import ratio stood at 66.9%.

The basic customs legislation is the Law on Customs Policy of BiH, which is in force since 2004. The customs regulations set also includes other regulations in this area adopted by the Parliamentary Assembly of BiH, Council of Ministers of BiH and the Steering Committee for their implementation in accordance with EU regulations. The Law regulates the basic elements of the system for customs protection of the BiH economy, the rights and obligations of all subjects in customs procedures, regulates customs area, customs line, the customs border belt, customs supervision, the procedure of customs clearance of goods and other institutes that regulate the system of customs protection. Customs regulations are unique in the customs territory of BiH. The Indirect Taxation Authority shall be competent for the implementation of the Law. The integration of the customs administration is done and it is now working as part of the Indirect Taxation Authority. The territory of BiH is divided into four customs areas with regional centres: Sarajevo, Banja Luka, Mostar and Tuzla. The network of customs offices has been reduced and rationalized. The development of an information system that meets the needs of trade is in its final stage. The customs tariff is agreed upon and set for the whole territory of Bosnia and Herzegovina, and is applied from January 1st 2005. The customs classification is mainly in accordance with the classification valid in the EU. The amounts of customs tariffs are adapted to current needs of BiH. During the process of negotiation and association, tariffs will gradually be adapted to the tariffs used in the Customs Union.

9. FINANCIAL ISSUES

Budget is planned, adopted and implemented at all levels of government: state, entities, Brcko District, cantons, cities and municipalities. For the level of the state, entities and Brcko District, a principle of the consolidated government account is introduced in practice. A coordination mechanism between the state, entities and municipalities in terms of the technical management of the treasury system was established, which is a prerequisite for establishing control over the total public expenditures. EU insists on respecting budgetary principles: comprehensiveness, balance, specification of expenditures, a plan on annual basis (calendar year) and transparency. The contract stipulates that member states shall avoid the excessive budget deficit. The Government will monitor the budget situation and public debt of member states with the aim of identifying major deviations. The whole Section 5, Title 2 of the Treaty on establishing the European Community is dedicated to the issue and control of the budget, as well as to the obligations of the EU institutions and the competent authorities of the Member States in this area (Council of Ministers of BiH 2014). The regulation of the EU Council defines the budget of the European Community. Budgetary policy, public debt and the ability to service external debt are key priorities that the EU insists upon in the pre-accession phase. The ability of the state to pay its own costs, to regularly service its external debt and to reduce the level of the total public debt (Samuelson and Nordhaus 2007, 241) is an indicator of the fulfilment of the Copenhagen criteria. Therefore, the budgetary policy of the state in the pre-accession phase is under constant surveillance by the European Commission.

The strategic goal of the reform is to modernize the legislation and the budget practice. The direction of the reform is determined by the principle of self-sustainability of public finances at all levels of administration. The programmed degree of modernization is satisfying the criteria for EU membership. Reform results will be achieving international standards and codes adopted in EU, World Bank and International Monetary Fund practice.

The basic legislation in the area of financial control of budget users entails: the Law on Treasury, the Law on Budget Execution of BiH, the an-

nual budget of BiH, including international obligations, annual budgets of entities and Brčko District, the Law on Budget of FBiH, the Law on Budget System of the RS and the Law on Audit of Financial Operations of BiH institutions. The INTOSAI auditing standards, INTOSAI auditing code for auditors in the public sector and the Rulebook of the Coordinating Committee for auditing were adopted. In terms of external auditing and the treasury system the following institutions were found: Audit Office of the Finances of BiH Institutions, Audit office for Budget of FBiH and the Supreme Office for Public Sector Auditing of RS. External audit of institutions in the EU is based on the standards of the International Organisation of Supreme Audit Institutions responsible for auditing the public sector at the national (state) level (INTOSAI). Within the Board of Auditors EU established an EU set of guidelines for the application of INTOSAI auditing standards.

CONCLUSION

It is necessary to develop an integrated concept of harmonization of regulations in BiH, based on the principles of functionality, capacity and flexibility. Conduct an assessment of compliance of existing regulations at all levels, and the assessment of implications of adoption and harmonization of legislation in the financial, economic or social terms as a basic document for multi-annual programming of the adopting the acquis. It is necessary to establish an adequate legal and institutional framework with the aim of improving the freedom of movement of workers, particularly in the terms that BiH becomes an attractive destination for foreign investments. Adopt legislation related to recognition of foreign diplomas and facilitate access to the labour market by recognizing foreign educational qualifications. Harmonise the education system and labour market needs and harmonise the criteria of operation of higher education institutions with the ones in the EU, with the aim of raising the quality of education. Thoroughly reorganize and reform the sector of non-financial services in line with the acquis. Due to versatility and diversity of these services, it shall be required to make a suitable study, using foreign experiences and relevant twinning programmes. Perform de-bureaucratization procedures for the acquisition

of real estate property rights. Establish national instruments for stimulating attraction of green field FDI and participation of foreign capital in the development and privatized programmes in the processing industry. Policies related to accession to the economic-monetary union should bear in mind the following: EMU membership stands at the end of BiH road towards EU integration, planning and implementation of economic policies should be harmonized with European principles, economic relations (foreign trade especially) with EMU members, but also with members of ERM II, significantly affect the efficiency of the integration process.

The reform of the tax system in the direction of European integration is a long-term process that shall take place in two phases: the first, until acquiring the status of a candidate, harmonization of BiH legislation with a minimum set of regulations from the EC acquis; the second, the candidate status and reception, with defined deadlines for full adoption of the EC acquis in BiH legislation. The strategic goal of the reform is to modernize the legislation and budget practice. The reform direction is determined by the principle of self-sustainability of public finances at all levels of administration. The programmed level of modernization is satisfying the criteria for EU membership. Reform results will be achieving international standards and codes adopted in EU, World Bank and International Monetary Fund practice. In accordance with the priorities of the European Partnership with Bosnia and Herzegovina, it is necessary to continue the reform of the legislation in the field of financial control and audit, to initiate necessary amendments to criminal, administrative and procedural legislation, to prepare and adopt written internal rules and procedures adapted to the treasury mode of work for behaviour within institutions.

REFERENCES

1. Babić, Mate. 2003. *Makroekonomija*. Mate: Zagreb.
2. Blanchard, Olivier. 2005. *Makroekonomija*. Mate: Zagreb.
3. Dimitrijević, Bojan and Fabris, Nikola. 2007. *Ekonomska politika – teorija i analiza*. Centar za izdavačku djelatnost: Beograd.

4. Dujšin, Uroš. 2009. *Ideje o ekonomskoj politici (doktrine ekonomske politike)*. Ekonomski fakultet: Zagreb.
5. Hitiris, Theo. 2003. *European Union Economics*. Prentice Hall: London.
6. Jovanović, Miroslav. 2004. *Evropska ekonomska integracija*. Ekonomski fakultet: Beograd.
7. Samuelson, Paul A. and Nordhaus, William D. 2007. *Ekonomija*. Mate: Zagreb.
8. Smith, Steve. Hadfield, Amelia. Dunne, Tim. 2008. *Foreign Policy: Theories, Actors, Cases*. Oxford University Press.
9. Vukadinović, Radovan. 2005. *Teorija vanjske politike*. Politička kultura: Zagreb.
10. Labour and Employment Agency of Bosnia and Herzegovina 2014 „Pregled stanja tržišta rada na dan 31. Svibanj 2014. godine“. Visited on August 20th ,www.arz.gov.ba
11. BiH Agency for Statistics 2014 „Ekonomske statistike, Statistika robne razmjene BiH s inostranstvom, siječanj – srpanj 2014“. Visited on August 23rd www.bhas.ba
12. Central Bank of BiH 2014 „Godišnji izvještaj 2013“ Visited on August 23rd www.cbbh.ba
13. Indirect Taxation Authority of BiH 2014 „Carine“. Visited on August 8th www.uino.gov.ba
14. Council of Ministers of BiH 2014 „Program rada Vijeća ministara BiH“. Visited on August 22nd www.vijeceministara.gov.ba