



BOSNIA AND HERZEGOVINA

Economic Reform Program for 2019-2021
(ERP BiH 2019-2021)

Sarajevo, January 2019

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1. OVERALL POLICY FRAMEWORK AND OBJECTIVES

Bosnia and Herzegovina maintained macroeconomic and fiscal stability and held the General Elections 2018. At the moment of adoption of the ERP document, the results of the 2018 General Elections have not been fully implemented and budgets at all levels of government have not been adopted, thus affecting the content of Chapter 3: Fiscal Framework.

According to currently available data from the National Accounts of the Agency for Statistics of Bosnia and Herzegovina in the first half of 2018, Bosnia and Herzegovina achieved economic growth of about 3% compared to the same period of the previous year. This rate of economic growth is a continuation of the previous year's trend and is at the regional average. Looking at the structure of economic growth in BiH, there are increases in all categories except for public spending. Thus, the most significant contribution to economic growth was achieved within private consumption, which increased by 3.1% during the observed period. Considering the high representation of this category in the GDP structure, it can be concluded that it was the key generator of the achieved economic growth in the first half of 2018.

The fiscal target of Bosnia and Herzegovina remains a continuous increase in the primary surplus and control of public spending in a way that consolidated public spending at the level of Bosnia and Herzegovina is below 40% of GDP. This target was confirmed at the session of the Fiscal Council of BiH, held on 3 July 2018, where the Global Fiscal Balance and Policy Framework for BiH was adopted for the period 2019-2021.

Adoption of the Global Framework of Fiscal Balance and Policies in BiH ensures the consistency of the basic macroeconomic and fiscal assumptions used in drawing up framework budget documents at all levels of government. The fiscal targets thus defined form the basic assumption for budget planning of all fiscal policy holders in BiH, which is important for achieving fiscal coordination in BiH.

At the time of preparation of this document, the Budget of the Institutions of Bosnia and Herzegovina and the Budget of the Federation of Bosnia and Herzegovina were not adopted.

The Council of Ministers of BiH is currently in the process of considering the Draft Law on the Budget of the Institutions of Bosnia and Herzegovina and the International Obligations of Bosnia and Herzegovina for 2019, but the financing of the institutions of Bosnia and Herzegovina and international obligations is ensured by the adoption of the Decision on Temporary Financing of the Institutions of Bosnia and Herzegovina and International Obligations of Bosnia and Herzegovina for the period January - March 2019.

The budget of Republika Srpska was prepared by the Government of RS and adopted at the National Assembly of RS on 23 December 2018.

At its session held on 12 December 2018, the Government of the Federation of Bosnia and Herzegovina adopted the Draft Budget of the FBiH for 2019 and sent it for adoption to the Parliament of the FBiH and at this time the Budget was adopted at the House of Representatives of the FBiH Parliament, and it is expected to be adopted by the House of Peoples of the FBiH Parliament too.

Following the *Guidance for the Economic Reform Programmes*, the relevant institutions in Bosnia and Herzegovina have prepared the 2019-2021 Economic Reform Programme (ERP). This year's programme is the fifth one to be submitted to the European Commission. The Economic Reform Programme contains a medium-term macroeconomic and fiscal policy framework, including the fiscal measures, as well as a comprehensive programme of structural reforms aimed at boosting the country's growth and competitiveness.

The 2019-2021 Economic Reform Programme has been developed based on the *Guidance for the Economic Reform Programmes* submitted by the European Commission.

The Directorate for Economic Planning has sought to strengthen its coordinating role in terms of expanding the scope of coordination in the preparation of the Economic Reform Programme. The Directorate for Economic Planning coordinated the development of ERP in cooperation with the coordinators for the development of the Economic Reform Programme appointed by the governments of the Entities.

A framework that more precisely defines the cooperation of all levels of government in the development of ERP is the Activity Plan for ERP Development for 2019-2021, which presents a special challenge in terms of a broad scope of coordination.

The Activity Plan for Development of the Economic Reform Programme is the basic document that governs the process of development of the Economic Reform Programme and cooperation among different levels of government, the BiH Council of Ministers, the Government of the Federation BiH and the Government of the Republika Srpska. The 2019-2021 Economic Reform Programme has been prepared on the basis of contributions submitted by competent institutions according to the adopted Activity Plan by deadlines and implementers of activities.

In cooperation with the European Commission and the OECD, workshops were held on the theme of the Economic Reform Programme development. The first drafts of the Economic Reform Programme were presented to OECD as a provider of technical assistance in the development of the Programme.

In order to better define the reform measures, representatives of the OECD have made comments and suggestions on the prepared material in Chapter 4 – structural reforms in the form of the document that the Directorate for Economic Planning had translated and forwarded to all involved in the development of the document to serve a purpose of preparing a better quality second draft.

The Entity-level coordinators submitted to the Directorate for Economic Planning their contributions to the 2019-2021 Economic Reform Programme adopted by the Entity governments. The Directorate for Economic Planning coordinated the activities throughout the entire process and prior to the adoption of the document at lower levels of government, so that the contributions in the stage of writing the first drafts were aligned with the European Commission's *Guidance*. Finally, the BiH Economic Reform Programme 2019-2021 was adopted by the BiH Council of Ministers at its 165th session held on 30 January 2019.

2. MACROECONOMIC FRAMEWORK

Table 1: Macroeconomic indicators 2016-2021

Indicator	Official data		Projections			
	2016	2017	2018	2019	2020	2021
Nominal GDP in million KM	31,034	32,299	33,800	35,346	37,044	39,020
Nominal growth in %	4.5	4.1	4.6	4.6	4.8	5.3
GDP deflator (previous year = 100)	101.1	100.7	101.3	101.1	101.1	101.5
Real GDP in million KM (previous year = 100)	30,711	32,081	33,373	34,975	36,639	38,444
Real growth in %	3.4	3.4	3.3	3.5	3.7	3.8
Inflation measured by consumer price index in %	-1.1	1.3	1.3	1.2	1.4	1.5
Consumption in million KM	30,160	30,967	31,921	32,809	33,717	34,702
Real growth in %	1.8	1.3	1.8	1.5	1.4	1.6
Government consumption in million KM	6,269	6,369	6,497	6,614	6,726	6,834
Real growth in %	0.0	1.5	0.8	0.3	0.2	0.1
Private consumption in million KM	23,891	24,598	25,425	26,195	26,991	27,868
Real growth in %	2.3	1.3	2.1	1.8	1.7	2.0
Investment (Gross) fixed capital formation in million KM	5,189	5,653	6,251	6,715	7,208	7,693
Real growth in %	2.5	5.8	10.3	7.0	6.8	6.3
Government investments in million KM	697	728	932	1,035	1,159	1,286
Real growth in %	31.3	1.4	26.5	9.4	10.3	9.4
Private investments in million KM	4,491	4,924	5,318	5,680	6,049	6,406
Real growth in %	-0.9	6.4	7.9	6.6	6.2	5.7
Imports in million KM	15,618	17,450	18,820	19,964	21,111	22,346
Nominal growth in %	2.4	11.7	7.9	6.1	5.7	5.8
Real growth in %	6.7	6.3	6.3	4.1	3.6	3.7
Exports in million KM	10,623	12,180	13,538	14,776	16,067	17,565
Nominal growth in %	6.9	14.7	11.1	9.1	8.7	9.3
Real growth in %	9.3	10.1	8.9	7.0	6.5	6.1
National Gross savings in % of GDP	14.4	15.4	16.2	17.0	18.0	18.9
Current account balance in million KM	-1,402	-1,616	-1,698	-1,710	-1,706	-1,733
Growth in %	-9.0	15.3	5.1	0.7	-0.2	1.6
Current account balance in % of GDP	-4.5	-5.0	-5.0	-4.8	-4.6	-4.4

2.1 RECENT DEVELOPMENTS

Real sector

According to currently available data from national accounts (data available for Q1 and Q2 2018) of the Agency for Statistics of Bosnia and Herzegovina, in the first half of 2018 Bosnia and Herzegovina achieved economic growth of around 3% relative to the same period of the

previous year.¹ This rate of economic growth is a continuation of the previous year's trend and the regional average. If, during the observed period, the economic growth structure in BiH is more closely observed, there are visible increases within all categories except for public consumption. This growth was mainly driven by private consumption, which rose by 3.1% in the observed period. Given the high share of this category in the structure of GDP, it can be stated that it was the key generator of the achieved economic growth in the first half of 2018. Double-digit growth rate was recorded within the total investments too, but considering their low representation in the structure of GDP it can be stated that the contribution of investments was somewhat more modest. On the other hand, due to the rise in export demand and world prices of certain products over the first half of 2018, the overall foreign trade (goods+services) increased by around 8%, exports by 8.9% and imports by 8.1% in real terms, while foreign trade deficit increased relative to the same period of the year before.

On the other hand, based on the currently available short-term indicators, it can be concluded that the trend of growth of economic activity in Bosnia and Herzegovina has continued during the third quarter of 2018, but at most probably somewhat weaker pace relative to the previous quarter. Thus, during the period January-September 2018, the upward trend in industrial production, employment, foreign trade with the world and the collection of public revenues continued in Bosnia and Herzegovina. These, as well as most other short-term indicators implicitly point to the continued growth of private consumption and investment, which, together with the neutral contribution of the trade balance, represent the key drivers of economic growth in 2018. Under the assumption of continuation of this upward trend in economic activity, according to DEP projections, Bosnia and Herzegovina can expect economic growth at the end of 2018 to reach 3.3% relative to the previous year.²

Industrial production

According to available data from BHAS, in the period January-September 2018 Bosnia and Herzegovina achieved an increase in the physical volume of industrial production by 2.4% compared to the same period of the previous year.³ However, if we look more closely at physical volume of industrial output in BiH in the so far period of 2018, it can be concluded that its upward trend continued at the slightly lower growth rate relative to the previous year's growth of 3.4%. Taking an insight into the sector-based structure of the achieved industrial output growth, it can be concluded that the most significant increase and thus the highest contribution to growth was recorded in the electricity generation sector in BiH. According to the available data of BHAS in Bosnia and Herzegovina, in the first nine months of 2018 the total electricity production increased by 13.8% compared to the same period of the previous year. This increase in electricity production is the result of an almost double increase in generation in hydro-power plants, whereas the level of production in thermal power plants remained at the last year's level. These trends in electricity generation in the thermal power plants have also reflected on the mining sector in BiH, which also recorded a stagnation of production with a registered growth rate of 0.7% relative to the same period of the previous year. On the other hand, during the period January – September 2018, there was a stagnation of production in the BiH manufacturing industry where the registered rate of change stood at -0.7% relative to the same period of the previous year. This reduction in the manufacturing industry has largely prevented a higher growth rate of total industrial production in BiH. Under the assumption of continued positive economic developments in the environment and the expected higher contribution of export-

¹ Agency for Statistics of Bosnia and Herzegovina, Release, Gross Domestic Product, by expenditure approach quarterly data, 05/10/2018

² DEP Projections, September 2018

³ Agency for Statistics of Bosnia and Herzegovina, Release, Index of Industrial Production Volume in Bosnia and Herzegovina for September 2018-preliminary data, 25/10/2018

oriented manufacturing industry in Bosnia and Herzegovina, by the end of 2018, an increase in the physical volume of industrial production is set to about 5%.

Labour market

According to the new methodology⁴ the average number of employed persons in BiH in the period January – September 2018 stood at 799.6 thousand, which is by 2.5% more compared to the same period of 2017. By analysing the number of employed persons by activity for the period January-September 2018/ January-September 2017, it is evident that positive developments in the area of industrial output contributed to the increase in the total number of employed persons. In the observed period, the average number of employed persons in manufacturing industry increased by 4.8% y-o-y. In addition to this activity, positive developments in the area of trade influenced a 2.5% y-o-y increase in the number of employed persons in the field of wholesale and retail trade, repair of motor vehicles and motorcycles which, together with the manufacturing activity, employs around 39% of the total number of employed persons in BiH. In terms of the service industry, a significant contribution to the growth of the number of employed persons was made by the accommodation and food services with a growth of 5.9% y-o-y. The increase in the number of employed persons has had a positive impact on reducing the number of registered unemployed persons in BiH and the unemployment rate. The survey unemployment rate in BiH in 2018 is 18.4%, which is a 2.1 percentage points decrease relative to the previous year. In the period January-September 2018/ January-September 2017, the number of registered unemployed persons in BiH decreased by 7.5% y-o-y, currently amounting to 456.9 thousand. The average net wage in BiH in the period January-September 2018 was KM 872 which is a nominal increase by 2.7% y-o-y, with a somewhat slower real growth (1.4%) due to the increase in prices (inflation). Based on the described developments during the first three quarters of 2018, similar movements of the number of employed persons are expected by the end of 2018 (2.7% y-o-y). In terms of wages, the nominal growth rate of net wages in BiH by the end of the year could be around 2.9% y-o-y.

Prices

In BiH, inflation measured by the consumer price index in the period January-September 2018/ January-September 2017 was 1.3%.⁵ Although a large number of the CPI sections recorded an increase in prices in the observed period, the largest contribution to the increase of the total level of prices was made in the section of Transport, Alcoholic beverages and tobacco, Food and non-alcoholic beverages, as well as Housing, water, electricity, gas and other fuels. The

⁴ All data up to March 2018 is final, and for other months of 2018 the data is provisional. New methodology. The total number of employed persons in BiH is the data aggregated on the basis of collected and processed data from the Federation of BiH, Republika Srpska and Branch Office of Agency for Statistics of Bosnia and Herzegovina in the Brčko District BiH. Data on the total number of persons in paid employment in the Federation of BiH (legal persons and crafts and related activities) were obtained by processing data that were taken from the administrative source, the Tax Administration of the Federation of BiH. The previous methodology of data collection on the number of employed persons through the Monthly Survey on Employment and Wages (Rad-1) covered business entities – legal persons with 10 or more employees. The number of employees in business entities – legal persons with less than 10 employees was estimated. The change of the source of data collection resulted in full coverage of data and, consequently, an increase in the number of employed persons (Source: First Release, 15th March 2018, FBiH Statistics Agency). The data on employed persons in the Republika Srpska are obtained on the basis of the semiannual statistical surveys of employed persons and employee salaries, as at 31 March and 30 September. The source of data for entrepreneurs and their employees is the Tax Administration of Republika Srpska. The data on employed persons in business entities in the Brčko district BiH are collected by means of a monthly statistical survey of employees and salaries. For public administration, education and health, full coverage applies. For those subjects which are not included in the monthly statistical survey on employees and salaries, the data on employed persons on the monthly basis are imputed once a year from annual statements of accounts. The data on the number of entrepreneurs are estimated on the basis of the administrative register and the data on the number of their employees are taken over from the Health Insurance Fund. Data on the total number of employed persons in BiH is also calculated retroactively for 2017 in order to create a basis for 2018/2017 comparisons. This has caused the break in series of data on employees in BiH, as well as the comparability with previously published monthly and annual data on the number of employees in BiH. Source: BHAS, First release, Persons in Paid Employment by Activity.

⁵ The Consumer Price Index in Bosnia and Herzegovina is calculated on the basis of the representative list of products that consisted of 615 different items in 2018. As of January 2018, the weights used to calculate the Consumer Price Index in BiH are based on data from the Household Budget Survey for 2015 (2015 is the reference basis for calculating the CPI). Until 2018, the reference basis for calculating the CPI was 2010. The weights are corrected every year in accordance with the movement of prices in the previous year. Source: BHAS.

harmonisation of BiH's excise duties policy on cigarettes and tobacco with EU regulations was continued as of 1st January 2018.⁶ In addition to that, the prices of specific brands of cigarettes increased in the first half of the year (as the result of manufacturers' business policies), which influenced the increase in prices of alcoholic beverages and tobacco by 6.8% in the period January-September 2018/ January-September 2017. Influenced by the increase in prices of crude oil in the global market, as well as the Law⁷ on Amendments to the Law on Excise Duties in Bosnia and Herzegovina, there was a rise in fuel prices in BiH, which affected the lifting of prices in the section of Transport in the same period by 8% y-o-y. The growth rate of prices in the section of Food and non-alcoholic beverages and Housing, water, electricity, gas and other fuels was somewhat slower than in the above sections, but all the observed divisions together have a large share in the CPI, and thereby contributing to the inflation in BiH. Considering all of the above stated, the annual price increase in BiH is expected to stand at around 1.3% y-o-y in 2018.

Bank loans and deposits

Movements of total bank loans and deposits until now seem quite promising. The total sum of loans placed in the first nine months of 2018 amounted to KM 19.33 billion, with a growth rate of 6.7% y-o-y. When the movements of loans are observed by sectors, loans to households grew by 7.4% y-o-y, amounting to KM 9.1 billion, whereas loans to non-financial companies at the end of the ninth month amounted to KM 8.95 billion, which is a growth of 5.2% y-o-y. Total deposits also grew, amounting to KM 21.34 billion in the ninth month of 2018 with a growth rate of 11.6% y-o-y. Household deposits reached KM 11.83 billion with growth of 7.3% y-o-y, whereas deposits of non-financial companies amounted to KM 5.15 billion, with a growth rate of 16.4% y-o-y.

The constant rise of total loans and deposits with moderate rates of economic growth and increase in the employment rate represent a real precondition for lending expansion in the near future.

External sector

Balance of payments

According to official data of the Central Bank of BiH, the current account deficit within the balance of payments of Bosnia and Herzegovina for 2017 was KM 1.48 billion, which is a 6.1% increase relative to the previous year. The increase of the current account deficit is, for the most part, the result of the rise in nominal imports of goods and services in 2017 by 13.2% and rise in exports of goods and services by 18%.

In H1 of 2018, the current account deficit amounted to around KM 764 million, which is a 2.9% decrease compared to the same period of the previous year. This contraction of the current account deficit is primarily caused by foreign trade deficit movements (goods and services), i.e. rise in imports by 7.2% and rise in exports by 10.5% (y-o-y)⁸. Current net inflows from abroad in H1 2018 recorded a growth of 1.1%. Current cash inflows recorded a somewhat decelerated growth of 0.9% (increase based on remittances from citizens living abroad), whereas, simultaneously, cash outflows recorded a 0.4% growth.

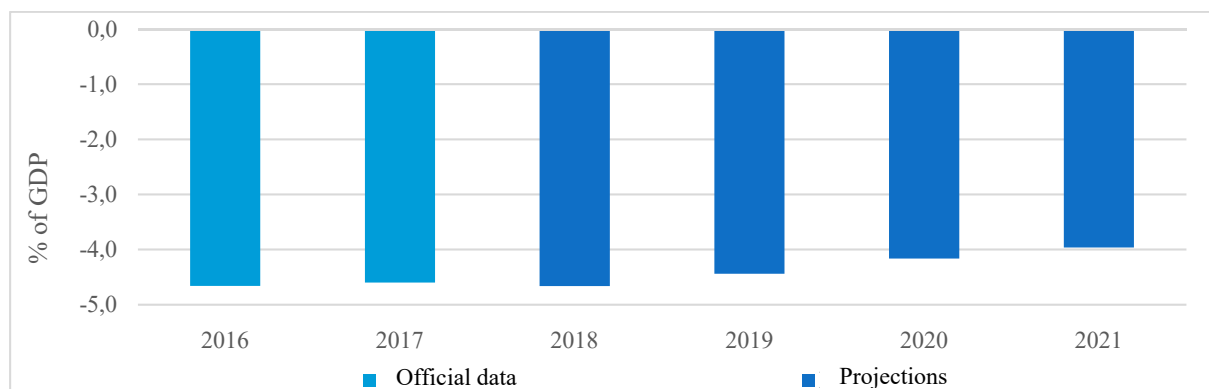
⁶ Increase in excise duties on cigarettes and tobacco as of 1st January 2018. The minimum excise duty for a pack of cigarettes containing 20 pcs is KM 2.60, while a special excise duty for the same package is KM 1.50. The excise duty for a smoking tobacco is set at 80% of the minimum excise duty for cigarettes set in Article 3, paragraph (3) of this decision for 1000 pcs of cigarettes and is KM 104 per kilogram. Source: Decision on establishing special and the minimum excise duty on cigarettes and the amount of excise duty on smoking tobacco for 2018.

⁷ Law on Amendments to the Law on Excise Duties in Bosnia and Herzegovina (Official Gazette of BiH, 91/17).

⁸ Source of data: CBBiH

According to available data for the first half of 2018 and DEP projections for the remainder of 2018, the current account deficit within the balance of payments of Bosnia and Herzegovina in 2018 is expected to be slightly higher relative to the previous year, amounting to about KM 1.57 billion.

Graph 1: Balance of payments (% of GDP), 2016-2021



Source: CBBiH and DEP projections

Foreign trade

In the period from January to September 2018, the growth trend of foreign trade with the rest of the world continued in Bosnia and Herzegovina. According to available data of BHAS for the first nine months of 2018, Bosnia and Herzegovina recorded a nominal increase in total trade in goods by 7.7%, exports and imports of goods by 8.8% and 6.9% respectively, whereas the foreign trade deficit increased by almost 4.5%, and coverage of imports by exports improved by 1 percentage point in comparison to the same period of the previous year. However, it is also worth mentioning that the intensity of growth of foreign trade indicators in the third quarter of 2018 is quite slow compared to the beginning of the year. Namely, after double-digit growth rates of foreign trade parameters in the first two quarters of 2018, the growth of exports of goods in Q3 2018, compared to the same quarter of the previous year, amounted to only 3%, whereas imports of goods increased by 4.8%.⁹ The decelerated growth of foreign trade indicators in Q3 2018 is, by all accounts, partially the result of weakened production within BiH's processing industry, which is the main carrier of BiH's exports of goods, i.e. it is highly export-oriented.

Despite the increasingly frequent debates on currency, trade wars and strengthening of protectionism in global terms, international institutions such as the IMF, WB and EC predict that the growth trend in global trade should continue. This will have a positive effect on this region and, finally, Bosnia and Herzegovina and its foreign trade with the rest of the world. According to DEP projections, a real growth of total exports amounting to 8.9% is expected in 2018 in Bosnia and Herzegovina, with growth rates of exports of goods reaching 9%, and growth rates of exports of services reaching 8.4%. On the other hand, in addition to the growth of exports, the expected expansion of economic activity and domestic demand should result in a real increase of total imports amounting to 6.3% (goods: 6.4%, services: 4.3%) compared to the previous year. The result of these movements of imports and exports is a mild increase of the foreign trade deficit by 0.3%, coverage of imports by exports would amount to about 70%, whereas the contribution of foreign trade to overall economic growth would be neutral.

⁹ Agency for Statistics of Bosnia and Herzegovina, First Release, BiH Foreign Trade in Goods Statistics, January – September 2018, 20/10/2018.

Foreign direct investments

Foreign investments in the first half of 2018¹⁰ amounted to KM 452.5 million (net financial liabilities), which is an increase by 1.1% y-o-y. Reinvested earnings amounted to KM 249.8 million and their share in overall FDIs was 55.2%, which is a decrease by 58.5% y-o-y (ratio of investments in existing projects and new projects). Considering current investments and announced new investments in the energy sector and infrastructural projects, services and tourism, there is a real assumption for FDIs in 2018 to reach the level of investments from the previous year, amounting to about 2.3% of the GDP.

2.2 MEDIUM-TERM MACROECONOMIC SCENARIO

Real sector

Despite specific global economic challenges such as trade wars, BREXIT issues, increase in interest rates, relevant international institutions expect the trend of global economic growth to continue. However, the fact is that expectations of these institutions in regard to global economic growth are to some extent more cautious relative to the beginning of the year.

Despite all the challenges, the continued trend of economic growth in the external environment (EU and the region), combined with intensified contributions of internal dynamics, should result in additional strengthening of economic growth in Bosnia and Herzegovina. According to DEP projections, it is expected that the average real growth rate of the GDP in the period 2019-2021 should be 3.6% (2019: 3.5%, 2020: 3.7% and 2021: 3.8%). It is assumed that local demand in this period through private consumption and investments should be the main basis for economic growth. On the other hand, public consumption during the observed period is expected to stagnate, which will result in the reduced share of public consumption in the GDP structure, i.e. its contribution to the economic growth of Bosnia and Herzegovina. On the other hand, reform measures focused on improving the business environment in the country should result in a rise of investments (domestic and foreign), which would strengthen the private sector, employment and, last but not least, BiH's foreign trade with the rest of the world. Under the assumption of strengthened export demand, the annual growth of imports in the period 2019-2021 is expected to be 3.8%. Due to such movements of exports, it is expected that the share of exports in the GDP should increase from 41.8% in 2019 to 45% in 2021, whereas imports should remain on approximately the same level. These movements of exports and imports during the observed period 2019-2020 should result in a reduction of foreign trade deficit by about 4% annually, its stabilisation at about 13.5% within the GDP structure, whereas the contribution to growth should be positive, with about 0.6 percentage points at the annual level.

Industrial production

According to available forecasts of relevant international institutions, the period 2019 – 2021 in the immediate and broader international economic environment is expected to see further continuation of favourable economic environment. Thus, during this period, according to the latest WiiW report, the Western Balkans countries are expected to see economic growth of over 3%.¹¹ These external developments, with internal dynamics reflected in improvement of business environment, should result in rising production in the BiH manufacturing industry, which is mainly export-oriented. This will entail the expansion of investments (both foreign and domestic), higher utilization of capacities, rise in employment and ultimately the expansion of physical volume of industrial output in BiH. In addition, planned investments in infrastructure and energy should also significantly contribute to strengthening of both the construction sector

¹⁰ CBBiH, BOP6_Q2-2018 from 1st October 2018.

¹¹ WiiW-The Vienna Institute for International Economic Studies, Economic forecasts for the Western Balkans. 2018. Vienna.

in BiH and those branches of BiH industry that are closely related to construction. Moreover, the energy generation sector, which was one of the drivers of industrial production in the previous period, is expected to continue its positive growth trend in production and additionally strengthen industrial production in BiH in the observed period. Bearing in mind all these circumstances during this period the expected growth rates of physical volume of industrial output, according to DEP projections, are set at over 5% on an annual basis.¹²

Labour market

Considering the fact that the sectors of industry and trade made a significant contribution to the increase in the number of employed persons in BiH in the previous year, it is expected that these sectors will also have a significant impact on the number of employed persons in 2019, as well. Furthermore, demand and investments also determine developments in the labour market. According to DEP projections, the scale of industrial production, investments and trade is expected to grow in 2019, which points to the possibility that the unemployment rate in BiH might keep up a trend of gradual decline. Like in the previous year, it is expected that the contribution to the growth of the number of employed persons in BiH will be smaller in the public¹³ sector compared to other sectors. In general terms, with a more positive business environment both in BiH and surrounding countries and EU countries, the number of employed persons in BiH is expected to increase by 2.5%, the unemployment rate is expected to decrease, and the trend of gradual growth of net wages by 2.8% is expected to continue.

The medium-term scenario for the labour market is connected to developments in sectors which have in previous years had a significant impact on creating new jobs and determining the level of wages. According to DEP projections, along with the expected economic growth in the period 2020-2021, growth is also expected in the trade volume, industrial production, and investments, which would have a positive impact on creating a favourable business environment and employment (job creation opportunities). Considering the positive developments in the economy of BiH and its surroundings, in the period 2020-2021 we can expect an increase in the number of employed persons by about 2.5%-2.6% y-o-y, and net wages by 2.7%-2.9% y-o-y.

Prices

As in previous years, the movements of inflation in BiH in 2019 could be significantly influenced by changing energy prices in the global market (primarily crude oil). According to projections of the European Commission (summer of 2018), the price of crude oil (Brent) in 2019 could be \$71.8/barrel, which is 1.4% less than the expected price of crude oil in 2018. Similar projections of crude oil price movements were made by the ECB in June 2018, as well as the IMF, which is a sign of gradual stabilisation of crude oil prices. In addition to that, the movements of the overall price level in BiH in 2019 could be affected by possible amendments to the Law on Excise Duties in BiH that pertain to cigarettes.¹⁴ In the period when the projections were made, there were no announced changes in prices of utilities (water, electricity, gas, etc.) that could significantly affect inflation in BiH. On that basis it can be assumed that the overall price level in BiH will not significantly deviate from the previous year, i.e. inflation in BiH in 2019 could be around 1.2% y-o-y. However, as the excise duties policy on tobacco and

¹² DEP projections, September 2018.

¹³ The analysis refers to sectors of public administration, health and education.

¹⁴ Source: ITA. The Indirect Taxation Authority opened a public consultations process on the draft amendments to the Law on Excise Duties in Bosnia and Herzegovina (moratorium on further increases of excise duties on cigarettes). The reasons for adopting the proposed law are fiscal and economic, in terms of stabilising collection of revenues from excise duties on tobacco products, stabilising the cigarettes market in BiH and preventing further undermining of the economic space in BiH. In conditions of declining economy, employment and income, the accelerated rate of increasing excise duties on cigarettes and strong growth of retail prices of cigarettes have led to erosion of the cigarettes market, strengthening of the black market and loss of revenue from excise duties and VAT.

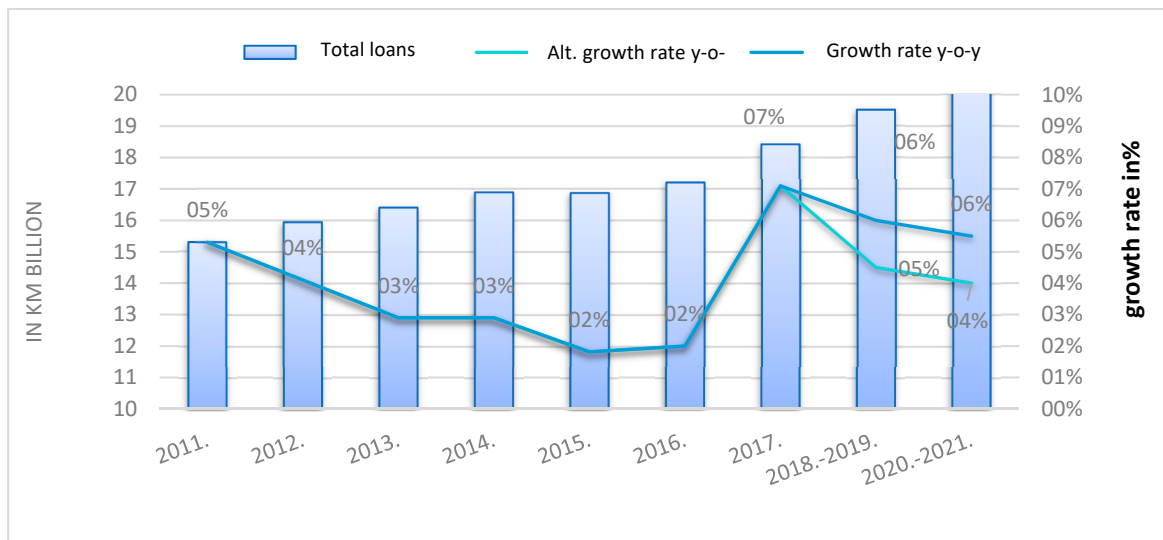
cigarettes continues to be implemented, inflation in 2019 might be somewhat higher (alternative scenario).

Inflation projections in BiH for the period 2020-2021 are based on analyses of the same domestic and external factors as for the period 2018-2019. The EC projections (Autumn of 2018) show that the price of crude oil in 2020 could be lower than projected for 2019. Moreover, according to IMF projections (WEO, October 2018), the prices of food in 2020-2021 should not change significantly, whereas the prices of crude oil should be lower compared to the previous year. With the assumption of stable prices of utilities in BiH, implementation of excise duties policy on cigarettes, as well as energy and food prices in the global market, inflation in BiH in the period 2020-2021 is expected to stand at about 1.4%-1.5% y-o-y.

Bank loans and deposits

Loans sector: With the assumption of further positive economic developments in BiH and economic growth in countries that are its main foreign trade partners, it is expected that the growth of total loans would continue at somewhat lower rates, while interest rates would continue to drop. The growth rate of total loans for the period 2018 – 2019 could be about 6% y-o-y, and around 5.5% y-o-y for the period 2020 – 2021.

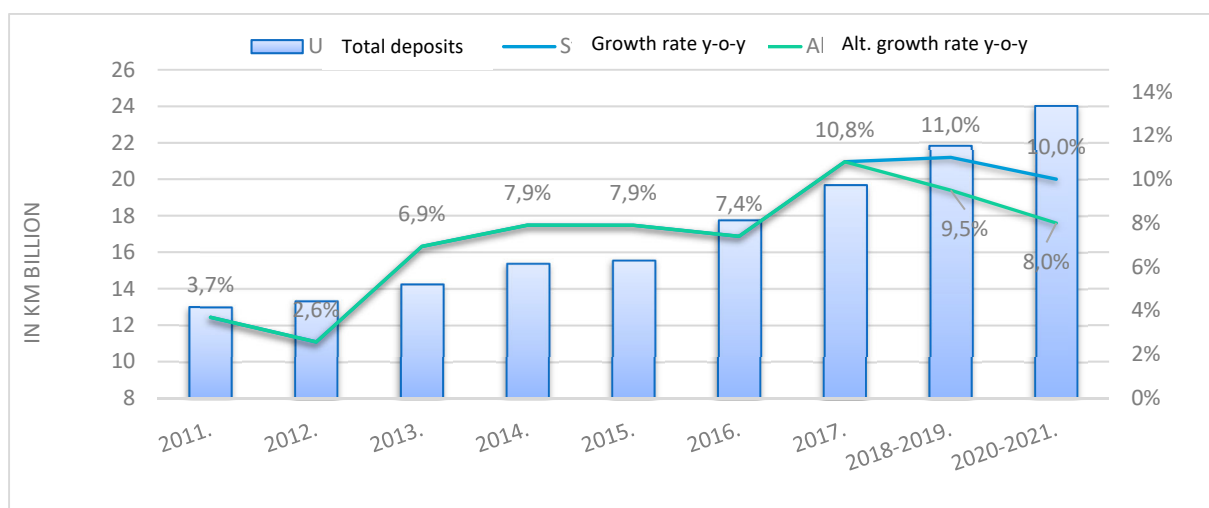
Graph 2: Total loans (in KM billion, end of period) annual change rate



Source: DEP estimates

Monetary sector: The constant growth of household deposits and non-financial sector deposits (which comprise more than 80% of total deposits), accompanied by moderate rates of economic growth and more stable banking sector performance (improved financial indicators CAR, NPL), create the real preconditions for continued growth of total deposits in the period 2018-2021. It is to be expected that the low level of passive interest rates will continue in the near future. For the period 2018 – 2019, further growth of total deposits is expected at the rate of 11% y-o-y, and in the period 2020 – 2021 growth will be slightly lower at 10 % y-o-y.

Graph 3: Total deposits (in KM billion, end of period) and annual change rate



Source: DEP estimates

External sector

Balance of payments of Bosnia and Herzegovina

According to DEP projections, the foreign trade balance (goods and services) is set to decline in the period 2019-2021, with nominal growth rates of imports (5.7-6.1%) and growth rates of exports (8.7-9.3%), which would certainly reflect on the BiH current account deficit. The assumption for the current account deficit in 2019 and 2020 is a modest decrease in the growth rate of 0.4% and 1.7% respectively, while in 2021 the current account deficit would increase by 0.3%.

The current account deficit financing in 2019-2021 is expected to be largely enabled by financial inflows from abroad (remittances from citizens living abroad, social benefits, foreign direct investments and items – other investments).

Foreign trade

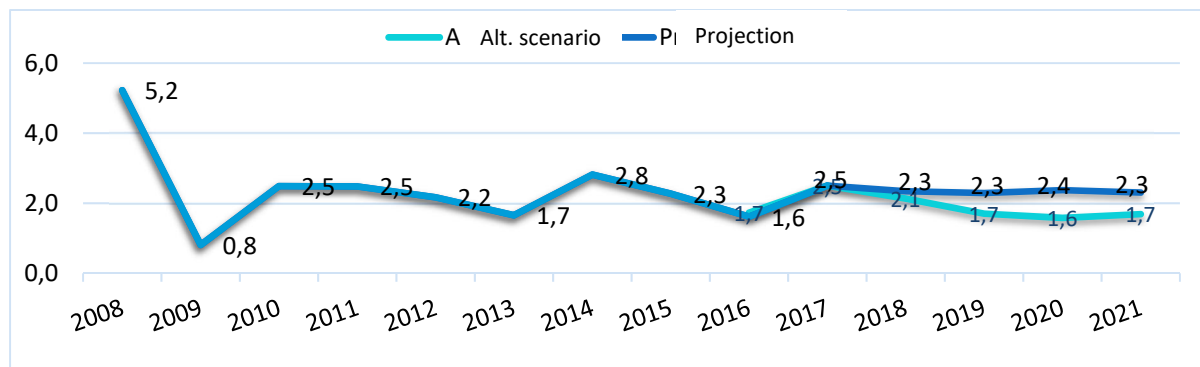
Forecasts of favourable external developments, along with contribution of internal dynamics reflected in the improvement of business environment represent the main stronghold of the expected economic progress in BiH. Thus, over this period, average economic growth is expected to exceed 3.6% in real terms, investment is set at nearly 7.6% at an annual level, followed by rise in employment and acceleration of foreign trade with the world. Increase in production on the demand side in BiH will result in expansion of export potentials within most export-oriented branches of BiH manufacturing industry, electricity generation sector as well as a rise in export of services. Bearing in mind these circumstances, according to DEP projections, in the period 2019-2021 BiH could expect to see the expansion of overall exports at annual growth rates of 7.0%, 6.5% and 6.1% respectively in real terms. On the other hand, elevated level of economic activity will result in rise of domestic demand in the household and corporate sector and turn BiH exports further up. Import growth rates are expected to be somewhat lower than the export rates and range from 4.1% in 2019, and 3.6% in 2020, to 3.7% in 2021. Considering such trends in exports and imports (higher rate of exports growth than imports), this period is expected to see a gradual reduction of the foreign trade deficit. Faster growth of exports and rise in its share in GDP relative to imports will result in stabilisation of the foreign trade balance and better overall coverage of imports by exports on the long run. Thus, by the end of 2021, the share of BiH exports in GDP is expected to amount to 45%, while the share of imports

would remain at around 57%, which will result in the overall coverage of imports by exports rising up to 78%.

Foreign direct investment

Foreign direct investment in the period 2019-2021 could move at similar respective rates of 2.3%, and 2.4% to 2.3% of GDP in 2021¹⁵.

Graph 4: FDI projection per year in KM million and FDI as a percentage of the GDP



Source: BHAS, CBBiH and DEP estimates

Among the long-announced investments in residential complexes in the outskirts of Sarajevo, the Sarajevo-Resort Osenik in Hadžići has been officially opened, and the "Green Valley City"¹⁶, "Compact Invest"¹⁷ and "Buroj Ozone" in the municipality of Trnovo¹⁸ are also mentioned. Currently, there is the greatest interest in investing in renewable energy sources (wind farms and solar power plants). The investments are announced or have already started in wind parks WP "Gradina", WP "Kupres 1"¹⁹ and WP "Trusina" (investment of a UK company "Kermas"²⁰). There are also investments in solar power plants such as "SPVPP Bančić" Ljubinje (by the Turkish investor²¹) "SPVPP Mostar" and "SPVPP Mrkovići". Also, a contract was signed for the construction of the thermal power plant "TPP Gacko 2" with the companies "China Machinery Engineering Corporation" and "Emerging Market Power Fund"²². Regarding the investment in infrastructure facilities, a contract for construction of the highway Banja Luka – Prijedor -N.Grad was signed with the Chinese company "China Shadong Int. Economic & Technical Cooperation Group Ltd." as well as a contract for modernization of railway infrastructure in RS by a Chinese partner²³. It is realistic to assume that, after the completion of the process of assessment of value, the privatization process of state-owned telecommunication companies "BH Telekom" d.d. Sarajevo and "HT Telekom" d.d. Mostar will start and bring a significant inflow of foreign funds²⁴.

¹⁵ KM 792 million in 2018, KM 810 million in 2019, KM 880 million in 2020 and KM 900 million in 2021

¹⁶ <http://greenvalleyuae.com/projects.php?id=13&stat=gallery&lang=en>

¹⁷ <http://cic.ba/bs/compact-invest-ulaze-50-mil-km-u-izgradnju-kompleksa-sarajevo-waves-na-ilidzi-2/>

¹⁸ "Buroj Property Development" from UAE.

¹⁹ Gradina d.o.o. around Eur 150 million and Kamen dent d.o.o., assessed to around Eur 70 million

²⁰ Value of WP Trusina is around Eur 65 million, concession for construction awarded to company Eol prvi from Serbia.

²¹ <http://fipa.gov.ba/novosti/aktivnosti/default.aspx?id=8180&langTag=en-US>

²² <http://www.vladars.net/sr-SP-Cyrl/Vlada/Ministarstva/mper/media/vijesti/Pages/Potpisan-sporazum-o-izgradnji-TE-Gacko-2.aspx>

²³ <http://www.vladars.net/sr-SP-Cyrl/Vlada/Ministarstva/mvs/media/vijesti/Pages/potpisan-sporazum-u-budimpe%C5%A1ti.aspx>

²⁴ Value not included in the projection.

2.3 ALTERNATIVE SCENARIO AND RISKS

The main risks to materialisation of these projections are related to (non) materialisation of the external sector assumptions related to economic growth in our environment, global price developments, weather conditions etc.

Indicator	Official data		Projections			
	2016	2017	2018	2019	2020	2021
Nominal GDP in million KM	31,034	32,299	33,800	35,212	36,677	38,457
Nominal growth in %	4.5	4.1	4.6	4.2	4.2	4.9
GDP deflator (previous year = 100)	101.1	100.7	101.3	101.1	101.1	101.5
Real GDP in mn. KM (previous year = 100)	30,711	32,081	33,361	34,846	36,278	37,895
Real growth in %	3.4	3.4	3.3	3.1	3.0	3.3
Inflation measured by consumer price index in %	-1.1	1.3	1.4	1.5	1.5	1.6
Consumption in million KM	30,160	30,967	31,921	32,760	33,572	34,434
Real growth in %	1.8	1.3	1.8	1.3	1.1	1.3
Government consumption in million KM	6,269	6,369	6,497	6,614	6,726	6,834
Real growth in %	0.0	1.5	0.8	0.3	0.2	0.1
Private consumption in million KM	23,891	24,598	25,425	26,146	26,846	27,601
Real growth in %	2.3	1.3	2.0	1.6	1.3	1.5
Gross fixed capital formation in million KM	5,189	5,653	6,251	6,683	7,174	7,657
Real growth in %	2.5	5.8	10.3	6.5	6.8	6.3
Government investment in million KM	697	728	932	1,035	1,159	1,286
Real growth in %	31.3	1.4	26.5	9.4	10.3	9.4
Private investment in million KM	4,491	4,924	5,318	5,648	6,015	6,370
Real growth in %	-0.9	6.4	7.9	6.0	6.2	5.7
Imports in million KM	15,618	17,450	18,820	19,877	21,000	22,208
Nominal growth in %	2.4	11.7	7.9	5.6	5.7	5.8
Real growth in %	6.7	6.3	6.3	3.6	3.5	3.6
Exports in million KM	10,623	12,180	13,538	14,636	15,769	17,167
Nominal growth in %	6.9	14.7	11.1	8.1	7.7	8.9
Real growth in %	9.3	10.1	8.9	6.0	5.6	5.6
National gross savings in % of GDP	14.4	15.4	16.2	16.8	17.6	18.4
Current account balance in million KM	-1,402	-1,616	-1,698	-1,762	-1,893	-1,992
Growth in %	-9.0	15.3	5.1	3.8	7.4	5.2
Current account balance in % of GDP	-4.5	-5.0	-5.0	-5.0	-5.2	-5.2

Bearing in mind that the external environment represents the main structural determinant of most of the economic developments in BiH, we should also keep in our minds that the external environment is also a potential source of risks for economic developments in BiH. Escalation of global challenges such as trade tensions, overheating of the US economy, weakening of growth in Asia, as well as the Brexit related issues would certainly spill over to the EU economic growth. Possible deterioration of economic conditions and weakening of economic growth in the EU would directly reflect on the entire region and ultimately on the economic developments in BiH too.

Bearing in mind that BiH is mostly integrated with the EU markets through trade and capital flows, it is very likely that deceleration of economic growth in the EU in the period 2019-2020 would result in the weakening of export demand thus slowing down the average growth rate of BiH exports in goods by 1 percentage point on annual level. An additional challenge with regard to BiH exports is the problems faced by one of the leading BH exporters - *Aluminijum d.d* Mostar, as well as the recent introduction of enormous customs duties by Kosovo. On the other hand, the negative impact on BiH's imports with regard to its structure would be somewhat less intense. Relatively more pronounced adverse effects on exports relative to imports would reduce the contribution of the trade balance to overall economic growth in BiH. In addition to the direct negative effect through foreign trade, it is very likely that the weakening of economic growth in the EU would have a negative impact on capital inflows in BiH, especially given that EU countries are a key source of external financing in BiH. Furthermore, movements in global prices, particularly oil and, to some extent metals, could have a negative impact on economic developments in BiH.

On the other hand, in addition to the external, potential risks for materialization of macroeconomic projections in BiH are also the internal dynamics risks. The main internal risk that could have a negative impact on economic growth in BiH is related to the formation of government, i.e. the adoption of the budget and the continuation of the reform processes in BiH. Possible delays in budget procedures as well as delays in the process of implementation of economic reforms would reflect on the movement of final consumption and investments. Thus, DEP projection envisages that materialization of these risks (internal and external) in the period 2019-2021 would decelerate growth of final consumption from 1.5% to 1.2% on an annual level while investments would slow down from 7.6% to 7.4%.

Possible materialization of these risks would, according to DEP projections, certainly have resulted in the slowdown of the projected economic growth in Bosnia and Herzegovina in the period 2019-2021. Thus, the average annual economic growth rate of 3.6% (baseline scenario) would be reduced by 0.5 percentage point, or by 3.1% at annual level.

Industrial production trends in Bosnia and Herzegovina, especially in the manufacturing industry, are largely determined by export demand, while, in addition to certain branches of the manufacturing industry, trends in the sector of electricity generation are determined by domestic demand. This structural characteristic of industrial production in BiH at the same time represents a potential source of risk for its trends in the period 2019-2021. Possible weakening of business activity in the international economic environment would certainly affect both the overall business activity in the country and the industrial production in BiH. The weakening of export demand in our main trading partners would particularly reflect on export-oriented branches of the manufacturing industry, which would ultimately affect the overall industrial production in BiH. In this context, it should be pointed out that production processes within the BiH industry are mainly resource and labor intensive, which further jeopardizes its prospects in the future. On the other hand, worn out existing capacities and moderated dynamics in the construction of new production capacities, as well as the high dependence on weather conditions pose a potential risk for the electricity generation sector in BiH. Intensification of these challenges as well as possible materialization of these risks would ultimately result in subdued growth in the physical volume of production and slower increase in the number of employed persons as compared to the baseline scenario.

Given that projections of main labour market indicators in 2019-2021 are related to developments in industrial production, investment, and foreign trade, these are at the same time the greatest risks for materialisation of these projections. The absence or low intensity of the assumed developments in these areas (unfavourable business environment) would reflect on slower increase in the number of employed persons as well as wages compared to the baseline

scenario. In addition to all this, the level of implementation of the planned structural reforms in BiH may have an impact on the intensity of employment and wages, which is one of the determinants that affect the main labour market indicators.

As projections of inflation in BiH in the period 2019-2021 are closely related to developments in crude oil prices on the global market as well as developments related to domestic factors that contribute to inflation in BiH (utility prices, excise duties on cigarettes, etc) so are the main risks for inflation projections related to the mentioned domestic and external factors. Any deviation from the assumed fluctuations in prices of domestic and external factors determining the BiH prices may affect the overall level of inflation in the period 2019-2021. If crude oil prices on the global market in 2019 are higher compared to the previous year (EC forecast, autumn 2018, contrary to summer forecast), this will affect the growth of inflation in BiH. In addition, further alignment of excise duties on cigarettes and tobacco in BiH with the EU legislation from 1 January 2019 will contribute to price growth, i.e. slightly higher inflation compared to the baseline scenario.²⁵

Current political instability in the country may also reflect on economic growth, reduced investment and, consequently, an increase in unemployment, which would certainly hamper the operations of banks as well as the stability of the **banking system** as a whole. This would reflect on the reduction of overall credit activity with a decline in supply and the deposit growth rate. Thus, in the period 2018-2019, the total placed loan supply would amount to KM 19.25 billion with an interest rate of 4.5% per annum, while in the period 2020-2021 the loan supply would reach KM 20.02 billion with the corresponding interest rate of 4.0%. Also, total deposits for the period 2018-2019 would amount to KM 21.54 billion with a passive interest rate of 9.5% while in the period 2020-2021 they would reach KM 23.26 billion with an interest rate of 8% per annum.

The main risks for changes in the **BiH balance of payments** for widening or shrinking of the current account deficit lie in the foreign trade deficit, i.e. changes in the rates of export and import of goods and services, as well as fluctuations in global prices. A favorable business environment and a higher employment rate of the BiH diaspora could lead to an increase in the rate of current transfers from abroad and, consequently, to an increase in disposable income. By contrast, in the case of less favourable business environment and lower employment of the BiH diaspora and, consequently, reduced current transfers from abroad, disposable income would shrink.

The main risks for financing the current account deficit lie in reducing the BiH foreign assets abroad, insufficient inflow of foreign direct investment, difficult access to trade credits and inability of borrowing on the international financial market.

Foreign trade risks Export demand, movements in global prices with the level of production within the BiH manufacturing sector determine the developments in the BiH foreign trade with the world. However, certain events on a global scale such as strengthening of protectionism over the past years, increasingly frequent currency and trade wars present on a global scene, in combination with some internal factors could have a negative impact on the BiH overall foreign trade. In the period 2019-2021, these events could be manifested by the slowdown in the growth rate of all foreign trade indicators in BiH. Bearing in mind that the EU countries represent the

²⁵ In the period of alternative scenario development, the Governing Board of the Indirect Taxation Authority issued a Decision on establishing special and minimum excise duty on cigarettes and the amount of excise tax on tobacco for smoking in 2019. Increase in excise duty on cigarettes and tobacco as of 1 January 2019: The minimum excise duty for a pack of 20 pieces of cigarettes amounts to KM 2.86, while a special excise duty amounts to KM 1.65 for the same package. Excise duty for a smoking tobacco is established at the rate of 80% of the minimum excise tax on cigarettes set out in Article 3 paragraph 3 of this Decision expressed in 1000 pieces of cigarettes and amounts to KM 114.40 KM per kilogram. Source: Decision on establishing special and minimum excise duty on cigarettes and the amount of excise tax on tobacco for smoking in 2019.

main export market for BiH with the share of more than 70%, it is worth pointing out that possible economic slowdown in the main BiH trading partners such as Germany and Italy would almost certainly lead to materialization of these risks.

Furthermore, the low level of diversification of the export supply to a small number of markets (partner countries), i.e. a high concentration of the BiH exports, also poses a risk for Bosnia and Herzegovina. In addition, it should be borne in mind that the dominant role in the structure of the BiH export supply is played by products with low value added, as well as traded goods, which makes BiH exports quite vulnerable to fluctuations in global prices.

On the other hand, insufficient diversification of the BiH production base and the structure of BiH imports that is rather inflexible leads to the conclusion that during the observed period changes in imports would be significantly lower than in exports, which would certainly have a negative impact on the trade balance and ultimately economic growth in BiH. If these potential risks are added to the challenges faced by one of the main BiH exporters - *Aluminijum d.d* Mostar as well as the enormous customs duties by Kosovo, it can be concluded that this would lead to the slowdown of all foreign trade indicators relative to the basic scenario. Thus, in the period 2019-2021 real growth of exports would decelerate from 6.5% (y-o-y) to 5.7%, while rise in imports would slow down from 3.8% (y-o-y) to 3.6%.

The worsening of the economic situation caused by possible tariff wars between the USA and China and escalation of tensions in economic relations between the EU and Russia would most likely spill over to the BiH economy as well. As a consequence of these developments in the world, it would be realistic to expect deceleration and decline in economic growth of the EU countries as well as the neighbouring countries that traditionally invest the most in BiH. Also, the current political instability in the country may reflect on economic growth, particularly foreign **investments**. A particularly sensitive issue is the slowdown in China's economic growth, which would manifest itself through reduced interest in financing the infrastructural and energy facilities in BiH through loans. In the alternative negative scenario, FDI would range from 2.1% in 2018; 1.7% in 2019; 1.6% in 2020 to 1.7% in 2021²⁶.

²⁶ KM 720 million in 2018, KM 600 million in 2019, KM 580 million in 2020 and KM 650 million in 2021

3. FISCAL FRAMEWORK

3.1. POLICY, STRATEGY AND MEDIUM-TERM OBJECTIVES

Bosnia and Herzegovina is a fiscally decentralized country where each level of government autonomously adopts fiscal policy. The main objective of fiscal policy of all levels of government in Bosnia and Herzegovina in the period 2019-2021 is strengthening fiscal stability and its sustainability as the main factor of overall macroeconomic stability, with the strengthening of economic activity and competitiveness of the economy.

Table 2: Fiscal framework of the general government in Bosnia and Herzegovina 2017-2021

Fiscal indicators (% of GDP)	2017	2018	2019	2020	2021
Total income	37.8	39.2	37.3	36.0	34.9
Total spending	36.8	40.0	37.3	35.7	34.1
Fiscal balance	1.0	-0.8	0.0	0.3	0.8
Interest expenditures	0.8	0.9	0.8	0.9	0.8
Primary fiscal balance	1.8	0.1	0.8	1.2	1.6

Note: The fiscal framework of the general government at the level of Bosnia and Herzegovina is prepared on the basis of inputs received by the Entities (Federation of BiH and Republika Srpska), Brčko District and the Institutions of BiH

Government revenue projections are closely related to the forecasts of macroeconomic indicators, but their amounts are significantly influenced by the effects of changes in taxation policies. Changes in taxation policies that affect the deviations of projections of indirect tax revenues from the flows of the corresponding macroeconomic indicators in the period 2019-2021 are the following: the continuation of the harmonization of excise duties on cigarettes with EU standards applicable from 1 July 2009 and amendments to the Law on Excise Duties applicable from 1 February 2018.

The tobacco excise policy in the period 2019-2021 implies continuation of aligning the specific excise on cigarettes with EU standards, the determination of a minimum excise on cigarettes (minimum 60% of the average weighted cigarette price) and harmonization of specific excise on cut tobacco with excise on cigarettes (minimum 80% excise on cigarettes). The process of aligning the excise duties on cigarettes with the EU standards is set to be finalised in 2019, when the total excise duty on all excise categories should reach the minimum EU excise tax. The tobacco excise policy in 2019 was established by the Law on Excise Duties and the Decision of the ITA Governing Board.

The application of amendments to the Law on Excise Duties from 1 February 2018 has brought significant effects on the revenues from tolls in 2018, given that the rate of the earmarked road taxes increased from KM 0.10/l to KM 0.25/l of petroleum products. In 2019, road tax revenues are expected to see a somewhat higher growth than set by the corresponding macroeconomic indicators, given that the application of higher rates has not started since the very beginning of 2018.

On the expenditure side, measures to limit current expenditure will continue (salaries and compensations) with the restriction of public sector employment. The intention is to improve the quality of public finances by the end of the observed period by increasing the fiscal space (surplus) to finance investments and the contribution of public finances to the function of growth. The following text explains in more detail the fiscal strategies of individual administrative levels in Bosnia and Herzegovina.

Institutions of Bosnia and Herzegovina will, in accordance with their competencies, contribute to the overall fiscal stability in BiH within the available budget and through rational consumption in the coming period too. Given that the dominant source of financing of BiH institutions comes

from the allocation of indirect taxes and that it is fixed nominally for the whole period, the biggest adjustment is on the expenditure side (salary freeze and current spending restrictions).

The fiscal policy and tax policies of the **Federation of BiH** in the forthcoming medium term period are focused on continuation of fiscal consolidation activities through reduction of tax debt and increasing taxpayers' discipline, creating a more favourable business environment by restructuring the existing tax system, reducing the burden on labour and creating the preconditions for limiting the introduction of new so-called parafiscal levies on employers, all in order to increase direct investments and bring them closer to the standards of the European Union.

Proposed measures for reducing the tax burden on labour by lowering the contribution rate, while extending the taxable income base, and shifting the tax burden from lower income to richer income taxpayers, by applying progressive taxation, after all the actions that have been taken so far will be implemented, upon adoption by the Parliament of the Federation of BiH, which will create prerequisites for combating the grey economy and the implementation of activities to reduce administrative barriers in order to increase employment in the territory of the Federation of BiH.

In addition to this, restructuring of the tax system is planned through the improvement of its administrative and institutional framework, by changing the processes and procedures, so as to directly affect the suppressing of the grey economy and tax evasion, on the one hand, and reorganization and strengthening of the FBiH Tax Administration, on the other hand would create a more proactive and efficient role of the control body, which would generally reflect in improved collection of public revenues.

Also, in order to reduce the grey economy, the proposed measures of increased supervision and stronger taxpayers' control, through amendments to the Law on Fiscal Systems in the Federation of Bosnia and Herzegovina, whose adoption is expected in the forthcoming period, a stronger tax discipline will be created and unfair competition reduced; and the market in the Federation of BiH will be better regulated. This measure will ultimately also be reflected the increased level of collection of tax revenues, in particular indirect tax revenues, by providing a more favourable coefficient for allocation to the Federation of BiH, taking into account that its calculation is directly based on the share in the final consumption.

Furthermore, from the aspect of legislative solutions in the field of allocation and distribution of public revenues in the Federation of BiH, in order to improve the financial position of a certain number of users of public revenues, the activities have continued on finding the most optimal proposal for improvement of the existing vertical and horizontal system of distribution of revenues from indirect taxes, with special emphasis on solving the external debt repayment system. The impact of the implementation of the consolidated fiscal capacity of all public revenue users in the Federation of BiH is neutral. On the other hand, the individual impact on each of the users in the distribution system in the Federation of BiH will be known after reviewing all the prepared proposals for amending the existing Law on the Allocation of Public Revenues in the Federation of Bosnia and Herzegovina (Official Gazette of the Federation of BiH, 22/06, 43/08, 22/09, 35/14 and 94/15) and reaching consensus on the selected model.

The implementation of all these fiscal policy targets is directly conditioned by the political stability and institutional readiness of the bearer of the set activities, without neglecting the socio-economic factors.

Table 3: Fiscal framework of the government of FBiH 2018-2021²⁷

Fiscal indicators (% of GDP)	2017	2018	2019	2020	2021
Total income	35.30	38.00	36.20	35.10	34.40
Total spending	34.50	38.40	36.00	34.80	33.70
Fiscal balance	0.80	-0.40	0.20	0.30	0.70
Interest expenditures	0.65	0.78	0.73	0.80	0.80
Primary fiscal balance	1.45	0.38	0.93	1.10	1.50

Source: FBiH Ministry of Finance

This section of the document provides a consolidated budget framework of the **general government sector²⁸ od Republika Srpska**, for the period 2019–2021. The **general government sector** encompasses consolidated budgets of sub-sectors: central government, local self-government units and extra-budgetary funds.

In terms of Republika Srpska fiscal policy goals, the targeted consolidated deficit of the general government can be up to 3% of GDP. The consolidated surplus of the general government of Republika Srpska relative to GDP of Republika Srpska in 2017 amounted to 1% of GDP. According to projections, in the observed period, the anticipated deficit/surplus is set to range between 1.2% deficit to 1.8% surplus.

Table 4: Fiscal framework 2017–2021 in accordance with the baseline scenario²⁹

Fiscal indicators	2017	2018	2019	2020	2021
(% of GDP)	Performance	Plan	Plan	Plan	Plan
Total income	39.1	39.9	39	38.3	37.7
Total spending	38.1	41.2	38.6	37	35.9
Net borrowing/crediting	1	-1.2	0.3	1.2	1.8
Interest expenditures	1.2	1.2	1.2	1.2	1.1
Primary fiscal balance	2.2	0	1.5	2.4	2.9

Source: Ministry of Finance of Republika Srpska

In the framework of the projected GDP of Republika Srpska, the share of spending of the observed levels of government is expected to decrease from 41.2% in 2018 to 35.9% in 2021. When it comes to debt policy, the primary objective of Republika Srpska is certainly related to the process of the EU accession, which means that the long-term commitment of Republika Srpska is to keep the level of public debt below 60% of GDP of Republika Srpska.

Guided by the commitment to create a favourable tax policy and further maintenance of social and fiscal stability, as well as implementing reforms aimed at reducing the burden on labour and increasing economic activity in 2018-2021, the following is planned in the area of taxation in Republika Srpska:

When it comes to taxation of profit of legal persons (enterprises), the *Law on Corporate Income Tax* is in effect as of 2016, i.e. 2017, whereby the taxation of legal entities is greatly improved in relation to the period before the new law. Although the implementation of the new law has resulted in a more efficient and effective system of taxation of profits, in 2019, the Law on Amendments to the Law on Corporate Income Tax will be adopted, which will extend the

²⁷ Fiscal indicators are based on realized GDP of the Federation of BiH and projections

²⁸ The terms "general government sector" and "general government subsectors" in this document refer to the institutions of Republika Srpska and their budget frameworks. According to the Guidance for the Economic Reform Programmes prepared by the European Commission in May 2016, to the extent currently possible, the concepts used should be in line with the standards established at the EU level, notably in the context of the European System of Accounts (ESA). According to the European System of National and Regional Accounts (ESA), the general government sector (S.13) consists of institutional units which are non-market producers whose output is intended for individual and collective consumption, and are financed by compulsory payments made by units belonging to other sectors, and institutional units principally engaged in the redistribution of national income and wealth. The general government sector has four subsectors: central government (administrative institutions and agencies whose competence extends over the entire economic territory, except social security funds); state (regional) government; local government (local self-government units) and social security funds.

²⁹ Fiscal indicators are based on realized GDP of Republika Srpska and projections.

incentive for investments in production, in accordance with the Memorandum signed in December 2017. The amendment of the aforementioned legal solution is conditioned by the amendments to the Law on Personal Income Tax, in order to compensate, through the taxation the proceeds from the equity share, for the resources that will be deducted by the amount of the corporate income tax.

In 2015, the Law on Personal Income Tax was adopted with the aim of decreasing the tax burden, primarily through removal of taxation of income derived from shares in equity of legal persons, more precise defining and determining tax incentives, encouraging investment into life insurance premiums in the form of a new tax relief, separating taxation of personal income (income from employment) from other forms of income to be considered as other income (income from different contractual relations, income from membership in management, supervisory or audit boards, income derived from parliamentary and assembly engagements and alike). In 2018, the Law on Amendments to the Law on Personal Income Tax was adopted, which reduced the tax burden on labour in Republika Srpska in a certain part by increasing the basic personal deduction from KM 2,400 to KM 6,000 on an annual basis and thus increased pay for all employees in Republika Srpska. In order to increase the salary in this way, it was necessary to amend the Law on Labour and all the Laws on public sector wages. The basic change was the change in the concept of salaries, and now the term salary implies a salary which includes income tax. In this way, the new calculation of salaries has also been changed, which enabled the initiation of basic personal deduction resulting in an increase in all wages in the Republic of Srpska. In the coming period, changes are planned in the taxation of income of natural persons in order carry out the redistribution and bring additional increase in wages, with the expansion of the income tax base. A special emphasis is placed on taxation of income from equity shares.

The Law on Contributions, which was adopted in December 2017 and entered into force on 1 January 2018, reduced the contribution rate for unemployment insurance, while increasing the rate of child protection in the same amount for the purpose of financing additional rights in the area of child protection of maternity allowance for all unemployed mothers in the amount of KM 405 per month. Also, this Law reduced the base of contributions for persons using maternity leave by 20% of the base before the beginning of the use of maternity leave. In the following period, the base of contributions for persons using maternity leave will be refunded to the full amount; however, the undertaken obligation to relieve employers will be implemented through an increase in the amount refunded to employers from the Child Protection Fund. Namely, the release is planned through an additional reduction in the contribution base to 50% in 2019; however, by reducing the base of contributions, persons using maternity leave, are deprived of other rights arising from the payment of contributions (PDI, rights based on unemployment) for that period. An increase in the amount of refunds is a better way of relieving, with the simultaneous realization of all rights for employed persons who use maternity leave. According to the applicable Law on Child Protection, employers are reimbursed the amount of net wages payable (salaries after taxation), while from next year this amount would be a salary (with the tax already included according to statutory salary definitions) increased by 50% of contributions. An approximate amount can also be realized through a refund of 80% of the gross salary. The implementation of any of the above measures entails changing the Law on Child Protection in the part of determining the amount that will be refunded to employers. Also, with regard to tax policy in the field of mandatory contributions, a change of the Law on Contributions is planned in the forthcoming period in order to reduce the aggregate contribution rate to reduce the overall tax burden on labour in Republika Srpska to the 2008 level.

No changes are planned to the Law on Tax on Immovable Property in the period 2019–2021. Instead it is planned to intensify the activities of reporting the unreported immovable properties in Republika Srpska.

In Republika Srpska, the 2012 Law on Tax Procedure of Republika Srpska has been implemented, which completely regulates the taxation procedure, as well as the material and legal status of the Tax Administration of Republika Srpska. In the forthcoming period, the strengthening of inspection controls in the Tax Administration of Republika Srpska is planned, with the aim of decreasing tax evasion and narrowing the scope of "grey economy". The Law on amendments to the Law on Tax Procedure enables submission of tax returns in electronic form which will significantly improve the performance of Tax Administration of Republika Srpska and decrease the costs of administration. It is planned to intensify the activities on establishing a greater level of e-services and e-communication of tax payers with Tax Administration, as well as to intensify tax controls of natural persons, entrepreneurs or legal entities by applying indirect methods for determining the tax base. In the coming period, a new Law on Tax Procedure of Republika Srpska will be drafted with the aim of enabling the implementation of the business registration reform in the Republic of Srpska, i.e. introduction of e-registration of business entities. This Law will be passed after a comprehensive analysis of the tax procedure in cooperation with the Tax Administration.

No changes of regulations related to fiscal cash registers were planned in the period between 2018 and 2020. Rather, it is planned for the tax controls related to implementation of the Law on Fiscal Cash Registers to be strengthened, thus contributing to the higher level of compliance with the Law.

In June 2017, the *Law on the Tax System of Republika Srpska* was adopted, which sets a legal basis for the adoption of a Register of tax and non-tax charges in Republika Srpska as well as general legislation regarding the introduction, modification or abolition of tax and non-tax charges in Republika Srpska. Also, the provisions of this Law provide for establishment of the Register of tax and non-tax charges and, after the expiration of transition deadlines, prescribes that the charges that are not contained in the Register do not create a payment obligation, and the processor or proponent of the act containing such a charge is obliged to initiate the procedure for removing this charge from the legal system. Tax and non-tax charges that cannot be contained in the Register are those that have been adopted contrary to the principles of the Law on the Tax System of Republika Srpska. The Register of tax and non-tax charges was adopted and became final in the third quarter of 2018, and on the basis of it is planned to analyse all non-tax charges in the coming period and to abolish those in which the analysis shows that their existence is contrary to the aforementioned principles that are too burdensome for businesses or citizens, whose fiscal impact is not large.

In the area of *indirect taxation*, in the coming period, the adoption of a new law on value added tax and excise law is planned in order to align them with the European Union regulations and specify individual institutes. Also, an analysis of the increase in the value added tax rate may also be carried out in order to compensate for the loss of revenue from the reduction of income from the contribution.

Budget spending reflects the priority policies that are in line with the overall level of available funds and is aimed at ensuring the realistic framework within which line ministries and budget users can function, taking into account the fulfilment of legally-established obligations, all of which are guided by the principles of rationality and savings.

3.2. BUDGET IMPLEMENTATION IN 2018

At the time of preparation of revised projections of indirect tax revenues for the period 2018-2021, preliminary data on revenue collection per type for nine months 2018 (ITA) were available. In this period, the net collection of indirect taxes was higher by KM 309 million or 7.2% compared to the same period of 2017. The collection analysis by revenue types was made on the basis of revenue structure that includes adjusted revenues from indirect taxes collected in

cash between January and September 2018, as well as revenues collected by offsetting liabilities from indirect tax claims. This analytical approach was necessary due to the increasingly frequent compensation of the liabilities for excise duties on petroleum products and the obligation to road tax claims based on VAT (tax credit) during 2018. After correction of the offset amount of revenues, the highest nominal effects in the period January-September 2018 were realized in road tax collection (KM 177.9 million), then, in VAT collection (KM 117.7 million) and in customs (KM 13.7 million). On the other hand, the decrease in revenues from excises was KM 9.5 million. The strong growth in road tax revenue in 2018 was expected due to the increase in the rate of earmarked road tax as of 1 February 2018. A steady increase in road tax revenue in 2018 was expected due to an increase in the road tax rate of 1 February 2018. High VAT growth rates, in addition to positive developments in the area of consumption and imports and the efficiency of collection, were also influenced by the increase in the earmarked road tax rate, (since the road tax enters the base for calculating VAT). The exhaustion of the positive effects of the 2014 legislative change aimed at reducing the gap between the fiscal burden on cigarettes and cut tobacco was evident as early as in 2016, when the downward trend in the taxable consumption of cigarettes was recorded again, measured by the number of issued excise stamps. After rising in 2014 and 2015, owing to the increasing price of cigarettes, revenues from excise duties on tobacco mainly stagnated in 2016 and 2017 despite the increase in specific excise duty. In 2018, the downward trend in taxable consumption of cigarettes has continued, and the collected revenues from tobacco excise duties in the period January-September 2018 were lower by 1.8% compared to the same period in 2017.

Based on the revenue collection trends, the annual macroeconomic projections and the estimates of the effects of amendments to the Excise Law and the application of the Adapted Stabilization and Association Agreement with the EU, the projected net collection of indirect tax revenues for 2018 amounts to 6.142,6 million KM, which is 7.3 % more than in 2017.

Institutions of BiH

The Parliamentary Assembly of BiH adopted the Law on Budget of the Institutions of BiH and International Obligations of BiH for 2018 on 30 January 2018. The starting point of this Law is contained in the following:

- Provisions of the Law on Financing the Institutions of Bosnia and Herzegovina;
- Priorities and activities according to the obligations assumed by signing the Reform Agenda;
- Agreement on the Adoption of the Document Global Framework of Fiscal Balance and Policies in Bosnia and Herzegovina for the period 2018 - 2020, concluded between the Council of Ministers of Bosnia and Herzegovina, the Governments of the Federation of Bosnia and Herzegovina and the Republika Srpska at the Fiscal Council session of 4 October 2017, which establishes a framework for the institutions of Bosnia and Herzegovina in the total amount of KM 950 million, as well as the allocation of funds for financing from the Single Account of Indirect Taxation Authority in the amount of KM 750 million;
- Upper ceilings of expenditures derived from the draft of the Framework Budget Document considered by the Council of Ministers of Bosnia and Herzegovina at the 120th session held on 9 November 2017;

Based on the budget execution of the BiH institutions for the nine months of 2018, it is estimated that the institutions of BiH by the end of 2018, the institutions of BiH will realize the following revenues, proceeds and financing:

- KM 750 million of revenues from the Single Account of the Indirect Taxation Authority (ITA SA),
- About KM 157.8 million of non-tax revenues (including the income from profit of the Central Bank BiH in the amount of about KM 8,4 million, which is at the same level as in the previous year, while showing a downward trend relative to the past years),
- about KM 16.4 million of donations (earmarked) and they represent an increase of about KM 3.2 million KM as compared to the previous year,
- about KM 0.8 million of earmarked transfers from other levels of government,
- about KM 1 million proceeds based on sales of fixed assets,
- about KM 2.2 million of receipts based on succession, from the sale of the building in the DCN.

The estimate of the execution of budget expenditures by the institutions of BiH by the end of 2018, based on the execution of expenditures in the first three quarters of 2018, may be the following:

- 653 million KM for salaries and salaries of employees, which will be less for about 25 million KM compared to the planned level in the Budget for 2018, which is about 12 million KM more than the execution in 2017. Please note that, at the end of 2017, the Law on Amendments to the Law on Salaries and Remuneration in Institutions of BiH was passed, increasing the coefficients for police officers. Number of employees on 30.9.2018. 21,782 persons, compared to the number of employees on 31 December 2017. less for 185 employees due to personnel outflows, compared to the projected number of employees in the Budget for 2018 (23,181 employees) less for 1,399 employees. Planned and vacant positions are at the BiH Ministry of Justice because no new Institution for the Execution of Criminal Sanctions, Detention and Other Measures of BiH has been established, and then with the BiH Ministry of Defense due to the dynamics of layoff of military personnel due to the age limit according to the Law on Service of the Armed Forces of BiH , which will be partially employed at the end of 2018 at the Ministry of Foreign Affairs of BiH, then with police agencies of the Border Police, State Investigation and Protection Agency, Directorate for Coordination of Police Bodies in BiH due to the inability to hire persons with special expertise, and long employment recruitment procedures, retirement of qualified staff to retirement, departure to entity police structures due to higher income or going abroad.;
- KM 170 million for material expenses, which will be a decrease of around 20 million KM in relation to the planned level of the same, works from savings and canceling the tender for the procurement of goods and services
- KM 2.4 million on transfers for the Return Fund for financing the rights under Annex VII of the Dayton Peace Agreement,
- KM 9 million KM of transfers to other levels of government, which is more than about 3.5 million KM in relation to the plan
- 0.8 KM on behalf of foreign interest (on behalf of institutions of BiH),
- KM 25.2 million of other expenses for direct transfers and reserve, which is at the level of the planned amount in the Budget for 2018
- KM 76.8 million KM of net expenses for non-financial assets, i.e. capital expenditure of KM 80 million net of the realised receipts from assets in the amount of KM 3.2 million, represent a net increase in non-financial assets in the amount of KM 76.8 million.

In accordance with the above, institutions at the level of Bosnia and Herzegovina could, at the end of 2018, be able to achieve a deficit in the amount of about KM12.2 million, which will be covered by surplus revenues over expenditures from previous years. In 2018, the higher the amount of non-tax revenue collected in relation to the plan, on the one hand, and the realized savings on expenditures of BiH institutions, on the other hand, which has affected a smaller deficit compared to the planned.

In addition to this, it is important to note the fact that this kind of execution of BiH institutions in 2018 results from the application of the accounting methodology of the BiH institutions where expenditures are reported when they are accrued and the revenues immediately upon their collection, while part of the revenue in 2018 is exclusively of dedicated character (dedicated funds from donations, funds for multi-year capital projects, loans, funds from succession), which will be spent for dedicated purposes in the coming years.

Also, BiH institutions have realized savings on gross wages and remunerations of employees, i.e. earnings of employees, because all salaries have been frozen at the same level since 2012, except for increased coefficients for police officers at the level of Bosnia and Herzegovina, which has affected the increase in allocations for salaries to police officers in BiH institutions. In addition, BiH institutions have also achieved additional savings on material costs, due to the application of single rulebooks on the use of fixed and mobile telephones in BiH institutions, the Rulebook on Cost of Representation in BiH Institutions and the Rulebook on the Manner and Use of Official Vehicles in BiH Institutions and Reduction of Fees for work in commissions and administrative and supervisory boards and other working bodies under the Law on Amendments to the Law on Salaries and Remuneration in Institutions of BiH from November 2015. It should be noted that the one-off measure in 2018 referred to expenditures for the "General Elections 2018" for which about KM 8.4 million were spent, with the remark that the elections in Bosnia and Herzegovina are held every two years, that is, the expenditures are cyclical. Due to the priority of financing expenditures for the "General Elections 2018", capital expenditures for BiH institutions in 2018 are planned and executed in lower amount, as the budgetary framework for financing the institutions of Bosnia and Herzegovina has been frozen to KM 950 million since 2012.

The institutions at the level of Bosnia and Herzegovina will continue with the savings in 2019 too.

Federation of BiH

The budget of the Federation of Bosnia and Herzegovina for 2018 amounts to KM 2.989.661.837,00, which represents an increase of KM 242.033.762,00 or 8% relative to the Budget of the Federation BiH for 2017.

The budget of the Federation of Bosnia and Herzegovina in the period from 1 January to 30 September 2018 was carried out in accordance with the Law on Execution of the FBiH Budget for 2018.

Total realised revenues, proceeds and financing of the FBiH budget in the first three quarters of 2018 amount to KM 1,571,071,063.00 million, i.e. 65% of the amount planned in the 2017 Budget of the Federation of Bosnia and Herzegovina.

Execution of revenues by main categories in the period January – September 2018 is as follows:

- KM 1,218 million of tax revenues (corporate income tax and revenues from indirect taxes)
- KM 255.6 million of non-tax revenues (fees, duties, penalties and other non-tax revenues) and
- KM 97.5 million of proceeds from financing (received credits and loans)

Relative to the same period of the previous year, total realized revenues, receipts and financing decreased by 12% or KM 220.2 million. In the structure of all categories of revenues, the biggest increase in the amount of KM 50.2 million is recorded in tax revenues, primarily income from indirect taxes and corporate income taxes. On the other hand, non-tax revenues recorded a decline compared to the same period of the previous year, amounting to KM 87.8 million, which primarily and mostly refers to the decline in revenues collected based on entrepreneurial activities from assets. These are categories of income from financial and intangible assets where a decrease of KM 26.4 million has been recorded, as well as a decline in other revenues from non-financial public enterprises related to the refund of annuities - funds from end-users for repayment of loans in the amount from KM 57.7 million. This decline in revenue is the result of one-off payments (increase in this category of revenue) that occurred in the previous year, and does not represent a real decline in revenues from non-financial public enterprises. In the part of receipts from financing, a significant decrease was recorded in the amount of KM 182.7 million, considering that in this period, given the liquidity of the FBiH Budget, there was no need for short-term borrowing or the issuance of treasury bills. The total amount of receipts from financing in almost all of the total amount relates to long-term loans received through the state-IMF-EFF arrangement in the amount of KM 97.2 million.

The review of the Budget of the Federation of BiH for 2018, the realized expenditures and outlays for the first three quarters of 2018, as well as expenditures and outlays for the same period of 2017 is given in the following table.

Table 5: Expenditures and outlays – 2018 Budget of the Federation of BiH, execution January-September 2018 and January-September 2017

No	DESCRIPTION	Ec. Code	Budget FBiH 2018	Realised expenditures and outlays January-September 2018	Realised expenditures and outlays January-September 2017
1	Current reserve	600	5,155,000	1,027,105.81	2,386,355
2	Salaries and remunerations	611	218,038,117	149,348,599	148,740,903
3	Employers' contributions/other contributions	612	23,397,776	16,033,893	15,998,368
4	Expenditures for material, small inventory and services	613	93,158,683	43,399,071	45,622,822
5	Current transfers and other current expenditures	614	1,031,151,245	719,805,158	684,592,393
6	Capital grants	615	309,701,000	4,002,504	4,309,421
7	Expenditures for interest and other costs	616	124,912,528	65,606,226	68,436,706
8	Expenditures for purchase of fixed assets	821	47,282,542	12,866,759	4,302,642
9	Expenditures for financial assets	822	20,450,000	12,869,140	2,661,700
10	Expenditures for repayment of debts	823	1,116,414,946	517,807,479	637,539,628
TOTAL:			2,989,661,837	1,542,765,934,81	1,614,590,938

Source: FBiH Ministry of Finance

Expenditures and outlays realised in the period January – September 2018 amount to KM 1,612.2 million, i.e. 59% of the amount planned in the 2018 Budget of the Federation of BiH.

Execution of expenditures by main categories in the observed period is as follows:

- KM 994.2 million of current expenditures (salaries and remunerations, contributions, material expenditures, current transfers, interest expenditures)
- KM 16.8 million of capital expenditures (expenditures for purchase of fixed assets and capital grants)

- KM 12.8 million of expenditures for financial assets, and
- KM 517.8 million of expenditures for debt repayments.

Compared to the execution in the same period of the previous year, total expenditures and outlays record a decrease by 4% or KM 70.5 million, as a direct consequence of the reduction of debt repayment expenses by KM 119.00 million, and the reduction of interest expenses by KM 2.8 million relative to the same period of the previous year. To a somewhat lesser extent, outlays for material, small inventory and services were decreased too, in the amount of KM 2.2 million. The increase in expenditures relative to the same period of the previous year refers to the costs of salaries and compensation of employees (increase in the amount of KM 30.8 million), current transfers (KM 35.2 million), total capital expenditures (KM 8.2 million), and expenditures for financial assets (increase of KM 10.2 million). It is important to point out that all the liabilities based on external and internal debt of the Federation of BiH have been duly serviced and, on 30 September 2018 there were no arrears.

Republika Srpska

The largest part of the fiscal framework of the General Government of Republika Srpska is comprised of the budget of Republika Srpska. The Republika Srpska budget revision for 2018 was adopted by the National Assembly of Republika Srpska, on 16 May 2018, in the amount of KM 3,424 million. The revised budget of Republika Srpska for 2018 is planned to have a surplus of KM 139.2 million, while a deficit of KM 95.8 million is planned at central government level and a deficit of KM 129.6 million at the level of the general government. In 2019, a general budget surplus is planned at the level of the general government in the amount of KM 37.1 million. Also, in 2020 and 2021, a surplus of KM 142 million and KM 221.7 million respectively is expected at the general government level.

According to the reports on the execution of the Republika Srpska budget for the six months of 2018, in relation to the half of the plan for 2018, total revenues were realized at the level of 98%, of which tax revenues were realized in the amount of 99%, social security contributions 97 %, revenues from financial and non-financial assets 80% and other revenues 100%.

On the expenditure side, total expenditures amounted to 95%, current expenditures to 95%, and expenditures for non-financial assets to 22%. In the context of current expenditures, personal income expenses accounted for 99%, expenditures for the use of goods and services 84%, financing expenditures and other financial expenses 99%, social contribution allocations 95% and transfers between budget units 90%. In this way, the control of public spending is made through restricting the current expenditures (expenditures for the use of goods and services, grants, subsidies and transfers).

3.3. MEDIUM-TERM BUDGETARY OUTLOOK

The planned growth rates of indirect tax revenues for 2019, 2020 and 2021 are 2.6%, 2.8% and 3.0% respectively (Table 1). The projected growth rates of indirect tax revenues for 2019, 2020, and 2021 are 2.6%, 2.8% and 3.0% respectively (Table 1). Projection of revenues in the mentioned period is based on the projected relevant macroeconomic indicators, historical seasonal collection scheme and projections of individual categories of income for 2018, as well as the effects of changes in policies in the area of excise taxes on petroleum products and road taxes. Projections are made on a **cash basis** in accordance with ITA reports on collection by type of revenue.

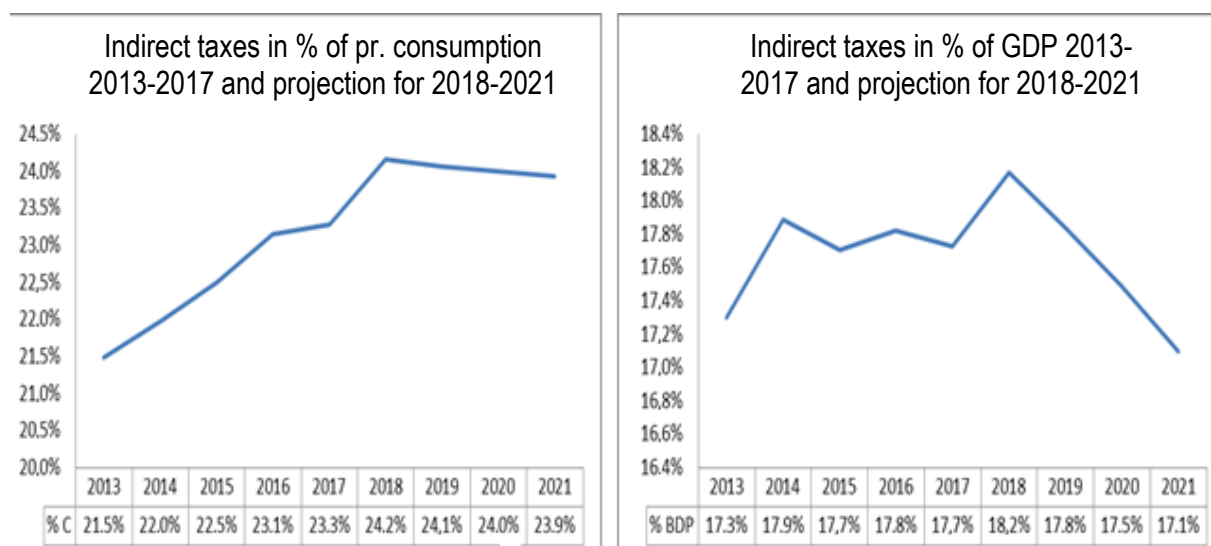
Table 6: Projections of revenues from indirect taxes

Type of revenues (net)	In KM million					Projected growth rate			
	Performance	Projection				2018	2019	2020	2021
	2017	2018	2019	2020	2021				
VAT	3,576.1	3,758.8	3,872.7	3,990.4	4,120.0	5.1%	3.0%	3.0%	3.2%
Excise duties	1,464.8	1,436.8	1,439.3	1,469.1	1,502.1	-1.9%	0.2%	2.1%	2.2%
Customs	269.1	287.0	304.5	321.8	340.5	6.6%	6.1%	5.7%	5.8%
Road tax	382.5	620.2	647.6	656.7	667.2	62.1%	4.4%	1.4%	1.6%
Other	33.4	39.7	40.1	40.5	40.9	18.9%	1.0%	1.0%	1.0%
TOTAL	5,726.0	6,142.6	6,304.3	6,478.6	6,670.7	7.3%	2.6%	2.8%	3.0%
Earmarked road tax	-152.8	-383.8	-404.8	-410.4	-417.0	151.2%	5.5%	1.4%	1.6%
For allocation	5,573.2	5,758.8	5,899.5	6,068.1	6,253.7	3.3%	2.4%	2.9%	3.1%

Note: The earmarked road tax amounted to 0,10 KM /l of petroleum products until 1 February 2018, and from 1 February to 0,25 KM /l of petroleum products

The largest generator of surplus income from indirect taxes in the mentioned period is VAT, given its significant share in revenues and planned stable growth rates. In all three years, VAT revenues generate over two thirds of the absolute annual projected revenue growth. The projection of excise revenues on tobacco products by 2019 is based on the growth of specific excises at a level of KM 1.65/package. If the new additional tax burden (excise + VAT) is completely transferred to the retail prices, the total amount of excise taxes contained in the retail prices of all cigarette brands should be higher than the legally prescribed ceiling of KM 176 /1000 pcs (or KM 3.52/ package). This would end the process of harmonization of the tax burden of cigarettes with a valid EU standard (EUR 90/1000 pcs) in 2019. A new increase in excise duties in 2019 lead to further deterioration in the cigarette market, strengthening the black market and erosion of revenues. An important factor in the growth of the black market of tobacco products, and therefore the collection of excise revenues, will be the taxation policy of tobacco products in the surrounding countries. Completion of the harmonization process in 2020 and 2021 should lead to stabilization of the market and increase of excise revenues in accordance with the projections of growth in consumption and income. Road tax revenues do not contribute significantly to the planned absolute revenue growth in the period 2019-2021, due to the exhaustion of the effects of increase in tax rates. Road tax revenues do not contribute significantly to the planned absolute revenue growth in the period 2019-2021, due to the exhaustion of the effects of increase in tax rates. A somewhat higher growth than the corresponding macroeconomic indicators is planned only in 2019, given the lower base for comparison in January than in the remainder of the year (the application of higher rates of earmarked road tax commenced as of 1 February 2018).

Graph 5: Indirect taxes



Sources: Calculation based on data on collected indirect taxes (ITA), data on GDP and private consumption³⁰ for the period 2013-2017 (Agency for Statistics of BiH, September 2018), revised projections of indirect taxes for the period 2018-2021 (MU of ITA GB, October 2018) and projections of GDP and private consumption for the period 2018-2021 (DEP, September 2018)

We can see from the graphs that the projected share of indirect tax revenues in private consumption in the period 2019-2021 is relatively steady (ranges from 23.9% to 24.1%), and it moves around the projected level from 2018 (24.2%), which is expected since the projections of most of the indirect taxes are closely related to the consumption forecasts. The annual changes in the shares are mainly related to the effects of changes in the taxation policy (e.g. tobacco, 2019), the relevance of real macroeconomic indicators in revenues taxed by volume, and the connection of projections of certain types of revenues to other macroeconomic indicators (e.g. customs). On the other hand, the projected share of indirect taxes in GDP in the period 2019-2021 is constantly falling relative to the projection of the share for 2018. The reasons for such developments should be sought in the forecasted changes in the structure of GDP, i.e. the projected decline in the share of private consumption in GDP (see projections of macroeconomic indicators, DEP).

Institutions of BiH

Draft Law on Budget of the Institutions of BiH and International Obligations of BiH for 2019 that the Ministry of Finance and Treasury of BiH submitted to the Council of Ministers on 27 November 2018

- The baseline for drawing up the draft Budget of the Institutions of Bosnia and Herzegovina for 2019 is contained in the following:
- Provisions of the Law on Financing the Institutions of Bosnia and Herzegovina related to drafting, content and adoption of the budget;
- Austerity measures of the institutions of BiH agreed by the Fiscal Council of BiH within the framework of the Letter of Intent under the Extended Facility with the International Monetary Fund;
- Priorities and activities in accordance with obligations assumed by signing the Reform Agenda;
- Global Framework of Fiscal Balance and Policies in Bosnia and Herzegovina for the period 2019-2021 adopted at the 14th session of the Fiscal Council of Bosnia and

³⁰ Household consumption expenditures and NIPISH (non-profit institutions providing services to households)

Herzegovina held on 3 July 2018, which establishes a framework for the institutions of Bosnia and Herzegovina in the total amount of KM 966 million, as well as allocation of funds for financing from the Single Account of the Indirect Taxation Authority in the amount of KM 750 million;

- Upper ceiling of expenditures derived from the Framework Budget Document adopted by the Council of Ministers of BiH at its 151th session held on 1 August 2018;
- The operational instructions for preparing the request for the allocation of funds from the Budget are given in the Guidelines for preparing the budget requests for 2019, sent by the Ministry of Finance and Treasury to all institutions of Bosnia and Herzegovina in early July 2018;
- The planned number of employees on 31 December 2019, which includes an approved number of employees in the Budget for 2018, and employees in accordance with the adopted decisions of the Council of Ministers of Bosnia and Herzegovina for employment in 2018 of 14 persons to the Service for Foreigners' Affairs of Bosnia and Herzegovina, and 4 persons to the Constitutional Court of Bosnia and Herzegovina, and employment 5 persons in 2019 to the Intelligence-Security Agency of Bosnia and Herzegovina in accordance with the decision of the Council of Ministers of Bosnia and Herzegovina, as well as planned employment of 3 persons with the Audit Office of the institutions of Bosnia and Herzegovina (independence of the institution), 1 employee in the General Secretariat of the Council of Ministers of Bosnia and Herzegovina and 1 employee in the Central Harmonization Unit of Bosnia and Herzegovina.

Revenues, proceeds and financing for 2019 include the following:

- KM 750 million from indirect taxes, at the level of 2018;
- KM 130 million of other revenues, of which:
- KM 129.4 million of non-tax revenues, representing a decline of KM 9.3 million or 7% relative to 2018. The decline in the amount of these revenues is primarily the result of a decrease in revenues from personal and travel documents and vehicle registration in Bosnia and Herzegovina (decrease of KM 7.5 million or 24%) and they are planned in accordance with the dynamics of issuing and replacing personal documents. Furthermore, revenues from administrative fees were projected to be less by 3.3 KM or 17% mainly due to the planning of a smaller amount of funds from revenue from issuing travel documents in the DCR network. Also, in the draft budget for 2019, according to the letter from the Central Bank of Bosnia and Herzegovina, no revenue from the profit of this institution is planned, while in the Budget for 2018, they amounted to KM 3 million. On the other hand, a higher amount of revenues from special fees and taxes is planned (increase in the amount of revenues from the Agency for Medicinal Products and Medical Devices of Bosnia and Herzegovina and the Veterinary Office by KM 2.6 million or 4%) and an increase in revenue from fines of KM 1 million (from the jurisdiction of the Court of Bosnia and Herzegovina) and income from fees in the indirect taxation procedure, increase in the amount of KM 1 million due to the realization of these revenues in the previous period in a larger amount than planned, and expectations of the same trend and in the coming period.
- KM 0.1 million of current subsidies in cash with the Ministry of Foreign Affairs, falling short by KM 0.5 million relative to the current year's budget;
- KM 0.5 million transfers from other levels of government to finance the institutions of Bosnia and Herzegovina related to the transfer of the Brčko District for the work of the

Agency for Statistics of Bosnia and Herzegovina in the amount of KM 0.2 million, transfer of the Federation of Bosnia and Herzegovina and Republika Srpska for the functioning of the State Aid Council in the amount of KM 0.155 million;

Financing in the total amount of KM 86 million, of which:

- KM 80.9 million of funds transferred from the previous period in accordance with the report on budget execution of the Institutions of Bosnia and Herzegovina and international obligations of Bosnia and Herzegovina for 2017, which is higher by KM 21.3 million relative to 2018.
- KM 4.4 million of receipts from succession, and
- KM 0.7 million of proceeds from selling fixed assets.

In preparation of the Draft Budget for 2019, the Ministry of Finance and Treasury of Bosnia and Herzegovina was guided by the following priorities:

1. Development of state functions related to fulfilling the European Partnership requirements
2. Securing funds for implementation of the Stabilisation and Association Agreement
3. Adjusting the programme and activities of the Ministry of Defence and other Ministries participating in the procedure of accepting BiH into the Partnership for Peace (PfP) and joining NATO;
4. Securing part of funds for multiannual projects of budget users
5. Securing funds for commencement of operations of the BiH State Institute for execution of criminal sanctions, detention and other measures

The total expenditures of the institutions of Bosnia and Herzegovina in 2019 amount to KM 966 million and in relation to 2018 they are higher by KM 16 million or 1.7%, while the servicing of the external debt of Bosnia and Herzegovina amounts to KM 825.8 million and is lower by 178.3 million KM or 18% compared to 2018.

Structure of expenditures of the Institutions of BiH in accordance with GFS 2001 methodology is the following:

- Gross salaries and remuneration of costs of employees are planned in the total amount of KM 682.1 million for the projected 23,209 persons (of which gross salaries and compensations in the amount of KM 561.5 million, and employees' remuneration in the amount of KM 120.6 million) which, in comparison with the 2018 Budget represents an increase of KM 3.4 million or 0.1%. The increase in total gross salaries is the result of the planned commencement of work of the BiH Institute for execution of criminal sanctions, detention and other measures of Bosnia and Herzegovina, adjustment of the dynamics of employment of police officers at the Border Police of Bosnia and Herzegovina, planned employment in 2018 in accordance with the adopted decisions of the BiH Council of Ministers. The increase in this category of expenditures is the result of planning new employment, planning compensations for peacekeeping missions in a larger amount, as well as one-off benefits (severance payments, jubilee awards etc.).
- Total expenditures for materials and services amount to KM 184.4 million, and compared to the 2018 budget are lower by KM 5,5 million or 3% due to the end of activity in 2018 or the planning of a smaller amount of funds for specific needs (general elections, procuring uniforms for the Border Police, visa stickers at the Ministry of Foreign Affairs, planning a smaller amount of funds for the purchase of personal documents with IDDEEA, etc.).

On the other hand, a higher amount is planned for the Ministry of Defence (procurement of uniforms, fuel, etc.), the Indirect Taxation Authority (planning a larger amount of funds on the expenditure item for current maintenance-maintenance of the IT system), etc.

- Transfers under social protection (planned in the Budget under current grants and transfers) are planned in the amount of KM 2.1 million, which is less by KM 0.1 million or 4% compared to 2018.
- Transfers to other budget units (planned under current grants and transfers) are projected in the amount of KM 4.7 million, which is lower by KM 1.1 million compared to 2018, mainly due to the planning of lower allocations for current transfers to entities based on the costs of detainees of the Court of BiH for the planned commencement of work of the BiH Institute for execution of criminal sanctions, detention and other measures.
- Expenditures for net non-financial assets are planned in the amount of KM 60.4 million or gross amount of KM 61.1 million (including the funds for multiannual projects in the amount of KM 27.4 million) less the amount of receipts from the sale of fixed assets in the amount of KM 0.7 million, and compared to 2017, are higher by KM 17.7 million.
- Interest expenditures on foreign loans are planned on Direct transfers within the economic category "Other current transfers" in the amount of KM 1.1 million of interest on the loan for the construction of the State Institute for the execution of criminal sanctions, detention and other measures of BiH, interest on the loan of the Macrofinancial Assistance of the European Commission and interest on the Saudi Fund loan for the project "Reconstruction of Housing Units for Displaced Persons in Bosnia and Herzegovina")
- Principal expenditures under foreign loans are planned on Direct transfers within the economic category "Other current transfers" in the total amount of KM 3.4 million (principal under the Saudi Fund loan for project 4/560 "Housing reconstruction for displaced persons in BiH" and principal for the European Commission loan "Macrofinancial Assistance II")
- Other expenditures are projected in the amount of KM 27.1 million (planned under the item of current and capital grants and transfers and reserves).

Basic assumptions/expenditure policies for 2020 and 2021 from the Framework Budget Document of the Institutions of Bosnia and Herzegovina 2019-2021, adopted by the Council of Ministers of BiH on 1 August 2018:

In 2020 and 2021, pursuant to the adopted Global Framework for Fiscal Balance and Policies in BiH, the framework for financing the institutions of BiH was set at KM 957 million while the allocation of funds from the Single Account of the Indirect Taxation Authority is defined in the amount of KM 750 million in each year.

Revenues and proceeds of the Institutions of BiH are planned in accordance with the following:

Tax revenues in 2020 and 2021 are set to the amount of KM 750 million for each year;

- Other revenues in 2020 are set to the amount of KM 139.4 million (non-tax revenues in the amount of KM 138.9 million, transfers from other levels of government in the amount of KM 0.4 million and current subsidies in cash in the amount of KM 0.1 million). In 2021, other revenues are set to the amount of KM 138.1 million (non-tax revenues in the amount of KM 137.4 million, transfers from other levels of government in the amount of KM 0.4 million and current subsidies in cash in the amount of KM 0.3 million)

- Financing and proceeds in 2020 are set to the amount of KM 67.6 million and in 2021 to the amount of KM 68.9 million.

Structure of expenditures of the Institutions of BiH derived from the Framework Budget Document in 2020 and 2021 is the following:

- Gross salaries and remuneration of costs of employees are planned in the amount of KM 688.4 million (of which gross salaries in the amount of KM 566.5 million, and employees' remuneration in the amount of KM 121.9 million) and in 2021 the amount of KM 691.2 million (of which gross salaries in the amount of KM 568.3 million which, in comparison with the 2018 Budget represents an increase of KM 3.4 million or 0.1%. The increase in salaries and remunerations is the result of the planned commencement of work of the new BiH Institute for execution of criminal sanctions, detention and other measures of Bosnia and Herzegovina.
- Expenditures for materials and services for 2020 are set to the amount of KM 181.6 million, and for 2021 to KM 181 million.
- Transfers under social protection (planned in the Framework Budget Document under current grants and transfers) for 2020 and 2021 are planned in the amount of KM 2.1 million respectively.
- Transfers to other budget units (planned in the Framework Budget Document under current grants and transfers) for 2020 and 2021 are planned in the amount of KM 2.5 million respectively.
- Expenditures for net non-financial assets for 2020 are planned in the amount of KM 38 million, i.e. gross amount of KM 41.6 million less the amount of receipts from the sale of fixed assets and succession, and for 2021 in the amount of KM 38.4 million, i.e. gross amount of KM 40.3 million less the amount of receipts from the sale of fixed assets and succession.
- Interest expenditures on foreign loans are planned on Direct transfers for 2020 in the amount of KM 1 million (interest on the loan for the construction of the State Institute for the execution of criminal sanctions, detention and other measures of BiH, interest on the loan of the Macrofinancial Assistance of the European Commission and interest on the Saudi Fund loan for the project "Reconstruction of Housing Units for Displaced Persons in Bosnia and Herzegovina"), and for 2021 in the amount of KM 1 million.
- Principal expenditures under foreign loans are planned on Direct transfers for 2020 and 2021 in the amount of KM 4.6 million for each respective year (principal under the Saudi Fund loan for project 4/560 "Housing reconstruction for displaced persons in BiH", principal for the European Commission loan "Macrofinancial Assistance II" and principal under the CEB bank loan for construction of the Institute for the execution of criminal sanctions, detention and other measures of BiH).
- Other expenditures for 2020 are set to the amount of KM 35.2 million and for 2021 to the amount of KM 34.3 million (planned in the Framework Budget Document under the item Current and capital grants and transfers, and reservations).

Federation of BiH

The Framework Budget Document of the Federation of BiH (FBD FBiH) for the period 2019-2021 is prepared in accordance with the Law on Budgets in the Federation of BiH and represents a preliminary draft of the budget for 2019 as well as framework budget plans for 2020 and 2021. A baseline for development of FBD of FBiH was macroeconomic forecasts and assumptions for

the medium-term period, the Work Program of the Government of the Federation of BiH for the period 2015-2018, and the Reform Agenda.

The Framework Budget Document of FBiH for the period 2019-2021 sets upper expenditure ceilings to KM 2.658,1 for 2019 and to KM 2.620,5 million for 2020 and KM 2.621,3 million for 2021 which, compared to the 2018 budget of the Federation of BiH, represents a decrease by 11.1% in 2019, by 13% in 2020 and by 13% in 2021.

The Government of the Federation of Bosnia and Herzegovina has approved the Draft Budget of the Federation of BiH for 2019 and submitted it to the Parliamentary Procedure. According to the established Draft, the Budget of the Federation of Bosnia and Herzegovina for 2019 amounts to KM 2,653,843,356.0 which represents a decrease of KM 335.8 million or 11.0% compared to the Budget of the Federation of BiH for 2018.

In the structure of revenues and receipts of the Draft Budget of the FBiH for 2019, total tax revenues are planned in the amount of KM 1.630,7 million and are lower by 31.3 million KM or 2.0% compared to the previous year. Non-tax revenues for 2019 are planned in the amount of KM 392.8 million and are lower by KM 215.0 million or 35% relative to 2018 budget of FBiH. The decrease mainly relates to the reduction of dividends collected from companies in the majority ownership of the Federation, since in the previous year the collection of retained profits of public companies from the previous period in the amount of KM 180.0 million was planned, which in relation to regular income from dividends represents a significant amount. Revenues from current transfers and donations are planned in the amount of KM 0.16 million while receipts are planned in the amount of KM 630.1 million. In the structure of receipts, KM 0.1 million consists of capital inflows from the sale of fixed assets, KM 250.0 million consist of long-term credits and loans, while KM 380.0 million relates to received short-term borrowings.

The structure of expenditures and outlays of the draft Budget of the FBiH for 2019 envisages KM 5.15 million for the current reserves. Salaries, contributions and remunerations for employees are planned in the amount of KM 259.3 million. The sub-category relating to gross salaries and compensations is set to the amount of KM 204.7 million, which is an increase of 14.4 million KM or 8.0% compared to the FBiH budget for 2018. The reason for the increase is the harmonization of the basis for calculation of salaries from KM 315.0 to KM 330.0, as well as the fulfilment of the legal obligation to pay salaries and allowances to officials (MPs, advisors, ministers) six months after the termination of their mandate unless they have a permanent employment. Also, funds for the settlement of taxes and contributions from the court judgments are set to the amount of KM 1.95 million. Expenditures for material, small inventory and services are set to the total amount of KM 113.5 million, which is by KM 20.3 million or 22.0% more than in the FBiH budget for 2018. The largest increase relates to expenditures for execution of court judgments and enforcement decisions. A considerable part of the funds also refers to the funds for which the funding is secured by the dedicated funds on the revenue side.

Current transfers and other current expenditures are planned in the Draft Budget for 2019 in the amount of KM 1.067,1 million and are higher by KM 36.0 million relative to the previous year. Current transfers and other current expenditures are planned in the Draft Budget for 2019 in the amount of KM 1.067,1 million and are higher by KM 36.0 million relative to the previous year. The envisaged increase in current transfers in 2019 relates primarily to an increase in PDI (pension and disability insurance) transfers by KM 30.2 million compared to the 2018 Budget due to the increased appropriation based on Article 129 of the PDI Law and the Law on more favourable retirement of defenders of the defence-liberation war, and an increase in transfers to the FBiH Health Insurance and Reinsurance Institute in the amount of KM 2,5 million related to the financing of the Solidarity Fund Program (purchase of cytostatics for melanoma treatment and tuberculosis medicines procurement).

Interest expenditures are planned in the amount of KM 117.5 million, which is by KM 7.4 million less than the funds planned for this position in 2018. Expenditures for the purchase of fixed assets are planned in the amount of KM 61.8 million and are higher by KM 14.5 million relative to the previous year. Expenditures for financial assets are planned in the amount of KM 23.2 million and are higher by KM 2.7 million compared to the funds planned for the 2018 budget for these purposes, while the expenditures for debt repayments have decreased by KM 146, 5 million relative to the previous year and amount to KM 969.9 million. Capital transfers are planned in the Draft Budget of the FBiH for 2019 in the amount of KM 36.4 million.

In order to improve the position of younger categories of population and recognizing the need to address their basic existential issues, the FBiH Budget Plan for 2019 has planned funds in the amount of KM 15.0 million as a subordinated debt to the Union bank, which will be directed towards resolving housing needs of this category of population.

Apart from the aforementioned, KM 10.0 million is also planned for the allocation to the Federal Ministry of Energy, Mining and Industry for the purpose of linking years of service for employees, out of which KM 9.0 million refers to enterprises owned by the Federation of BiH and KM 1.0 million KM to linking years of service for employees of private companies.

The Government of the Federation of Bosnia and Herzegovina is committed to continue co-financing industrial zone projects in local self-government units and the funds for these purposes in the Budget 2019 increased by KM 3.0 million relative to the 2018 Budget. These funds will greatly assist the local self-government units to, by joining these with their own funds, make considerable improvements to the local infrastructure necessary for the establishment of industrial zones, in order to attract investments. Also, KM 13.0 million is planned to co-finance the construction of the railway infrastructure.

The expenditure side of the budget is determined by further strengthening fiscal sustainability by implementing policy measures to limit the growth of public spending, and monitoring the performance in the spending of public funds. The implementation of the restrictive employment policy and the limitation of current expenditure is aimed at restraining public spending in relation to GDP, by limiting the growth of material costs and restricting the number of employees in institutions. On the other hand, the control of spending and allocation of public funds through transfers or subsidies should be enhanced by the implementation of program budgeting at the level of the Federation of BiH and in all ten cantons in order to increase the performance in allocating and spending public funds and reviewing those projects and activities that have not yielded the expected result so far. The start of preparatory activities on the implementation of program budgeting is expected in 2019.

In 2020, the Federal Institute for Pension and Disability Insurance will be included as a budget user in the Budget of the Federation of BiH, which will enable the execution of payments and pension payments through the Single Treasury Account, thus ensuring greater transparency in the spending of public funds and the stability of pension payments. Due to the complexity of the introduction, the new Law on the Pension and Disability Insurance of the Federation of Bosnia and Herzegovina envisages a transitional period for the introduction of the Institute for PDI of the Federation of BiH as a user of the Budget of the Federation of BiH, which would create the financial and technical possibilities for this, but not longer than two years after the date of entry into force of the law.

The implementation of these measures and activities, focusing on the continuation of measures to reduce total expenditures and outlays, together with the effects of tax policies, will enable the creation of a fiscal space for public investment, which will lead to an increase in employment and improvement of the social standard.

The allocation and distribution of public revenues in the Federation of BiH is regulated by the provisions of the Law on the Allocation of Public Revenues in the Federation of Bosnia and Herzegovina, while their collection, according to constitutional competencies, is carried out in accordance with the FBiH and cantonal regulations as well as the regulations of the local self-government units.

Looking at the past period, in 2017, in the Federation of Bosnia and Herzegovina, there was a significant growth in the collection of public revenues, by more than KM 700 million, i.e. over 9% relative to the previous year. The highest increase of KM 263 million was recorded in the category of tax revenues, where it is necessary to emphasize the record growth in collection of direct taxes. Non-tax revenues rose by KM 240 million, while revenues from contributions to extra-budgetary funds recorded an increase by KM 200 million.

Projections of the realization of total public revenues in the Federation of BiH for 2018 follow the continuation of a positive trends, recorded in the first three quarters of the current year, as well as positive macroeconomic assumptions, primarily based, as pointed out by the Directorate for Economic Planning, on the recorded positive foreign trade, as well as a significant rise in total investments. These assumptions also condition positive medium-term estimates of the realization of public revenues in the Federation of Bosnia and Herzegovina for the period 2019-2021, based on the continuation of the activities of encouraging economic growth and strengthening of economic development, the realization of the expected progress in public investments due to the rising volume of infrastructure works as well as the forecasted expansion of private final consumption.

In preparing the projections of revenues in the Federation of BiH, however, a considerable degree of caution has been maintained, not including the estimated effects of proposed changes in tax policies on the level of achievement of certain categories of public revenues.

The consolidated plan of total public revenues in the Federation of Bosnia and Herzegovina in 2018 amounts to KM 8,774 million, with a projected increase of 4% compared to the recorded revenue generated in the previous year, which also included the effects of amendments to the Law on Excise Duty in Bosnia and Herzegovina, adopted in the first quarter of the current year, on the increase in revenue collection from the earmarked road tax for the construction of motorways and the construction and reconstruction of other roads. In the period 2019-2021, revenue growth is estimated at around 3% for each year, following the estimated trend of macroeconomic indicators.

The consolidated revenue plan in the Federation of Bosnia and Herzegovina includes the revenue plan of the Budget of the Federation of BiH, sub-entity budgets (cantonal budgets and budgets of the local self-government units), tax revenue plan – contribution of extra-budgetary funds, and public revenue plans of other users (road and motorway authorities, funds, etc.). It should be emphasized that these planned amounts do not reflect the overall fiscal framework plan, as the revenues of public enterprises in the Federation of BiH are not included. It should also be highlighted that the presented plan includes the portion of indirect tax revenues earmarked for external debt repayment.

Table 7: Consolidated plan of total public revenues in the Federation of BiH for 2018 and period 2019-2021

in KM million

Type of revenue	EXECUTION				PROJECTIONS			
	2016	2017	Index	Difference	2018	2019	2020	2021
I Tax revenues	3,705	3,969	107	263	4,271	4,394	4,530	4,680
1. Revenues from indirect taxes	3,047	3,173	104	125	3,414	3,508	3,619	3,741
1.1. Revenues from indirect taxes from the distribution of the Unified Account including funds to finance external debt	2,971	3,092	104	120	3,210	3,293	3,401	3,520
1.2. Revenues from earmarked road tax for financing motorways and roads	76	81	107	5	204	215	218	221
2. Revenues from direct taxes	658	796	121	138	856	886	912	939
2.1. Corporate income tax	246	356	145	110	383	397	407	419
2.2. Income tax	315	341	108	26	369	383	396	410
2.3. Taxes of citizens	97	98	102	2	103	106	108	110
2.4. Other taxes	1	1	102	0	1	1	1	1
II Non-tax revenues	1,034	1,274	123	240	1,123	1,144	1,242	1,255
1. Charges and fees	269	340	126	71	352	360	366	373
1.1. Administrative fees	44	63	146	20	49	51	52	53
1.2. Court fees	27	26	96	-1	28	29	29	30
1.3. Utility fees	38	44	117	6	48	49	50	51
1.4. Other charges and fees	161	207	129	46	226	231	235	239
2. Special charges	202	241	119	39	242	248	253	259
2.1. Charges for organizing games of chance	29	38	131	9	33	35	36	37
2.2. Water charges	44	46	105	2	52	53	54	55
2.3. Road charges	64	68	106	4	70	71	73	75
2.4. Special charges for protection against natural and other disasters	23	43	189	20	27	27	28	28
2.5. Forest charges	19	22	117	3	23	24	24	24
2.6. Environmental protection charges	14	16	114	2	28	29	29	30
2.7. Charges for membership in tourist communities	3	2	66	-1	2	2	2	3
2.8. Tourist tax	2	2	91	0	2	2	2	2
2.9. Other special charges	4	5	109	0	5	5	5	5
3. Fines	42	45	107	3	46	47	48	49
4. Other non-tax revenues	522	649	124	127	483	488	575	574
4.1. Revenues from financial and intangible assets	325	434	134	109	290	291	374	369
4.2. Revenues from providing public services and own revenues	85	75	88	-10	76	78	79	81
4.3. Unplanned revenue payments	112	140	125	28	117	120	122	124
4.4. Current transfers and grants of other levels of government	45	50	110	4	0	0	0	0
TOTAL (I + II):	4,740	5,243	111	503	5,393	5,538	5,772	5,935
III Contributions to non- budgetary funds	2,983	3,182	107	200	3,380	3,506	3,629	3,758
1. Contributions for pension and disability insurance	1,647	1,765	107	118	1,882	1,952	2,020	2,092
2. Contributions for health insurance	1,200	1,273	106	73	1,344	1,394	1,443	1,494
3. Contributions for unemployment insurance	136	145	107	9	154	160	166	172
TOTAL (I + II + III):	7,722	8,425	109	703	8,774	9,044	9,401	9,693
GDP of Bosnia and Herzegovina	31,034	32,299	104	1,265	33,800	33,800	33,800	33,800
% share	25%	26%		0	26%	27%	28%	29%
GDP of the Federation of BiH	19,540	20,569	105	1,029	21,197	21,580	21,919	22,499
% share	40%	41%		1%	41%	42%	43%	43%

* Current transfers and grants of other levels of government are shown only for visibility and are not included in the total sum.

** Revenues from indirect taxes include a dedicated portion for the repayment of foreign debt.

*** GDP of BiH was taken from the Directorate for Economic Planning, while the GDP of FBiH was estimated by the Federal Ministry of Finance.

In accordance with the above-mentioned, the consolidated medium-term revenue plan in the Federation of BiH³¹ would take an average share of 42% in the GDP of Bosnia and Herzegovina, while the average share in the estimated GDP of the Federation of BiH³² would amount to about 27%.

The plan of total revenues mostly includes revenues from indirect taxes. Projections of this category of revenues for the Budget of the Federation of BiH, cantons, local self-government units and authorities for roads are based on the medium-term plan of total revenues from indirect taxes on the Single Account³³, prepared by the Unit for Macroeconomic Analysis of the Governing Board of the Indirect Taxation Authority, in line with its competencies (UMA). They are based on projections of macroeconomic indicators in the mentioned period, as well as on the historical trend of collection of these revenues. The Indirect Tax Revenue Plan also takes into account the effects of the continuous harmonization of excise duty rates on tobacco in BiH with minimum standards in the EU and the application of a new cut tobacco taxation policy, as well as the effects of the implementation of the adapted Stabilization and Association Agreement.

Since, pursuant to Article 21 of the Law on Indirect Taxation System (Official Gazette of BiH, 44/03), the amount of indirect tax revenue received by the Federation of BiH from the Single Account shall be reduced by the amount of funds required for servicing the external debt of this entity, the available indirect tax revenues for users in the Federation of BiH will directly depend on the planned level of repayment in this medium-term period.

In the observed period, there is evident growth of available revenues from indirect taxes distributed to users in the Federation of BiH according to the existing distribution system, based on the application of European standards and principles from the European Charter of Local Self-Government. However, given the multi-annual application of the provisions of the Law on Allocation of Public Revenues in the Federation of Bosnia and Herzegovina, following the requests and initiatives of the users, the analysis of the effects of the application of the existing revenue distribution criteria has been undertaken with the aim of improving the current allocation method.

Namely, the results of the conducted analyses showed significant changes in the position of individual users of public revenues over the last few years compared to the position in 2005, the year preceding the year of adoption of the existing Law (Example: the municipality with the lowest income per capita in 2005 deviated from the federal average by as much as 90%, in 2017 the difference between the federal average and the municipality with the lowest income per capita in that year was 17%). Also, during the years of application of the Law, the financial position of a large number of users improved considerably, while a number of users began to show a trend of fiscal capacity weakening.

Due to the complexity of the issue of public revenue allocation, the International Monetary Fund (IMF), which has made recommendations and suggestions, has been involved in the process of preparing a new legal solution as early as in 2016, focusing on the need to address the issue of external debt repayment method so as to enhance the accountability of the respective levels of government and the transparency of debt repayment management. Following the recommendations of the IMF, as well as the initiative of the users, a technical part (modelling of proposal) was carried out in the past period and a series of detailed analyses of the effects of the application of possible future solutions of the vertical and horizontal system of distribution of indirect tax revenues taxes were made.

³¹ Taken by the Directorate for Economic Planning in September 2018.

³² Estimated by the FBiH Ministry of Finance

³³ Taken by Macroeconomic Unit of the Governing Board of the Indirect Taxation Authority in October 2017.

All activities planned in 2018 were implemented in order to be able to start drafting the new Law on Public Revenue in the Federation of Bosnia and Herzegovina in the coming year.

The goal is to improve the financial position of a certain number of public revenue users. The impact on the consolidated fiscal capacity of all users of public revenues in the Federation of BiH is neutral. On the other hand, the impact on the Budget of the Federation of BiH, the budgets of the lower levels of government and other users will be known after consideration of all prepared proposals for amending the Law on Allocation of Public Revenues and reaching consensus on the selected model.

It should be noted that the medium-term plan for distribution of available indirect tax revenues per users in the Federation is made in accordance with the applicable criteria set out in the above Law.

Table 8: Plan of revenues derived from indirect taxes for the Government of Federation of BiH for 2018 and period 2019 – 2021

	<i>EXECUTION</i>		<i>PROJECTIONS</i>		
	2017	2018	2019	2020	2021
1. Total revenues from the SA for the Federation of BiH	3,092,151,667	3,210,390,360	3,293,105,250	3,400,988,90	3,519,616,150
1.1 External debt of the Federation of BiH	634,976,500	645,164,250	558,774,172	511,003,500	526,938,020
1.2 Available funds of the Federation of BiH for allocation	2,457,175,167	2,565,226,110	2,734,331,078	2,889,985,400	2,992,678,130
1.2.1 Budget of the Federation of BiH	889,497,410	928,611,852	989,827,850	1,046,174,715	1,083,349,483
1.2.2 Cantons	1,258,810,838	1,314,165,336	1,400,797,811	1,480,539,520	1,533,149,006
1.2.3 Municipalities/cities	206,894,149	215,992,038	230,230,677	243,336,771	251,983,499
1.2.4 Road Directorate	95,829,832	100,043,818	106,638,912	112,709,431	116,714,447
1.2.5 City of Sarajevo	6,142,938	6,413,065	6,835,828	7,224,964	7,481,695

In addition to the above amounts of indirect tax revenues, which the Federation of BiH receives from the Single Account, the effects of the changed policy for collecting the earmarked road tax for the construction of motorways and the construction and reconstruction of other roads, which has already been mentioned, have significantly affected the growth of this category in the first three quarters of the current year and estimates by the end of the year, compared to the reported collection in 2017.

Regarding the corporate income tax paid by banks and other financial organizations, insurance and reinsurance companies for persons and property, legal entities in the field of electricity, postal services and telecommunications, legal entities in the field of games of chance are the proceeds of the Federation of BiH Budget, while other legal persons pay the tax on profit in favour of cantonal budgets, according to their seats.

Following the execution of these revenues since the beginning of the implementation of the new legal solution in 2016, significant growth has been visible so far, reaching a record 45% in the previous year, relative to year before. The constant growth trend continued in the first three quarters of the current year. Since this Law has been implemented for a short time, the estimate of the base for making projections must be approached with caution. Consequently, the medium-term plan for these revenues was conservatively designed and predicted by a growth rate of 7% in 2018 and an average growth rate of 3.5% in the period 2019-2021, with the assumption that the base for the projection will stabilize, and that medium-term growth will follow macroeconomic forecasts.

Planned revenues from income tax also follows the positive trend in the realization of these revenues, with a projected growth rate of about 8% in 2018 relative to the previous year's execution, while for the medium-term period 2019-2021 the conservative approach is used and it follows the average envisaged real GDP growth of the Federation of Bosnia and Herzegovina

by 3.5%. Projections are also based on current income taxation policy and do not include the estimated effects of the proposed new legal solution on income taxation.

Following the projected revenue growth, the medium-term revenue estimates based on contributions to extra-budgetary funds also follow the envisaged GDP trends, and do not include the estimated effects of proposed policy changes in this area.

The planned level of non-tax revenue for 2018 is somewhat lower than the reported performance in 2017, influenced by the end user revenue plan and plan of unplanned payments in the category of other non-tax revenues. End user revenue collection is directly related to maturity of the repayment of the relevant external debt, thus reaching a high level of execution in 2017. Also, revenues collected from unplanned payments in 2017 were mainly made up of one-off payments, which meant that their full amount of execution could not serve as a representative basis for projections in 2018 and the coming years. It should be noted that the mentioned end-user revenues planned for 2020 and 2021 will again condition a significant increase in the category of non-tax revenues relative to 2018 and 2019.

Republika Srpska

Tables 2a and 2b - Outlook of the general government represent consolidated data on planned budget funds of general government for Republika Srpska.

Medium-term projections of revenues for the general government sector amount to KM 4,304.4 million in 2019, KM 4,432 million in 2020, and KM 4,581.9 million in 2021.

Medium-term projections of total expenditures in the 2019-2021 period for the general government sector amount to KM 3,995.7 million, KM 4,043.7 million and KM 4,097.3 million, through respective years.

Medium-term projections of total expenditures in the 2019-2021 period for the central government sub-sector have a growing trend and amount to KM 2,857.8 million, 2,890.2 million and 2,931.9 million through respective years.

Financing budget and consolidated budget during the period of the programme, plan, sources, instruments, purpose

In the period 2019–2021, total financing (new borrowing) is planned in the amount of KM 1.2 billion, of which KM 0.6 billion is planned in 2019, KM 0.3 billion in 2020, and KM 0.2 billion in 2021.

During this period, part of financing from foreign sources will be reduced in favour of financing from domestic sources, with the share of financing from foreign, i.e. domestic sources in 2019 being 58%, i.e. 42%, whereas the share of financing from foreign sources in 2021 will be reduced to just 7%, while the share of financing from domestic sources will increase to 93% of overall planned financing in the same year. The planned financing will be realised entirely through long-term (domestic and foreign) instruments, with increased share of financing through securities (domestic and long term) during the period, from 42% in 2019 to 93% of total planned financing in 2021, whereas the share of financing through loans (foreign and long term) will decrease from 58% in 2019, to 7% of total planned financing in 2021.

Foreign sources are mainly used for financing investment projects as the result of maximum benefits from access to concessional sources of financing (World Bank, EIB, EBRD, IFAD, KfW, Development Bank of the Council of Europe, etc.). Domestic sources of financing are mainly used for financing budget support as the consequence of credit rating of the country and limited access to the international capital market, as well as conditionality of obtaining concession funds by achieving goals defined at the country level.

3.4. STRUCTURAL BALANCE (CYCLICAL COMPONENT OF THE DEFICIT, ONE-OFF AND TEMPORARY MEASURES, FISCAL STANCE)

To calculate the cyclically adjusted (primary) balance of the consolidated general government in the period 2008-2020, the cyclically adjusted budget balance is calculated using the semi-aggregate methods of the European Commission. The calculation of the cyclical balance carried out by the European Commission is based on the usual two-step procedure: (i) the assessment of the aggregate output gap as an indicator of the economic cycle and (ii) the assessment of the ratio of elasticity of the overall revenue and expenditure to this gap.

The first step is the assessment of the cyclical position of the economy (the output gap) by comparing the actual and potential GDP. Given the lack of availability of data, we could not use the method of output function to assess the aggregate output gap. Thus, the estimate of the potential GDP is based on the adapted Hodrick-Prescott filter due to its transparency and simplicity, with smoothing coefficient (λ) for annual data, 6.25³⁴. According to Bruchez, P.-A. (2003), the adapted Hodrick-Prescott filter solves the problem of bias at the beginning/end of the sample, which was the main flaw of the original HP filter. Using such an adapted filter, there was no need to artificially extend a series of data outside the projected period.

The second step is the assessment of the effect of cyclical developments on the budget by applying the budgetary elasticity. The total elasticity of revenue/expenditure is derived as a weighted sum of the elasticity of individual categories of revenue/expenditure³⁵ which are sensitive to business cycle developments, where weights of certain categories present their shares in the total revenue/expenditure. The elasticity of the individual component of revenue/expenditure is first calculated considering its relevant macroeconomic base and then we calculate the elasticity of macroeconomic base to the aggregate output gap. These two elasticities are multiplied to obtain the elasticity of individual component of revenue/expenditure to the aggregate output gap.

As a standard in assessing elasticity of revenue and expenditure, it is assumed that the elasticities of the consumption tax, income tax, corporate income tax, social contributions and the unemployment expenditure in relation to the corresponding tax base, are equal to one. This way calculated overall elasticity of the budgetary balance of the consolidated general government is 0.347, where revenue elasticity equals 0.337 and expenditure elasticity equals -0.01. The obtained results and their interpretation mainly depend on the length of the used sets, reliability and quality of data.

³⁴ Morten O. Ravn and Harald Uhlig: "Discussion Paper No. 2858 on adjusting the HP – Filter for the frequency of observation, CEPR, June 2001

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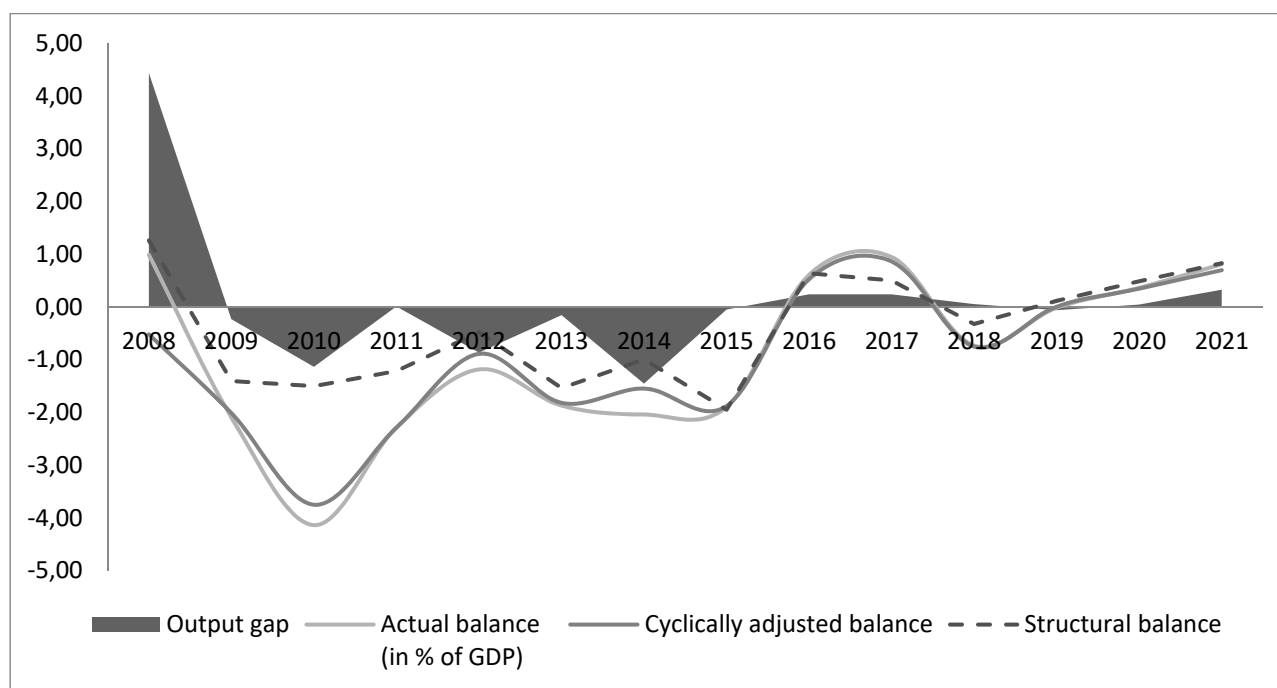
³⁵ Cyclically sensitive components determined on the revenue side are the revenues from VAT and excise duties (consumption tax), income tax, corporate income tax and revenues from social contributions whereas on the expenditure side, only the unemployment expenditure is taken into consideration.

Table 9: Fiscal balance and components for calculation of cyclically adjusted balance 2008-2021, in % of GDP³⁶

Year	Output gap	Fiscal balance	Primary fiscal balance	Cyclical component	Cyclically adjusted fiscal balance	Cyclically adjusted primary balance	Structural balance	Fiscal policy
2008	4.43	0.99	1.41	1.51	-0.52	-0.94	1.26	
2009	-0.23	-2.09	-1.61	-0.08	-2.01	-2.49	-1.40	2.66
2010	-1.13	-4.13	-3.65	-0.39	-3.75	-4.23	-1.50	0.10
2011	0.01	-2.28	-1.83	0.00	-2.29	-2.74	-1.22	-0.28
2012	-0.87	-1.18	-0.59	-0.29	-0.89	-1.48	-0.48	-0.74
2013	-0.16	-1.87	-1.16	-0.05	-1.82	-2.53	-1.54	1.06
2014	-1.45	-2.04	-1.33	-0.49	-1.54	-2.26	-0.99	-0.54
2015	-0.05	-1.89	-1.08	-0.02	-1.88	-2.69	-1.95	0.95
2016	0.24	0.61	1.46	0.08	0.53	-0.32	0.64	-2.58
2017	0.24	0.94	1.72	0.08	0.86	0.09	0.50	0.13
2018	0.05	-0.73	0.12	0.02	-0.75	-1.61	-0.32	0.83
2019	-0.06	-0.01	0.80	-0.02	0.01	-0.81	0.12	-0.44
2020	0.04	0.36	1.22	0.02	0.35	-0.50	0.49	-0.37
2021	0.33	0.81	1.64	0.11	0.70	-0.13	0.83	-0.34

After calculating the overall sensitivity of the budgetary balance, the cyclical component is then obtained as the sum of the output gap and the overall cyclical sensitivity. In order to show the true character of discretionary fiscal policy, we calculate the fiscal stance. It is measured as the annual change of cyclically adjusted primary budgetary balance (excluding the interest), reduced by one-off measures (structural budgetary primary balance), where a plus sign marks expansionary and a minus sign restrictive policy.

Graph 6: Actual and cyclically adjusted fiscal balance in 2008-2021 in % of GDP



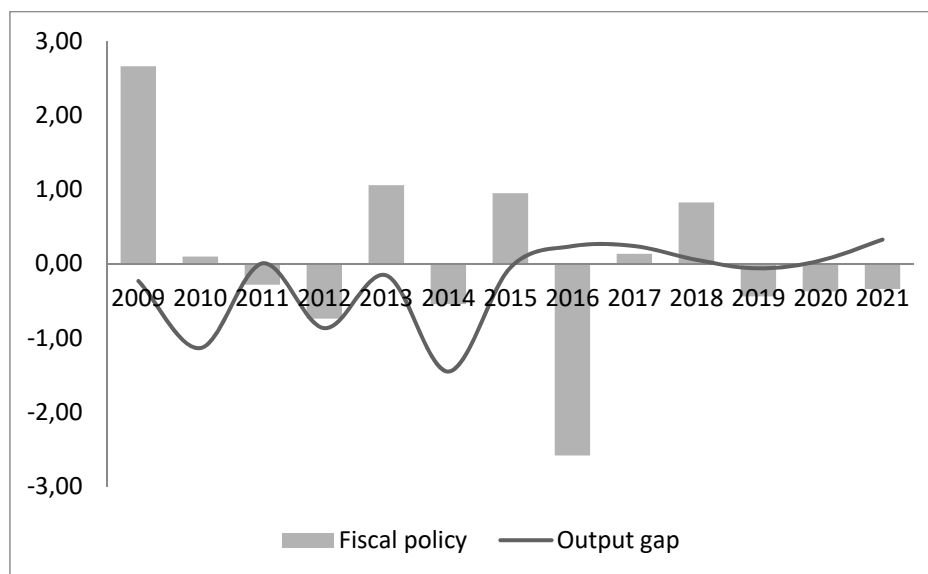
The calculation of cyclically adjusted deficit is used to determine the necessary level of fiscal adjustment during the period. The actual fiscal balance is equal to the cyclically adjusted balance

³⁶ For the period 2008-2015, the CBBiH data were used while for the period 2017-2021 data were provided by the ministries of finance (institutions of BiH and Entities) and the BD Directorate for Finance.

when the output gap equals zero, or if the growth rate of real GDP equals its potential rate. From the above graph that shows the actual fiscal balance, the cyclically adjusted balance and the output gap, it is clear that the positive effects of the cycle were realised in 2008 and 2011 where the output gap has positive values since the growth rate of real GDP is higher than potential GDP rate and the actual fiscal deficit is lower than the cyclically adjusted deficit. In all other years the actual fiscal deficit is higher than the cyclically adjusted one. This is especially evident in 2010, when BiH economy recorded modest growth and recovery from strong 2009 recession, and in 2014, when BiH economy was affected by floods. These years recorded the greatest negative impact of the cycle with high negative values of the output gap.

In 2016 and 2017 growth rates of potential and real GDP are equal, and fiscal balance is equal to cyclically adjusted balance. According to the projections, the effects of the cycle are set to be positive, as real GDP growth is expected to be higher than the potential GDP growth.

Graph 7: Fiscal policy character in BiH in 2009-2021



After the first strike of the global economic crisis which caused the fall of all major macroeconomic aggregates and consequently generated a sharp drop in indirect tax revenues in 2009, stabilisation occurred as early as in 2010 followed by rise in revenues. A positive upward trend in revenues was maintained in 2011, to slow down and decline in 2012. This trend went on in 2013 when, despite the modest economic recovery, the effects of indirect tax collection were negative. A public spending mismatch leads to an increase in public debt and fiscal stance worsens. In 2014, measures are undertaken to restrain current expenditures at all levels of government (salary freeze and restriction of employment in public sector) as well as measures to improve the collection of tax revenues (both direct and indirect) and to suppress grey economy – a pro-cyclical restrictive policy, which brings the improvement of fiscal stance.

Measures that have contributed to the improvement of collection of indirect taxes include amendments to the Law on Excise Duties related to tobacco taxation (effective as of 1 August 2014 and beer taxation (effective as of 1 September 2014). Changes in the policy of tobacco taxation have a twofold objective: further harmonisation of the excise policy with the EU standards and stabilisation of the tobacco market and revenues from excise duties on tobacco. This policy has yielded tangible results as early as in December 2014. A slight increase in current spending was partly a result of the adoption of the Law on Special Solidarity Contribution in Republika Srpska for repairing damages caused by floods, which was extended in 2015 by amending the aforementioned Law.

In 2015 and 2016, a positive and steady growth in collection of indirect taxes was recorded which, coupled with the continuation of fiscal consolidation measures and expenditure controls, leads to a surplus (stabilising restrictive policy). According to submitted and available data, a restrictive stabilisation policy will be continued in the coming period too.

3.5. DEBT LEVELS AND DEVELOPMENTS, ANALYSIS OF BELOW-THE-LINE OPERATIONS AND STOCK-FLOW ADJUSTMENTS

According to data available from the Ministry of Finance and Treasury of BiH, the Entity ministries of finance and Finance Directorate of the Brčko District, the estimated state of total public debt for 2018 amounts to KM 11,123.3 million. From this total amount, 75.7%, i.e. KM 8,420.3 million pertains to foreign debt, whereas 24.3% or KM 2,703.0 million pertains to domestic debt.

Table 10: Public debt state³⁷ and projections (in KM million)

	2017	2018	2019	2020	2021
1. FOREIGN DEBT (1.1+1.2+1.3+1.4)	7,804.9	8,420.3	8,838.9	9,157.7	9,057.5
1.1 Institutions of BiH	74.2	75.3	79.1	71.8	66.0
1.2 Federation of BiH	4,739.3	4,722.7	5,007.7	5,246.1	5,355.9
- Government of the Federation BiH	2,393.5	2,286.3	2,144.7	1,969.8	1,835.1
- Cantons	248.70	238.0	233.6	234.4	237.5
- Municipalities and cities	138.7	145.5	153.1	170.4	178.2
- Public companies and other	1,958.4	2,052.9	2,476.3	2,871.5	3,105.1
1.3 Republika Srpska	2,965.4	3,569.4	3,692.5	3,786.8	3,588.1
- Budget of Republika Srpska	1,748.9	2,211.1	2,294.0	2,384.2	2,273.6
- Local self-government units	110.2	115.4	124.8	127.3	127.0
- Public companies and IDB	1,106.3	1,242.9	1,273.7	1,275.2	1,187.5
1.4 Brčko District	26.0	52.9	59.6	53.0	47.5
2. DOMESTIC DEBT (2.1+2.2+2.3)	3,141.2	2,703.0	2,495.5	2,360.2	2,227.7
2.1 Federation of BiH	1,132.2	897.8	757.3	651.9	547.4
- Government of the Federation BiH	894.7	708.0	640.4	588.4	511.6
- Cantons	178.2	155.0	88.1	40.3	17.9
- Municipalities and cities	59.3	34.8	28.8	23.2	17.9
2.2 Republika Srpska	2,002.5	1,802.1	1,735.7	1,706.5	1,679.1
- Budget of Republika Srpska	1,542.7	1,333.0	1,328.9	1,361.4	1,397.7
- Local self-government units	294.0	278.6	237.7	200.9	163.3
- Social security funds	165.8	190.5	169.1	144.2	118.1
2.3 Brčko District	6.5	3.1	2.5	1.8	1.2
TOTAL (1+2)	10,946.1	11,123.3	11,334.4	11,517.9	11,285.2

³⁷ For Republika Srpska, the total debt is included in accordance with legislation in Republika Srpska. The tables are based on data delivered by the Ministry of Finance of FBiH and the Brčko District, whereas data on the total debt of Republika Srpska were taken from the RS Government – Economic Reform Programme of Republika Srpska for 2019-2021.

Table 11: Public debt repayment and projections (in KM million)

	2017	2018	2019	2020	2021
1.Total FBiH (1.1+1.2)	1,173.9	956.4	1,207.0	1,197.1	1,059.9
1.1 Foreign debt FBiH (sum a-d)	638.3	599.1	651.9	597.4	526.2
<i>a) Government of FBiH</i>	379.7	458.4	381.5	309.2	214.5
<i>b) Cantons</i>	48.2	18.9	33.2	28.5	16.0
<i>c) Municipalities and cities</i>	7.8	4.8	10.5	11.9	12.1
<i>d) Public companies and other</i>	202.6	117.0	226.7	247.8	283.6
1.2 Domestic debt	535.6	357.3	555.1	599.7	533.7
<i>- Government of FBiH</i>	455.6	291.9	482.3	546.3	505.9
<i>- Cantons</i>	69.6	40.5	66.9	47.8	22.4
<i>- Municipalities and cities</i>	10.4	24.9	5.9	5.6	5.4
2.Total RS (2.1+2.2)	949.5	936.5	682.1	569.6	651.2
2.1 Foreign debt of RS	348.0	351.6	298.8	271.0	291.3
<i>- Budget of Republika Srpska</i>	254.6	255.5	194.1	161.0	177.4
<i>- Local self-government units</i>	5.6	7.6	7.8	8.6	9.5
<i>- Public companies and IDB</i>	87.8	88.5	96.9	101.4	104.4
2.2 Domestic debt of RS	601.5	584.9	383.3	298.6	359.9
<i>- Budget of Republika Srpska</i>	377.5	494.4	299.5	218.7	281.1
<i>- Local self-government units</i>	179.3	59.5	53.8	47.8	46.8
<i>- Social security funds</i>	44.7	31.0	30.0	32.1	32.0
3.Total BD (3.1+3.2)	9.3	8.2	9.0	8.4	7.0
3.1 Foreign debt	8.6	7.5	8.3	7.7	6.3
3.2 Domestic debt	0.7	0.7	0.7	0.7	0.7
4. Foreign debt of Institutions of BiH	4.6	5.2	7.6	8.3	6.7
TOTAL BIH (1+2+3+4)	2,137.3	1,906.3	1,905.7	1,783.4	1,724.8

According to available information of the Ministry of Finance and Treasury of BiH and the Ministry of Finance of FBiH, the balance of contingent liabilities as of 30 September 2018 amounts to KM 469.0 million, of which KM 172.9 million pertains to the Federation BiH, and KM 296.1 million pertains to Republika Srpska.

In terms of the structure of purpose of loans, according to records of the Ministry of Finance and Treasury of BiH as on 30 September 2018, 57% of loans are directed to the implementation of infrastructure projects, 29% to loans intended for public sector, while 14% represent investment in economic activities. Credit conditions are characterised by a favourable average interest rate of 1.56% (58.9% of loans with fixed interest rate and 41.1% with variable interest rate) and average maturity of 7.6 years. With regard to the currency structure of loans, those in EUR are still dominant with 58.0%, followed by SRD 27.3%, USD 7.1%, CPU 1.8%, and other currencies³⁸ comprising 5.8%.

In the period from 1 January to 30 September 2018, obligations under foreign debt are serviced in their entirety and in time, in the total amount of KM 625.96 million, of which repayment of principal is in the amount of KM 533.94 million or 85.30%, while repayment of interest, service and other costs makes for KM 92.02 million or 14.70%.

In the total amount of serviced liabilities in the observed period, FBiH accounted for KM 401.52 million (64.15%), Republika Srpska accounted for KM 215.54 million (34.43%), Brčko District accounted for KM 5.39 million (0.86%), and Institutions of BiH accounted for KM 3.51 million (0.56%).

In terms of repayment of “old” debt to creditors, the largest amount was paid to the World Bank – IBRD with KM 35.59 million, the Paris Club with KM 23.36 million, and the London Club of

³⁸ The other currencies are: JPY, KRW, CHF, KWD, SAR, CAD, SEK, DKK, GBP.

creditors with KM 18.56 million, which adds up to KM 77.51 million or 12.38% of the total serviced liabilities in the observed period.

In terms of the amount of repaid “new” debt, the largest amounts were repaid to the IMF with KM 224.31 million, World Bank (IDA and IBRD) with KM 90.52 million, EBRD with KM 73.82 million, EIB with KM 80.07 million, etc.

Table 12: Public debt sustainability indicators³⁹

	2016	2017	2018	2019	2020	2021
GDP (million KM)	31,034	32,299	33,800	35,346	37,044	39,020
Total debt (in million KM)	12,089.6	10,946.1	11,123.3	11,334.4	11,517.9	11,285.2
Export of goods and services (million KM)	10,623	12,180	13,538	14,776	16,067	17,565
Foreign debt (in million KM)	8,539.0	7,804.9	8,420.3	8,838.9	9,157.7	8,057.5
Total debt repayment (in million KM)	1,777.8	2,137.3	1,906.3	1,905.7	1,783.4	1,724.8
Foreign debt service (million KM)	735.4	999.5	963.4	966.6	884.4	830.5
Net revenues from indirect taxes (million KM)	5,387.2	5,573.2	5,758.8	5,899.5	6,068.1	6,253.7
Total debt/GDP (%)	39.0	33.9	32.9	32.1	31.1	28.9
Total debt repayment/GDP (%)	5.7	6.6	5.6	5.4	4.8	4.4
Foreign debt/Export of goods and services (%)	80.4	64.1	62.2	59.8	57.0	45.9
Foreign debt servicing/Revenues from indirect taxes for distribution (%)	13.7	17.9	16.7	16.4	14.6	13.3

Public indebtedness of Bosnia and Herzegovina, in accordance with historical data and given projections, remains within the framework of Maastricht criteria and Bosnia and Herzegovina remains moderately indebted country. The following text deals with the state of debt and developments in the Federation of BiH and Republika Srpska.

The state of public debt in the **Federation of BiH**, according to data available to the FBiH Ministry of Finance, on 30 September 2018 amounts to KM 5,756.40 million, while it is estimated that on 31 December 2018, bearing in mind the amount of foreign debt contracted by the Federation of Bosnia and Herzegovina which was allocated by subsidiary agreements to end-users - financial institutions, public companies, cantons, local communities, banks and other users, as well as the domestic debt of cantons, cities and municipalities, will amount to KM 5,620.44 million.

³⁹ For Republika Srpska, the total debt is included in accordance with legislation in Republika Srpska.

Table 13: State of debt in Federation of BiH by type of debt on date, in KM

Debt categories	State of debt		
	31 December 2017	30 September 2018	Estimate 31 December 2017
1. Domestic debt in FBiH	1,132,235,499	938,472,753	897,698,893
1.1. Domestic debt of Federation of BiH	894,687,448	741,844,275	707,949,775
1.1.1. Securities	866,213,380	713,405,223	673,405,223
a) Long-term securities	766,213,380	673,405,223	633,405,223
Old foreign currency savings	40,795,620	7,987,463	7,987,463
War claims	195,417,760	195,417,760	195,417,760
Bonds of FBiH	530,000,000	470,000,000	430,000,000
b) Short-term securities (treasury bills)	100,000,000	40,000,000	40,000,000
1.1.2. Bank loans	0	0	0
1.1.3. Obligations of former FBiH Ministry of Defence	12,093,764	12,086,059	12,041,558
1.1.4. Verified domestic debt for which bonds were not issued	16,380,304	16,352,994	22,502,994
Old foreign currency savings	14,416,797	8,407,201	14,557,201
War claims	1,963,507	7,945,793	7,945,793
1.2. Domestic debt of the cantons⁴⁰	178,219,241	158,913,277	154,988,324
Bonds	18,806,000	18,806,000	18,806,000
Loans	159,413,241	140,107,277	136,182,324
Other	0	0	0
1.3. Domestic debt of municipalities and cities	59,328,810	37,715,201	34,760,794
Bonds	300,000	100,000	0
Bank loans	59,028,810	37,615,201	34,760,794
Other	0	0	0
2. Foreign debt in FBiH	4,739,373,174	4,817,925,677	4,722,740,641
2.1. Foreign debt of FBiH	2,393,510,330	2,414,932,786	2,286,326,102
2.2. Foreign debt of cantons	248,700,399	239,260,497	238,028,526
2.3. Foreign debt of municipalities and cities	138,719,966	140,028,719	145,463,891
2.4. Foreign debt of public enterprises and other users	1,958,442,479	2,023,703,678	2,052,922,125
TOTAL debt of FBiH	3,288,197,778	3,156,777,062	2,994,275,877
TOTAL debt of cantons	426,919,640	398,173,774	393,016,850
TOTAL debt of municipalities and cities	198,048,776	177,743,920	180,224,685
TOTAL debt of public enterprises and other users	1,958,442,479	2,023,703,678	2,052,922,125
TOTAL DEBT IN FBiH	5,871,608,673	5,756,398,430	5,620,439,534

The total foreign and domestic debt of the Government of the Federation of BiH, without the debt which was transferred to end users in subsidiary agreements, on 31 December 2018 is estimated at KM 2,994.28 million, of which KM 2,286.33 million pertains to foreign debt, and KM 707.95 million pertains to domestic debt.

⁴⁰ Data on the debt of cantons, cities, and municipalities on 30 September 2018 differs from the data contained in the report to the IMF, due to cantons, cities, and municipalities delivering their data on debt on the given date after the report for the IMF was already prepared.

Table 14: Debt of the Government of the Federation of BiH in relation to the GDP (in million KM)

Year	GDP of FBiH ⁴¹	State of debt			Share of debt in the GDP		
		Foreign debt	Domestic debt	Total	Foreign debt	Domestic debt	Total
	1	2	3	4 (2+3)	5	6	7
31 Dec 2018	20,569	2,286.33	707.95	2,994.28	11.12%	3.44%	14.56%
30 Sep 2018	20,569	2,414.93	741.84	3,156.77	11.74%	3.61%	15.35%
31 Dec 2017	19,537	2,393.51	894.69	3,288.20	12.25%	4.58%	16.83%
31 Dec 2016	19,537	2,829.15	1,016.99	3,846.14	14.48%	5.21%	19.69%
31 Dec 2015	18,688	2,825.99	1,027.58	3,853.57	15.12%	5.50%	20.62%
31 Dec 2014	17,728	2,800.31	888.13	3,688.44	15.80%	5.01%	20.81%
31 Dec 2013	17,728	2,652.32	795.83	3,448.15	14.96%	4.49%	19.45%
31 Dec 2012	17,031	2,774.61	870.16	3,644.77	16.29%	5.11%	21.40%

Foreign debt in FBiH – state and projections

The total foreign debt in the Federation of Bosnia and Herzegovina represents the debt managed by the Government of the Federation of BiH and for which it is responsible, and it includes the foreign debt of the Federation of BiH and the foreign debt contracted by the Federation of BiH and then transferred to the end users – financial institutions, public companies, cantons, local communities, banks and other users.

Foreign debt in the Federation of BiH on 30 September 2018 amounted to KM 4,817.93 million (the estimate for 31 December 2018 is KM 4,722.74 million)⁴², and the majority of it was concluded with bilateral (23.63%) and multilateral financial institutions (World Bank, EBRD, EIB, IMF and others) (76.37%) in order to implement major infrastructure projects and for budget support.

Table 15: State of foreign debt in the Federation of BiH on 30 September 2018 with estimates for 31 December 2018 and projection until 2021 (in KM)

	30 Sep 2018	31Dec 2018	2019	2020	2021
2.1. Foreign debt of FBiH	2,414,932,786	2,286,326,102	2,144,679,320	1,969,799,120	1,835,104,712
2.2. Foreign debt of cantons	239,260,497	238,028,526	233,629,226	234,419,595	237,525,945
2.3. Foreign debt of municipalities and cities	140,028,719	145,463,891	153,054,708	170,376,740	178,240,994
2.4. Foreign debt of public companies and other users	2,023,703,678	2,052,922,125	2,476,339,823	2,871,467,768	3,105,063,050
TOTAL	4,817,925,677	4,722,740,641	5,007,703,074	5,246,063,220	5,355,934,699

Domestic debt in the Federation of Bosnia and Herzegovina is the debt incurred in accordance with the Law, by borrowing from domestic financial institutions and by issuance of debt securities. Domestic debt in the Federation of Bosnia and Herzegovina on 30 September 2018 amounts to KM 938.47 million and it is estimated to amount to KM 897.70 million on 31 December 2018.

⁴¹ GDP: First release Annual Gross Domestic Product for the Federation of BiH, 2017, (Market Prices), Institute for Statistics of FBiH, 30 March 2018, No. 10.3.4.

⁴² State of foreign debt on 31 December 2018 is an estimate.

Table 16: State of debt in FBiH by year, with a projection until 2021 (in million KM)

Type of debt/debtors	2016	2017	2018		2019	2020	2021
			30 Sep	31 Dec			
Foreign debt	5,250.05	4,739.37	4,817.93	4,722.74	5,007.70	5,246.06	5,355.93
Government of the Federation of BiH	2,829.15	2,393.51	2,414.93	2,286.33	2,144.68	1,969.80	1,835.10
Cantons	278.81	248.70	239.26	238.03	233.63	234.42	237.53
Municipalities and cities	121.49	138.72	140.03	145.46	153.05	170.38	178.24
Public enterprises and other	2,020.60	1,958.44	2,023.70	2,052.92	2,476.34	2,871.47	3,105.06
Domestic debt	1,273.87	1,132.23	938.47	897.70	757.31	651.90	547.36
Government of the Federation of BiH	1,016.99	894.69	741.84	707.95	640.41	588.40	511.62
Cantons	199.87	178.22	158.91	154.99	88.07	40.28	17.90
Municipalities and cities	57.01	59.33	37.72	34.76	28.82	23.22	17.85
TOTAL	6,523.91	5,871.61	5,756.40	5,620.44	5,765.01	5,897.96	5,943.30
Government of the Federation of BiH	3,846.14	3,288.20	3,156.78	2,994.28	2,785.09	2,558.20	2,386.72
Cantons	478.68	426.92	398.17	393.02	321.70	274.70	255.42
Municipalities and cities	178.50	198.05	177.74	180.22	181.88	193.59	196.09
Public enterprises and other	2,020.60	1,958.44	2,023.70	2,052.92	2,476.34	2,871.47	3,105.06

Debt of FBiH

The foreign debt of the Government of the Federation of Bosnia and Herzegovina is the debt of FBiH in which the debtor is, directly or indirectly, the FBiH Ministry of Finance on behalf of FBiH. The foreign debt comprises debt contracted by the Ministry of Finance and Treasury of BiH which was transferred to the Federation of Bosnia and Herzegovina as the end user, debt contracted directly by the Federation of Bosnia and Herzegovina with foreign creditors with consent of the Parliament of BiH, as well as inherited “old debt” (allocated and non-allocated) which was reprogrammed through the Paris Club and London Club of creditors. The foreign debt of the Federation of BiH does not comprise debt contracted for the purpose of transferring it to end users (financial institutions, public companies, cantons and local communities), regardless of whether it was contracted directly or through the Ministry of Finance and Treasury of BiH.

The domestic debt of the Federation of Bosnia and Herzegovina is the debt incurred in accordance with the Law and the debt incurred by issuance of debt securities. The statutory domestic debt is settled by cash payments or issuing securities (non-market instruments). Non-market instruments are bonds issued directly based on verified liabilities for old foreign currency savings and war claims. These bonds have a legally prescribed maturity and a 2.5% interest rate.

According to available data, the domestic debt of the Federation of Bosnia and Herzegovina on 30 September 2018 amounted on KM 741.84 million (according to estimates, on 31 December 2018 the debt will amount to KM 707.95 million).

The domestic debt incurred by issuing securities, in addition to securities issued for the purpose of settling the debt prescribed by the law (non-market instruments), also comprises market instruments. Market instruments are treasury bills and treasury bonds, which the Federation of BiH started issuing through auctions in 2011 and 2012, respectively. According to the tentative calendar of auctions, 13 auctions of treasury bills and six auctions of treasury bonds were planned in 2018. Due to the reduced need for financing current liquidity, 11 auctions of treasury

bills and five auctions of treasury bonds were cancelled. One auction of treasury bills was held in the period before 30 September 2018, in which treasury bonds were issued in the amount of KM 20.00 million with 9-month maturity. One more auction of treasury bills was held in the fourth quarter of 2018 (in the amount of KM 20.00 million and with 9-month maturity) and one five-year bond issuance amounting to KM 20.00 million. No more treasury bills or bonds are planned to be issued until the end of the year. Banks operating in the territory of FBiH remain the main investors in securities of the Government of the Federation of BiH, although insurance companies also appear as investors.

Securities are registered in the Registry of Securities in the Federation of BiH and are quoted in the Sarajevo Stock Exchange. On 30 September 2018 there were KM 510.00 million remaining outstanding obligations based on issued market securities (at the end of 2018 there will be KM 470.00 million), and KM 203.41 million based on non-market securities, which will be the amount on 31 December 2018 as well. Unsettled debt prescribed by the law, i.e. debt to employees and suppliers of the former Ministry of Defence of FBiH and Army of FBiH, and obligations arising from war claims and verified obligations arising from old foreign currency savings for which no securities were issued on 30 September 2018 amount to KM 28.44 million, and will amount to KM 35.54 million on 31 December 2018 according to estimates. Obligations arising from old foreign currency savings verified in 2018 will be settled by issuing securities in 2019.

Table 17: Structure of domestic debt of the Federation of BiH with state on 31 December 2016 and 2017 and projections for the 2018-2021 period (in million KM)

	2016	2017	30 Sep 2018	2018	2019	2020	2021
Total domestic debt	1,016.99	861.43	741.84	707.95	640.41	588.40	511.62
Non-market instruments	247.23	236.21	203.41	203.41	160.67	109.86	74.28
Bonds OFCS ⁴³	51.81	40.80	7.99	7.99	11.00	0	0
Bonds WC	195.42	195.42	195.42	195.42	149.67	109.86	74.28
Market instruments	740.80	600.00	510.00	470.00	470.00	470.00	470.00
Treasury bills	120.80	100.00	40.00	40.00	40.00	40.00	40.00
Bonds ⁴⁴	620.00	500.00	470.00	430.00	430.00	430.00	430.00
Obligations of former MoD	12.16	12.13	12.08	12.04	9.74	8.54	7.34
Suppliers	7.28	7.28	7.25	7.23	5.23	4.23	3.23
Salaries	4.88	4.85	4.83	4.81	4.51	4.31	4.11
Other (OFCS verified in 2018 and verdicts for WC)	16.80	13.08	16.35	22.50	0	0	0

The legally prescribed domestic debt, in the part pertaining to obligations to suppliers and military salaries and compensations, has been settled entirely in cash. As on 30 September 2018, obligations to suppliers were settled in the amount of KM 17.75 million, whereas military salaries and compensations were settled in the amount of KM 32.67 million.

Obligations arising from old foreign currency savings and war claims are being settled both in cash and through issuing bonds. As on 30 September 2018, war claims were settled in cash in the amount of KM 14.65 million and old foreign currency savings were settled in the amount of KM 107.48 million. For the purpose of settling obligations arising from old foreign currency savings, there were ten bonds issuances in the total value of KM 877.39 million, of which KM 869.41 million matured and were paid as on 30 September 2018. For the purpose of settling obligations arising from war claims, there were four bonds issuances in the total value of KM

⁴³ Old foreign currency savings – includes issuance planned for 2019 and 2020.

⁴⁴ Includes issuance planned for 2019 and 2020.

195.42 million. Settlements of principals for war claims for which bonds were issued shall begin after the 9-year grace period expires.⁴⁵

In 2018 (as on 30 September 2018) a total of KM 184.36 million was paid for servicing the domestic debt, of which KM 169.85 million was paid for the principal, and KM 14.52 million was paid for interest rates (it is expected that the total servicing of domestic debt in 2018 will amount to KM 292.05 million, of which KM 270.69 million for the principal and KM 21.36 million for interest rates).

Indebtedness in the Federation of BiH remains in line with the Maastricht criteria, and servicing of the debt within the limitations set under the Law on Debt, Borrowing and Guarantees.

Share of servicing the foreign debt which was transferred to end-users through subsidiary agreements in the total obligation of FBiH is gradually increasing.

Although servicing of domestic long-term debt of the Federation of BiH makes up a significant share of total annual obligations, net domestic borrowing is not increasing.

Table 18: Net borrowing of the Government of the Federation of BiH by issuing securities in the domestic market with projections until 2021 (in million KM)

Type of securities		2016	2017	30 Sep 2018	2018	2019	2020	2021
Treasury bonds of the Federation of BiH	Issuance	140.00	0.00	0.00	20.00	90.00	120.00	100.00
	Repayment of principal	-40.00	-120.00	-60.00	120.00	-90.00	120.00	-100.00
	Net borrowing	100.00	-120.00	-60.00	-100.00	0.00	0.00	0.00
Treasury bills of the Federation of BiH	Issuance	320.80	300.00	20.00	40.00	300.00	360.00	360.00
	Repayment of principal	-300.00	-280.80	-60.00	-100.00	-300.00	-360.00	-360.00
	Net borrowing	20.80	-19.20	-40.00	-60.00	0.00	0.00	0.00
TOTAL BORROWING		120.80	-100.80	-100.00	-160.00	0.00	0.00	0.00

Debt management with the aim of maintaining the debt at the same level or decreasing its share in GDP, higher participation of borrowing in accordance with the model of guarantees, maintaining an even structure of repayment by year (with the goal of minimising liquidity risk), and continued development and improvement of the domestic securities market will remain one of priorities in the Federation of BiH.

New borrowing should be associated with projects contributing to acceleration of reforms as the basis for further economic growth. The adoption of each separate decision on new borrowing assumes the necessary analysis of macroeconomic flows and their sensitivity in the context of each new borrowing and their implications on GDP, in order to minimise the overall risks and continue with the development of the domestic securities market.

Contingent liabilities

Contingent liabilities of the Federation of Bosnia and Herzegovina are financial obligations that may arise in the budget of FBiH from issued guarantees or decisions of the Parliament of FBiH on possible taking over of obligations of cantons, local communities or public companies.

In 2010 the Government of FBiH issued a guarantee for *JP Željeznice FBiH* for a loan in the amount of KM 78.9 million. The outstanding debt arising from the guarantee on 30 September 2018 amounted to KM 19.00 million (on 31 December 2018 it will be KM 16.25 million). Considering that the loan under the guarantee, in addition to other insurance instruments, is insured by a cash flow of transfers from the budget of FBiH which are regularly planned in the

⁴⁵ Repayment of tranche I principal will begin in 2019, for tranche II in 2021, for tranche III in 2023, and for tranche IV in 2025.

budget of FBiH in line with the relevant legislation, the risk of activating this guarantee is very low.

Table 19: State of contingent liabilities (loans under guarantees of FBiH) on 31 December with projections until 2021 (in million KM)

	2015	2016	2017	30 Sep 2018	31 Dec 2018	2019	2020	2021
Federation of BiH ⁴⁶	50.98	36.61	26.71	26.15	16.25	115.49	296.37	909.30
Cantons	114.40	83.38	98.64	95.40	95.40	90.33	86.37	81.31
Municipalities and cities	57.92	54.05	55.07	51.30	51.30	34.95	35.1	31.20
TOTAL	223.30	135.73	180.84	172.85	152.95	240.77	417.84	1,021.81

Table 20: Yearly liabilities under loans for which FBiH issued or intends to issue guarantees (in million KM)

	2019	2020	2021
Željeznice FBiH	8.12	8.13	0
JP EPBiH (TPP Tuzla-block 7)	14.56	9.96	11.37
TOTAL	22.68	18.09	11.37

The Law on Debt, Borrowing and Guarantees of FBiH clearly prescribes that the debt of cantons, cities, municipalities and public companies does not represent the debt of FBiH and that FBiH will not be responsible for their debt. However, current financial position in several cantons, municipalities and public companies to which FBiH transferred credits indicates to possible difficulties in financing their obligations toward the Government of FBiH.

The Law on Borrowing, Debt and Guarantees of **Republika Srpska** regulates in detail the scope of borrowing and the issuance of guarantees of Republika Srpska and local self-government units, as well as the methods and procedures of borrowing, which together with the existing laws on budget system represent a comprehensive legal framework for improvement and control of budget discipline. This law imposes the restriction on the amount of debt, so that total debt of Republika Srpska at the end of a fiscal year may not exceed 60%, while the public debt of Republika Srpska may not exceed 55% of GDP realised in that year.

The state of public debt of Republika Srpska on 30 September 2018 amounted to KM 4,065 million, which is 38.5% of the GDP, whereas the state of total debt of Republika Srpska amounted to KM 5,190.5 million, i.e. 49.2% of the GDP.

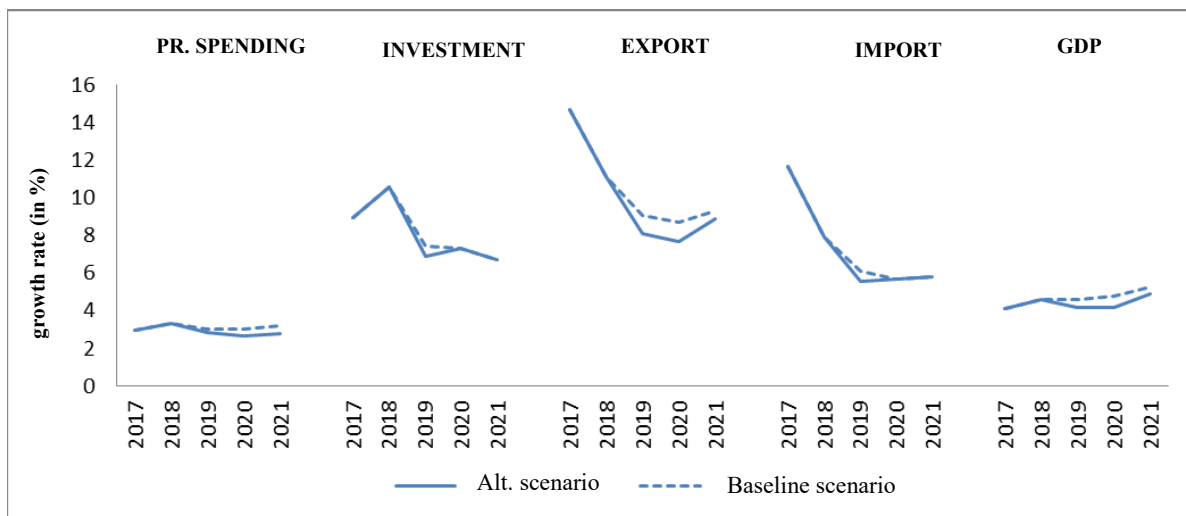
⁴⁶ Contingent liabilities of the Federation of BiH pertain to the guarantee under subordinated loan for *Željeznice FBiH*. In addition, the Federation of BiH intends to issue a guarantee for borrowing of *JP EP BiH*. The projected state of debt under loans to which these guarantees refer by year (in million KM) is as follows:

3.6. SENSITIVITY ANALYSIS AND COMPARISON WITH THE PREVIOUS PROGRAMME

Sensitivity of the budgetary projections to alternative scenarios and risks

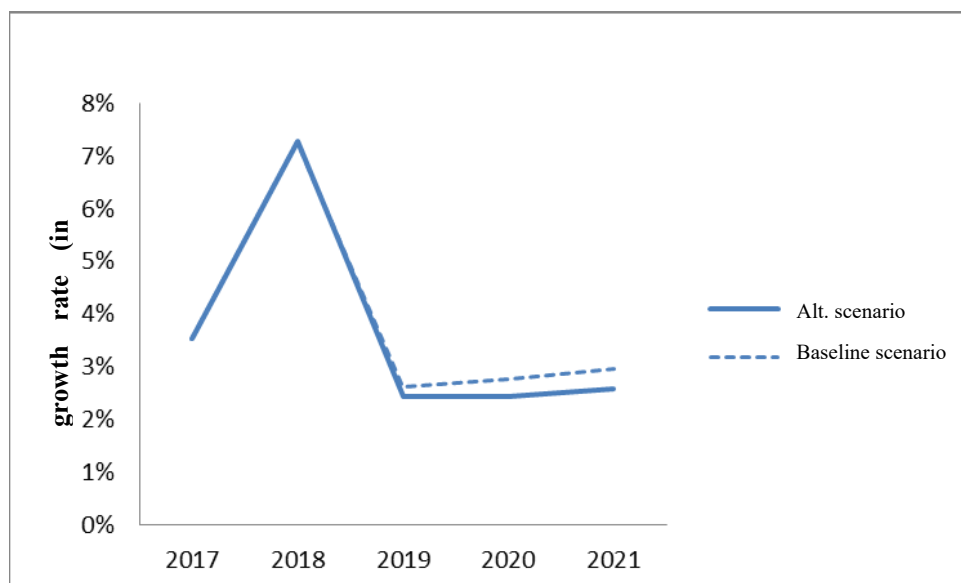
The Directorate for Economic Planning of BiH prepared an alternative scenario of projections of macroeconomic indicators, both for internal risks to the realisation of the baseline scenario and for external risks, considering that developments in the external surroundings also have a significant impact on economic flows in BiH. When compared to the baseline scenario of macroeconomic projections (DEP, September 2018), projections from the alternative scenario envisage lower growth rates of the GDP in the 2019 – 2021 period, given the lower growth rates of export, spending, and, to a smaller degree, investment and import, due to the used assumptions regarding risk fulfilment (Graph 8). Growth rates of government spending are not changed in comparison with the baseline scenario.

Graph 8: Growth rates



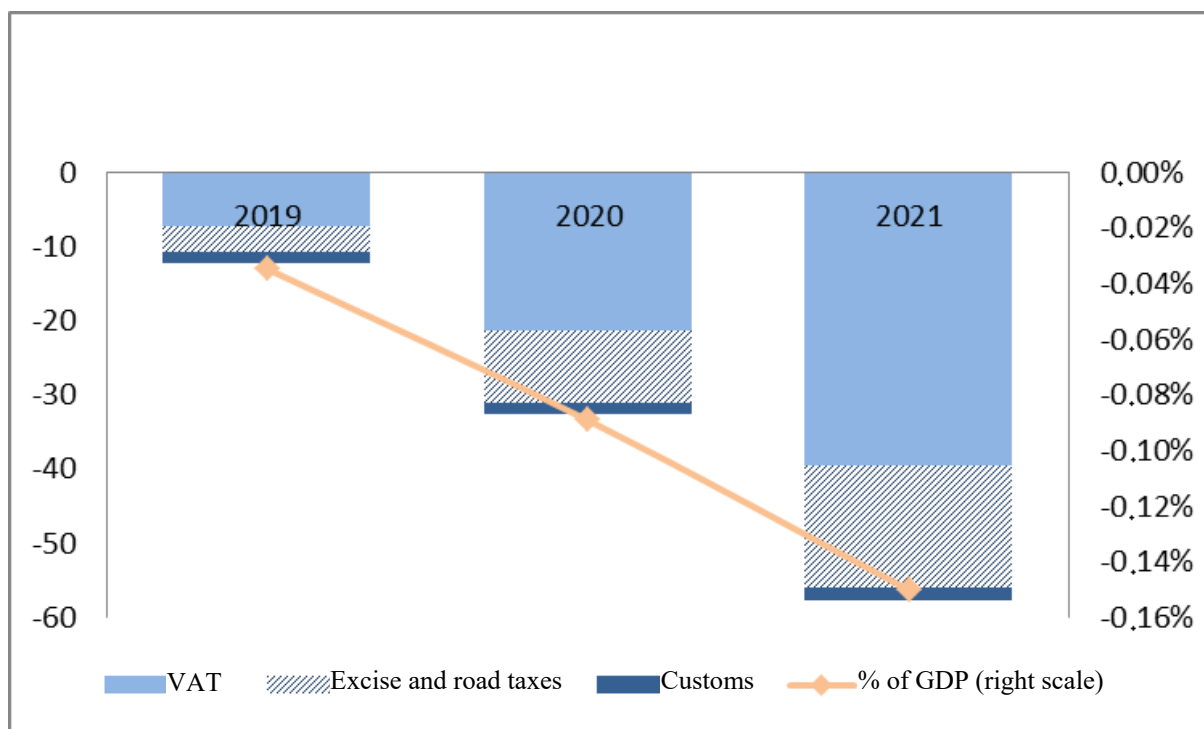
Considering the fact that projections of revenues from indirect taxes are closely related to projections of macroeconomic indicators, the realisation of assumptions from the alternative scenario would lead to lower growth of revenues from indirect taxes in the 2019-2021 period, when compared to growth rates from the baseline scenario.

Graph 9: Sensitivity of revenues from indirect taxes



Graph 9 visualises growth rates of revenues of projections from the baseline and alternative scenario. It is visible that the differences of growth rates of revenues are not significant (-0.20 pps., -0.32 pps. and -0.37 pps. in 2019, 2010 and 2021, respectively), because the differences in the estimates of main macroeconomic indicators are not significant to begin with. In absolute values, the differences are KM -12.2 million in 2019, KM -32.7 million in 2020 and KM -57.7 million in 2021.⁴⁷ The biggest differences in absolute values pertain to revenues from collection of VAT (KM -7.3 million, KM -21.5 million and KM -39.5 million in 2019, 2010 and 2021, respectively), considering that VAT revenues account for the largest share in the structure of revenues from indirect taxes and the adjustments of the growth rates of spending and import in the alternative scenario. Excise and road revenues were adjusted downward due to the revised growth rate of spending in the alternative scenario, while the revision of the growth rates of import in 2019 affected the projections of customs revenues in all years, considering the fact that customs revenues in one year serve as the basis for projections for the next year. The differences of projections of revenues from indirect taxes in the alternative scenario relative to the baseline scenario are presented in Graph 10.

Graph 10: Correction of revenues from indirect taxes in the alternative scenario in million KM and % of GDP



Comparison with the previous program

Table 2 presents the differences of the baseline scenario of projections of revenues from indirect taxes for the 2018-2021 period from this programme (Macroeconomic Unit of the Governing Board of the Indirect Tax Authority, October 2018) relative to the projections from the document ERP 2018-2020 (Macroeconomic Unit of the Governing Board of the Indirect Tax Authority, October 2017).

⁴⁷ In % of GDP: -0.03% in 2019, -0.09% in 2020 and -0.15% in 2021.

Table 21: Differences of projections of revenues from indirect taxes in comparison with projections from the previous programme

Document	Time of preparation of projection	Execution/projection* of indirect taxes (in KM million)				
		2017	2018	2019	2020	2021
ERP 2018-2020	October 2018	5,812.0	6,002.7	6,210.6	6,465.7	n/a
ERP 2019-2021	October 2019	5,726.0	6,142.6	6,304.3	6,478.6	6.670,7
Correction (in %)		-1,5%	2.3%	1.5%	0.2%	

*Note: White cells pertain to execution, while grey cells pertain to projection of revenues

Implementation for 2017

Table 2 shows that real collection of revenues from indirect taxes in 2017 was 1.5% lower than the projections presented in the preceding programme (i.e. KM -86 million). Projections of indirect taxes from October 2017⁴⁸ were made on the basis of data on collection of revenues for the period from January to September 2017. The growth rate of cumulative net revenues for the period January-September 2017 was 5.7%, whereas the projection of growth of net revenues for whole of 2017 (relative to 2016) was 5.1%. As it turned out, the continuation of high growth rates was optimistic, because the cumulative rate of collection (4.9%) dropped below the projected annual growth rate for 2017 already in October. Due to escalating returns and decrease of revenues from excise duties, the deterioration of collection trends continued until the end of the year. Finally, the growth rate of cumulative net collection in December (3.5%) was 1.6 pps. below the rate projected in October (5.1%).

Projections for 2018-2020

Table 3 presents the differences between types of revenue execution/projections in comparison with the preceding programme. We can see that revenue projections were corrected by KM +139.8 million, +93.7 million and +12.9 million, by respective years 2018, 2019 and 2020.

Table 22: Differences in comparison with the previous programme

Differences in KM Million	2017	2018	2019	2020
VAT	-45.8	-11.7	-60.6	-122.7
Excise duties	-32.3	-77.4	-94.4	-112.4
Customs	-2.9	-1.8	-1.8	-3.5
Road taxes	2.6	232.3	252.0	252.7
Other	-7.8	-1.7	-1.5	-1.2
TOTAL	-86.0	139.8	93.7	12.9

Note: White cells pertain to execution, while grey cells pertain to projection of revenues

As we can see, the biggest corrections in 2018 pertain to revenues from road taxes (KM +232.3 million). This is the result of the fact that the effects of the increase in the rate of earmarked road taxes (from 0.10 to 0.25 KM/l of petroleum products) were not included in the projections from the previous programme, because the policy change was not certain at the time. Projections for 2018 were adjusted downward for VAT revenues and Excise duties revenues. The main factors that contributed to VAT revenues not being adjusted in proportion to the change of the tax base (adjustment in 2017) are: (1) the practice of compensating liabilities for excise duties and road tax by VAT claims, which began in 2018 and increased the cash flow of VAT collection, (2) accompanying effects of the increase in the rate of earmarked road taxes on VAT revenues,

⁴⁸ Macroeconomic Unit of the Governing Board of the Indirect Tax Authority, MAU Bulletin 148-149, http://www.oma.uino.gov.ba/bilteni/Oma_Bilten_eng_148_149.pdf

which were not included in the previous programme. The practice of compensating liabilities is also the reason for the greater downward adjustment of excise duties revenues than the base in 2017. The smaller downward adjustment of customs revenues (KM -1.7 million) is the result of the downward adjustment of the base in 2017 and upward adjustment of the projected growth rate of import for 2018.

The adjustments in 2019 and 2020 are the result of the base correction for all types of revenues (2018), deterioration of trends in the tobacco market, greater road tolls in January 2019 compared to January 2018, and downward adjustments of projected growth rates of private spending and import in comparison with the previous programme (DEP).

The medium-term plan of public revenues in the **Federation of BiH** is closely related to expected trends of macroeconomic indicators, which means that its execution may have a different outcome in the event of a significant deceleration of economic growth relative to the estimates.

Considering the fact that revenues from indirect taxes on the Single Account make up the largest share of the total plan of public revenues, the collection level will depend on the quality of coordination between all users of the revenues, institutions of Bosnia and Herzegovina, the entities and Brčko District of BiH on the one hand, and all users of revenues from indirect taxes within the Federation of BiH on the other, with special emphasis on continuation of coefficient adjustments for the distribution of these revenues to users. The lack of stable coefficients, changes in the level of debt, amendments to tax policies, tax system administration, etc. pose a significant risk to the realisation of medium-term revenue forecasts.

As mentioned earlier in the text, the Plan of revenues 2018-2021 did not include the estimated effects of proposed changes of tax policies. Their implementation may lead to a different level of execution of revenues than the estimated level.

3.7. FISCAL GOVERNANCE AND BUDGETARY FRAMEWORKS

Institutions of BiH – The budget framework of the Institutions of Bosnia and Herzegovina is prescribed by the Fiscal Council of Bosnia and Herzegovina through adoption of the Global Framework of Fiscal Balance and Policies in Bosnia and Herzegovina. The fiscal framework contains macroeconomic projections of the Directorate for Economic Planning and projections of revenues from indirect taxes based on those projections, developed by the Macroeconomic Analysis Unit of the Indirect Taxation Authority Governing Board. Based on parameters contained in the Global Framework, the Framework Budget Document of the Institutions of BiH for the following three-year period is developed and adopted, along with the budget for next year. The financial operations of the institutions of BiH are audited by the Audit Office for the Institutions of BiH.

In terms of the development of the PIFC system, an IPA-funded project is currently being implemented which will provide technical support to all Central Harmonisation Units of BiH during the development of the 2019-2025 Strategy. With the Strategy for the Development of Internal Financial Control System in the Institutions of Bosnia and Herzegovina for the Period 2016-2018 already implemented, it is clear that Institutions of BiH are committed to further development of the PIFC system, internal auditing and internal financial control, which should result in the integration of these processes into the administration processes in institutions of BiH. This integration should lead to visible contributions of these systems to ensuring accountability of heads of institutions, and achieving more legality and regularity of budget spending and achieving goals for which budget funds are allocated.

Further enhancement of the **management of public finance in the Federation of BiH** will remain a priority of the Government of the Federation of BiH in the future. The establishment

of comprehensive and well-organised public finance is a precondition for successful reform processes and further development of all sectors of the society. The framework and basis for fiscal policy management are the laws and strategies listed below.

The Law on Budgets in the Federation of BiH defines the budget system and budget preparation and adoption process according to the budget calendar. The obligation of preparing the Framework Budget Document of the Federation of BiH as the basis for preparing and drafting the budget is legally prescribed. The Framework Budget Document of FBiH is adopted every year for the following three years, and its purpose is to set a strategic framework and upper limits of resources, within which the annual budget should be prepared. In this context, the preparation and development of the budget is based on the Framework Budget Document. The key goal of the document is to ensure a greater level of correspondence between the Government's priority policies and the way it allocates public resources.

The Law on Budgets in the Federation of BiH established the Fiscal Coordination Body of FBiH, solely for the purpose of coordinating fiscal policy, with the goal of securing macroeconomic stability and fiscal sustainability of the Federation of BiH. The Law also defined some fiscal rules: (1) The planned current fiscal balance of the budget must be either in surplus or balanced, except in the case of a catastrophe or natural disaster declared by a legislative body and where determined damages reach or exceed 20 % of the executed expenditures from the previous fiscal year; and (2) The deficit from previous years shall be offset by the Government by planning funds in the budget in order to cover the deficit in the subsequent five fiscal years.

The Law on the Fiscal Council of BiH, which defines the Fiscal Council of BiH and coordinates fiscal policy in BiH, and adopts the document The Global Framework for Fiscal Balance and Policies in BiH, which is adopted every year for the subsequent three years. The document proposes the fiscal goals of the budget and upper limits of borrowing for institutions of BiH, FBiH, Republika Srpska and Brčko District of BiH.

In the implementation the public expenditure management policy, i.e. measures for improving budget planning, development and execution, special attention was paid through the adopted Public Finance Management Reform Strategy 2017-2020. The aim of this strategy is to strengthen budget planning, coordination, implementation and monitoring of progress in implementing of activities of public finance management, with the goal of strengthening fiscal accountability and discipline, ensuring efficient and purposeful use of public resources, and improving services provided by the state administration, while increasing accountability, transparency and functionality in public financial management, and fulfilling necessary conditions for accession to the European Union.

Public finance management **in Republika Srpska** represents the top priority of the Government of Republika Srpska. Establishment of all-encompassing and adequately organised public finance represents a precondition for successful processes of reforms and further development of all sectors of society. The framework and basis for fiscal policy management are laws, strategies and arrangements, i.e.:

- Law on the Budget System of Republika Srpska,
- Law on the Fiscal Council of BiH,
- Law on Fiscal Accountability of Republika Srpska, and
- Republika Srpska Debt Management Strategy 2018-2021.

3.8. SUSTAINABILITY OF PUBLIC FINANCES

Institutions of BiH

In December 2016, the Council of Ministers of BiH adopted the Strategy of Public Finance Management Reform in Institutions of Bosnia and Herzegovina 2017 - 2020, which has been published on the website of the Ministry of Finance and Treasury of Bosnia and Herzegovina (www.mft.gov.ba).

Reform measures presented in the Strategy of Public Finance Management Reform in Institutions of BiH 2017 – 2020 are based on the 2014 Public Expenditure and Financial Accountability Assessment (PEFA), European Commission Progress Report on Bosnia and Herzegovina for 2015, the SIGMA/OECD Baseline Measurement Report: The Principles of Public Administration for Bosnia and Herzegovina from April 2015, and Progress Report from May 2016, IMF Country Report from October 2015, as well as the Reform Agenda of BiH 2015 – 2018. The measures contained in the Strategy cover all subsystems of public finance management and focus on capacity building in institutions of BiH in order to achieve greater functionality, transparency, accountability and efficiency in public finance management and contribute to increasing macroeconomic stability in BiH.

In April 2016, the Council of Ministers of BiH adopted the Medium-Term Debt Management Strategy of Bosnia and Herzegovina 2015-2018, which presents debt structure, estimates the state of debt and defines medium-term goals of debt management, as well as guidelines for accomplishment of set goals. The Medium-Term Debt Management Strategy of BiH (MTDS BiH) comprises a consolidation of medium-term debt management strategies of Republika Srpska (RS), the Federation of BiH (FBiH) and Brčko District of BiH, including the external debt of the institutions of BiH. With the goal of increasing the quality of debt management in BiH and the need for annual revisions and updates the MTDS BiH, in May 2017 the Council of Ministers of BiH also adopted the Medium-Term Debt Management Strategy of Bosnia and Herzegovina 2016 – 2019.

Federation of BiH

The Strategy covers a broad area and includes the key areas of public finance management, divided across six pillars:

- Sustainable medium-term macro fiscal and budgetary framework;
- Mobilisation of revenues;
- Budget planning and development;
- Efficient and effective budget execution;
- Introduction of efficient internal control; and
- Ensuring external control over public finances by external auditing.

Expected results are defined under each of the pillars, accompanied by a detailed presentation of one or more measures, activities under each measure, performance indicators, deadlines, sources of funding and authorities responsible for implementing each activity. Measures to be implemented are based on previously mentioned analyses of SIGMA, IMF, Progress Reports on Public Administration Reform in BiH, the Letter of Intent to the IMF, all in line with commitments of the Government of FBiH defined in the Reform Agenda.

Some of the most important activities are: broadening the scope of projections by adding projections of consolidated expenditures of all levels of government, development and adoption of laws in the area of taxation, building capacities for development of macro projections and projections of revenues and expenditures, improving the existing and implementation of new information systems, implementation of programme-based budgeting at the level of the

Federation of BiH and in all ten Cantons with the goal of improving the effects of public finance spending, adoption and implementation of International Accounting Standards for the public sector, capacity building and strengthening of the budget control unit, ensuring functional, operational and financial independence of the Audit Office, etc.

In 2018, under the pillar “Budget planning and development”, the first measure was implemented, i.e. activities pertaining to broadening the scope of the Framework Budget Document by presenting budget projections for cities, municipalities and cantons for the first time in the Framework Budget Document 2019 – 2021, along with projections of financial plans of non-budgetary funds in the Federation of BiH. By adding these projections into the Document, the framework fiscal goals of the Federation of BiH were also set, which pertain to achieving positive financial results in all levels of government in the Federation of BiH in the future medium-term period.

As part of the USAID FAR project in 2018, the e-Budget application for budget planning was developed and successfully implemented on the level of all 10 cantons in the Federation of BiH. The implementation of this application will greatly facilitate the work on budget preparation for the cantonal ministries and improve its transparency, as well as enable better quality of in-depth analyses of budget demands delivered by the budget users. It is expected that most of the cantons will prepare their budgets for 2019 by using this application.

With the aim of increasing efficiency and control in the allocation and spending of public funds, the FBiH Ministry of Finance published the Guidelines on Minimum Standards for Allocation of Budget Funds through Transfers and Subsidies in the Federation of BiH, which lay down the minimum standards for allocation of budget funds planned in the Budget of the Federation of BiH, budgets of the cantons, local self-government units, and financial plans of non-budgetary funds and public companies.

With the entry into force of the Law on Single Register of Beneficiaries of Non-contributory Cash Benefits, the obligation of establishing a Single Register of Cash Benefits also came into power. The Budget of the Federation of BiH for 2018 allocated funds in the amount of KM 300,000.00 to the Ministry of Labour and Social Policy for the procurement of the necessary hardware equipment and software. The programme solution is a type of database that is aimed at consolidating all data from the cantonal and FBiH ministries in the area of social policy and veterans’ and disability protection.

In 2018, the FBiH Ministry of Labour and Social Policy finalised the procurement procedure of hardware equipment, signed the contract with the selected bidder and is expecting the equipment to be delivered. The procurement procedure of the service of designing and installing the programme solution is also ongoing. However, taking into account the filing of appeals to the procurement documentation, there is a possibility of postponing the finalisation of the started procedure, which is expected to be completed by the end of the year. Launching the operation of the Single Register will significantly improve social policy planning and ensure fairer distribution of funds earmarked for the veteran population and population in social need, which will be based on actual needs of the beneficiaries.

Reform measure 4.5 of the Public Finance Management Reform Strategy of the Federation of BiH 2017-2020 is Strengthening debt management in the Federation of BiH. Measures defined in the Strategy mostly coincide with planned activities that were defined in the Economic and Financial Programme 2018-2020.

The implementation of economic policies comprises the achievement of three main goals: ensuring that the public debt is continuously maintained within the Maastricht criteria, introducing higher standards of control in management of public funds, developing a stronger system of accountability, legality and transparency in the spending of budget funds.

The key obstacles in this process are the lack of a single database on debt in different government levels, unreliability of records and long period of collecting data on debt and guarantees of cantons, municipalities and cities, as well as inadequate procedure of issuing guarantees and risk assessment for issuing guarantees of the Federation of BiH, cantons, municipalities and cities. The obstacles and inadequate legal regulation of the process of issuing guarantees of the Federation of BiH, cantons, municipalities and cities, along with issuing guarantees of the higher level of government, considering the fact that the Federation of BiH is the bearer of obligations of the whole foreign debt, leads to the increase of the share of debt from the FBiH level in the GDP.

In order to achieve sustainability of public debt, in addition to adequate amendments, i.e. adoption of the new Law on Debt, Borrowing and Guarantees in the Federation of BiH, it is necessary to also adopt the appropriate regulations. This would contribute to the implementation of the planned economic policy and reform, both in terms of establishing new fiscal rules for debt, borrowing and guarantees, and in terms of the scope of measurement of public debt which is aligned with the statistical methodology of the European Union.

With the procurement of software, a single database would be established, which would enable recording debt of all levels of government in the Federation of BiH in one place and facilitate analyses aimed at debt management and reporting.

Furthermore, FBiH issuing guarantees for the implementation of big infrastructural projects in the field of energy and communications would indirectly lead to new jobs.

The Government of the Federation of BiH submitted the new Law on Debt, Borrowing and Guarantees in FBiH into parliamentary procedure, after adopting the Draft Law in its 122nd session held on 10 October 2017. The House of Peoples of the Parliament of the Federation of BiH adopted the Draft Law in its 18th extraordinary session held on 19 April 2018. Considering the fact that further activities depend on the finalisation of activities in the procedure of adoption the new Law by the Parliament of FBiH, the adoption of regulations is planned for 2019.

Activities that pertain to the procurement of the information system should be completed by the end of 2019.

Reform aimed at strengthening fiscal accountability and fiscal management has the goals of introducing higher standards of control in the management of public funds, developing a stronger system of accountability and greater legality and regularity in spending budget funds. A regulatory framework was established that was necessary for the development of public internal financial control (PIFC) in the public sector of the Federation of BiH, and most of the regulatory and methodological acts were also adopted and updated. In the future period it is necessary to continue further development of the field of financial management and control and internal audits in terms of regulations and strengthening human resource capacities, especially considering that the legislative scope of PIFC regulations was broadened to include legal entities in which FBiH, cantons and municipalities have a majority share (including public companies). To that end, it is necessary to strengthen the capacities of the FBiH Ministry of Finance, as the bearer of the reform. The implementation of this reform is planned to be carried out through a set of measures that pertain to further revisions of the regulatory and methodological framework for the development of public internal financial controls, strengthening controls with the goal of ensuring fiscal accountability, strengthening staff capacities of the CHU, internal auditors and coordinators of financial management and control, increasing impact with the goal of adding value to public sector organisations, and developing of the CHU's coordination role with other stakeholders.

The described reforms and proposed measures rely on the Strategy for the Development of Internal Financial Control System 2015-2018 in the Federation of BiH, and in addition to its

connection to the public administration reform, it is also part of the Public Finance Management Reform Strategy of FBiH 2017-2020.

Republika Srpska

During the past period, the Government of Republika Srpska focused on its key goal of improving fiscal discipline, i.e., public finance management. Significant efforts were invested in fiscal consolidation, which was first threatened by waves of the global economic crisis (first and second wave in 2009 and then 2012), and then by natural disasters caused by the floods of May 2014.

Improving fiscal responsibility through the adoption of the Law on Fiscal responsibility in Republika Srpska and establishment of the Fiscal Council of Republika Srpska was especially well-achieved in local self-government units, as well as all subjects included in the budget system of Republika Srpska which had outstanding liabilities from earlier periods.

A set of laws was adopted in 2016 with the goal of establishing and implementing measures for combating the grey economy, primarily through strengthening control over undeclared work and performing unregistered economic activity.

By integrating the Pension and Disability Insurance Fund of Republika Srpska into the Budget of RS, as of 1 January 2016, the Government of Republika Srpska demonstrated its commitment to giving priority in payment of budgetary funds to the population of pensioners while, at the same time, carrying out a complete fiscal consolidation of the Pension and Disability Insurance Fund.

Challenges for the future period are related to the full realisation of the health system reform, where special attention should be paid to accelerating the dynamics of reform, especially in the phase of stopping the increase of outstanding liabilities and finding a model for settling them. All of this is only a precondition for inclusion of all public health care institutions and the Health Insurance Fund of Republika Srpska into the treasury operations system, which will preserve their fiscal discipline and create the conditions for structural reform of the health system, which will be based on standardising the network of health care institutions and finding new models of financing health insurance.

In addition to the health system reform, with the goal of more efficient and effective use of public funds, a Register of Incentives needs to be established, which will include incentives in all levels of government in Republika Srpska, as well as a Register of Social Benefits, in order to achieve fairer and better targeted social benefits.

The reform of the pension system, which was implemented in 2011, yielded significant results in terms of the sustainability of the pension system for the medium term. However, due to demographic trends, in the future it will be necessary to carefully monitor parameters of the pension system, especially from the aspect of the pensions' adequacy, in order to enable timely response to any negative demographic or economic trends.

And finally, reform of public companies could be observed through three segments: public companies which are a burden to the Budget of Republika Srpska or require additional funds, and public utility companies owned by local self-government units, the reform of which should start urgently, followed by strategic public companies, which are expected to be extremely profitable and be one of the sources of revenues to the Budget of RS, the reform of which must be carefully implemented with the goal of more efficient and productive operations, all aimed at earning significant profit.

4. STRUCTURAL REFORM PRIORITIES IN 2019-2021

4.1. IDENTIFICATION OF KEY OBSTACLES TO COMPETITIVENESS AND INCLUSIVE GROWTH

An important determinant of economic trends in all Western Balkan countries and thereby BiH as well is the unfavourable structure of GDP in these countries. Namely, the current model of economic development in these countries has mainly been based on the increase in final consumption financed from abroad, while the share of investments and exports which represent the key assumption for sustainable economic growth is at a rather modest level. This model of economic growth has brought radical structural changes within the economies of the Western Balkans, the most important being the rapid de-industrialization process, the decline in agricultural production and a significant increase in service delivery. Premature de-industrialization in this region manifested through the fall in employment and output, which resulted in poor export performance and high trade deficits that ultimately undermine the competitive position of these countries in international markets. One of the main reasons for low competitiveness in both the countries of the region and in Bosnia and Herzegovina is the weak production base, i.e. the low share of the manufacturing industry and the export of goods in the GDP. This state of affairs is a consequence of global economic developments and inadequate economic policies in the countries of the Western Balkans that based their economic growth, as already mentioned, on the growth of domestic consumption financed mainly by cash inflows from abroad. As for Bosnia and Herzegovina, it is worth mentioning that thanks to the increase in production it managed to partially improve the production base, which confirms the increase in its share in the structure of GVA by 3 pp to around 13%, as by the end of 2017.

However, countries like BiH whose economic development strategy is based on exports need to intensify the process of reindustrialization, i.e. raise the share of the manufacturing industry in the GVA to the level of the countries of Central and Eastern Europe. However, for countries like BiH that base their economic development strategy on export, it is necessary to intensify the process of reindustrialisation, i.e. to raise the share of the manufacturing industry in the GVA to the level of Central and Eastern European countries. The quantitatively modest BiH manufacturing industry is, in qualitative terms, characterized by a narrow production base of mainly resource and labour-intensive industries, resulting in the production of low technology-intensive products of modest value added. Probably the best indicator of overall industrial competitiveness in the world by country is the CIP - Competitive Industrial Performance Index, which is regularly published by UNIDO (UN Industrial Development Organization). According to the latest available data for 2016, on the global scale of industrial competitiveness BiH is ranked 81st in terms of industrial production, which represents 3-position improvement compared to the previous report. If the composite CIP indicator is viewed in more detail by the components, it is evident that the key reasons for the weak ranking are BiH's underdevelopment of the industrial base, i.e. the low share of the manufacturing industry in GDP of around 13%, and the value added in the manufacturing industry per capita of about \$ 1250. In addition to this area, the second indicator where BiH is lagging behind the countries in the region is the share of medium and high tech products in exports of around 25%, while the regional average is 35%. The direct consequence of the scarce production base is BiH exports, which, at the end of 2017, amount to about 35% of GDP, which is quite low for one country with such a small population. Namely, although Bosnia and Herzegovina has managed to increase the share of exports within the GDP by around 8 pp, thanks to an increase in exports of around 6% annually, it seems to be still insufficient. In spite of this increase, BiH exports are still considerably lower than those of developed economies, which satisfy a large share of consumption with their own production, as well as below the level of CEE countries (exports / GDP in 2017, 78%) that successfully completed the transition process. In addition to the quantitative characteristics, BiH exports in a

qualitative sense are characterized by a small number of low added value products placed on a rather small number of markets dominated by the EU with about 70% of the market share.⁴⁹ Looking at the structure of BiH export it can be concluded that it did not change significantly in terms of the technological intensity of the products, or in terms of geographic dispersion of the market for BiH export products. Thus, the dominant role in the BH exports structure is played by intermediate products (40%) and consumer goods 32% (durable 10%, non-durable 22%), which are resource and labour-intensive. On the other hand, capital products that require the use of advanced technologies and know-how and thus have higher added value mostly stagnate with the share in total BiH exports of about 15%. The most illustrative display of the qualitative export structure is the low share of high-tech products in total exports. Given that this is a small import-dependent economy, such low exports have led to a significant foreign trade deficit of over 16% of GDP as by the end of 2017. In truth, there has been a noticeable downward trend in the deficit over the past few years in BiH, which is mainly the result of export growth. However, this export growth was more of a consequence of external developments, manifested through a sharp rise in export demand and world prices, rather than the result of structural changes within the BiH economy.

In addition to the many obstacles that BiH faces on the road to the EU, the issue of achieving the European Union's living standard is also being raised. At this point, it is very difficult to define a path and strategy that would strengthen the standard of living of citizens⁵⁰ and thus create a favourable economic environment that would allow for higher salaries for employees, pensioners, and stimulate the stay and employment of young people. All in all, it is necessary to achieve a series of material and social factors that enable a certain way of life in order to meet the better living conditions of the entire population (in the fields of education, health, recreation, etc.). According to the official statistics of the Agency for Statistics of BiH, the living standard, measured by GDP per capita adjusted for purchasing power parity (PPP), remained almost the same as in the previous years. In the period 2012-2017, BiH achieved a symbolic growth of 2 pp. When looking at GDP per capita adjusted for the purchasing power parity (PPP) in 2017 in BiH, it was 32% of the EU28 average. That is why BiH has been at the bottom of the European countries with the lowest living standards for years. In order to achieve the standard of living in the EU28, BiH needs to achieve an annual growth rate of around 6% in the next 30 years. One of the obstacles to improving the living standard of BiH citizens, which was noticeable in previous years, as well as in 2017, is the low employment rate of the working-age population. According to the Labour Force Survey (LFS), the employment rate in 2017 in BiH was 33.9%, while at the same time in the EU28 this rate was 53.5%. In addition to the low employment rate in BiH, there is a relatively low level of wages as a reflection of the weak position of the country in the international division of labour. This is supported by the fact that export-oriented companies in BiH, in order to be more competitive, often get jobs of finishing or processing that generally require cheaper labour.

The financial sector is one of the significant indicators of competitiveness. Real and financial processes take place on the principle of reciprocity and connectivity. According to the latest World Economic Forum report, BiH is ranked 83rd out of 140 countries according to the competitiveness of the financial system. All indicators of the competitiveness of the financial system point that Bosnia and Herzegovina still lags behind the EU average 28. Among the parameters presented, the deviation of Bosnia and Herzegovina vis-à-vis the EU 28 is evident in terms of financing small and medium-sized enterprises and the venture capital availability.

⁴⁹ Changes in the share of the EU from 54% in 2010 to 71% in 2017 is partly a consequence of the administrative nature, and refers to the accession of Croatia to the EU that took place in 2013, as well as the increase in exports to the EU market.

⁵⁰ The term "living standard" describes the physical well-being of a group or of individuals. The standard of living in the scientific economy is measured by indicators. In doing so, the basic indicators are taken into account: Gross domestic product (GDP), Net domestic product (NDP) - Gross domestic product minus depreciation, personal income and available income - - the household income remaining for consumption and savings is the difference between national income and direct taxes and transfer payments.

However, Bosnia and Herzegovina is closest to the EU28 when it comes to an indicator of non-performing loans.

Non-performing loans accounted for 10.0% of total loans granted to natural and legal persons, which is by 1.8 pp. less compared to the same period in 2016 (table below).

Table 23: Classification of loans by quality

Period	A	B	C	D	E	C-E (NPL)	Share in total NPLs
Total loans							
31/12/2016	80.4%	7.8%	2.1%	3.4%	6.3%	11.8%	100.0%
31/12/2017	83.1%	6.9%	1.7%	2.4%	5.9%	10.0%	100.0%

Source: Entity banking agencies

The total value of turnover and capitalization on BiH Stock Exchanges in the last two years is in a downward trend and is mostly traded in debt securities. Thus, 75.5% of total turnover was related to trading in debt securities, and 24.5% of turnover was related to trading in equity securities. The disadvantage on both stock exchanges is the lack of a large number of healthy companies whose securities would be traded. The largest part of the turnover of equity securities refers to companies that are wholly or partly in state ownership. Deposits of households accounted for 57.3%, deposits of non-financial companies 24%, deposits of general government 11.3% and other deposits 7.4% of the total amount. This is an indicator of the underdevelopment of other financial institutions, as surpluses of funds are mostly kept in bank accounts.

In the analysis of competitiveness, it is interesting to note that, according to UNCTAD, the FDI flows towards the European countries in 2017 recorded a decline of 27% y-o-y, which certainly has a direct, but also indirect influence on BiH and countries from its neighbourhood in terms of tightening competitive relations. Despite the impact of this trend, in 2017 direct investments in BiH saw the increase by 28.5% y-o-y⁵¹. This current increase seems encouraging, but it does not significantly change the role of FDIs in BiH's economic development. In order to be an important driver of economic development, FDIs need to have much larger share in GDP.

One of the most important factors in deciding where to invest is certainly credit rating. Creditworthiness is determined according to political and economic indicators in a country, and falls to the assessment of indicators such as: political risk, income and economic structure, fiscal flexibility, external and contingent liabilities, monetary flexibility, external liquidity and external debt liability. Unfortunately, BiH is in a group of countries that are rated as risky for investment according to their creditworthiness⁵². In February, Moody's Investors Service affirmed Bosnia and Herzegovina's credit rating "B3 with stable outlook", while on 9 March 2018 Standard & Poor's affirmed Bosnia and Herzegovina's sovereign credit rating "B with stable outlook". Of all the countries in the region Slovenia has the highest credit rating, according to S&P "A+ stable outlook"(15 June 2018) and according to Moody's "Baa1 stable outlook". In the first half of 2018, S&P also upgraded Croatia's rating (23 March 2018) from "BB" to "BB+".

⁵¹ According to latest available data of CBBiH BOP&_Q2_2018.

⁵² Source CBBiH: "B" and "B3" speculative credit rating, high credit risk.

Table 24: Credit rating of BiH and countries in the region at the end of first half of 2018

Country	S&P	S&P	Moody's	Moody's
Slovenia	A+	stable	Baa1	stable
Romania	BBB-	stable	Baa3	stable
Bulgaria	BBB-	positive	Baa2	stable
Croatia	BB+	stable	Ba2	stable
Serbia	BB	stable	Ba3	stable
Montenegro	B+	stable	B1	negative
Albania	B+	stable	B1	stable
BiH	B	stable	B3	stable

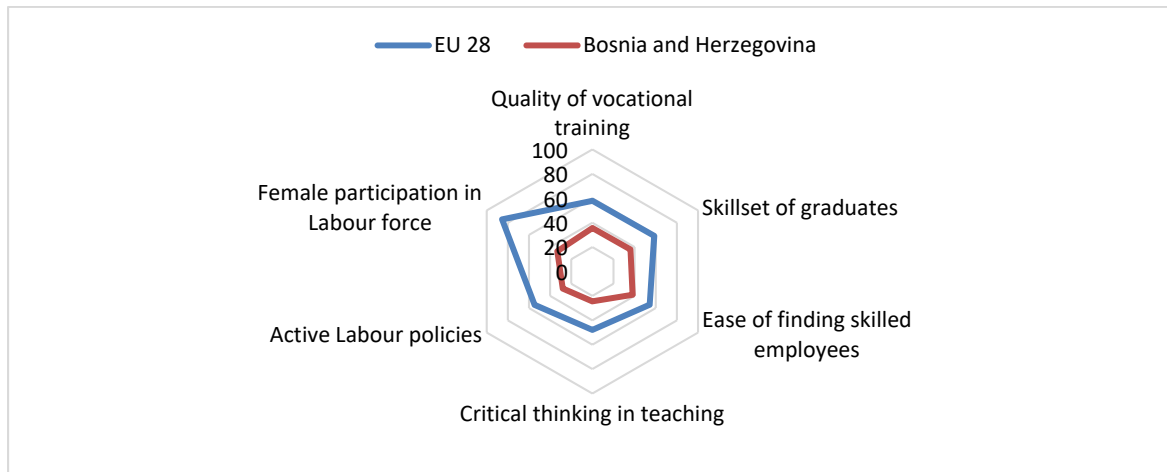
Source: CBBiH, S&P, Moody's

The reasons for poor competitiveness in attracting FDIs are indicated in the reports of world organizations that rank BiH among the worst in the region in terms attracting investment. Thus, according to the 2018 Global Competitiveness Report, BiH is ranked 91st out of 140 rated countries. Out of 12 areas in which efficiency is assessed, BiH is scored worst in market efficiency, labour market efficiency and state institutions, while it is best rated in the area of macroeconomic stability. Of the ten indicators included in the Doing Business Report, BiH is best ranked in trading across border (37th) and in the field of resolving insolvency (37th) and getting credit (60th). Of all indicators, it was ranked worst in the area of starting a business (183st) and in dealing with construction permits (167th).

Human resources are an essential factor of competitiveness and economic development. Education provides a foundation of the work force. The educated workforce will more easily adopt modern technology and faster develop its own, which helps the country in its progress and transition from simple to greater complexity production. For the development of innovativeness as the main driver of economic trends it is necessary to continually educate employees. Employees must create, analyze and transform information, communicate successfully, and organize and coordinate activities. For all this it is necessary to have a work force capable of transferring knowledge, creating new knowledge and applying the know-how. According to the new Global Competitiveness Report 2018, Bosnia and Herzegovina is ranked 87th among 140 countries rated according to the assessment of the workforce's skills, and the quantity and quality of education. What is worrying is the fact that Bosnia and Herzegovina's rank worsened relative to 2017 when it was ranked 83rd. The competitiveness indicator in which Bosnia and Herzegovina achieves the worst score (133th position)⁵³ refers to the assessment of the skillset of graduates needed to companies (Graph below). Bosnia and Herzegovina does not score any better (130th) in ranking the style of teaching, where such teaching style is highly ranked which encourages creative and critical individual thinking.

⁵³ Source: Global Competitiveness Report 2018.

Graph 11: Workforce skills and active labour policies⁵⁴



Source: Global Competitiveness Report 2018, DEP calculations

Important factors of labour competitiveness are the educational structure and the compatibility of supply and demand for labour in terms of knowledge, expertise and skills. The basic condition for a better position of Bosnia and Herzegovina when it comes to the quality of the workforce is a change in the quality of education that will contribute to the creation of a critical mass of appropriately trained professionals. The indicator of labour competitiveness is the length of waiting for employment. In Bosnia and Herzegovina 82.3%⁵⁵ of unemployed persons waits for employment for more than 12 months. What is worrying is that this percentage has not changed significantly since 2013. Labour productivity, together with other economic indicators, is an important link in the analysis of each country's competitive position. In the long run, low labour productivity may slow economic growth, so it is necessary to look at the causes of such productivity and, accordingly, take certain measures. The BiH level of gross domestic product per employee in 2017 is somewhat higher in nominal terms compared to 2016. The number of persons in employment in the observed year has increased but at the same time the GDP has also increased, resulting in productivity growth. However, it is noted that the achieved level of GDP per employee is still extremely low. The productivity of labour is especially important in the manufacturing industry, the leading industrial activity (in addition to trade) when it comes to creating gross value added (GVA), and employing the largest number of persons in BiH. Observing the ratio of GVA and the number of employees in the manufacturing industry, it is noticeable that BiH reaches only 1/5 of the EU average in terms of productivity. This data also suggests that one employee in BiH produces significantly less GVA in the processing industry than the average EU worker in the same industry. Among the EU countries, Bulgaria has worse result than BiH (18% of the EU average. Although some progress has been made in adapting the education system, i.e. workforce to the modern labour market, it is still insufficient to significantly increase labour productivity (see chapter Education). In this way, the workforce's skills in BiH are far from the needed ones, as indicated by the WEF Competitiveness Report, which places BiH on 132nd position out of 140 observed countries. In addition, according to the same report, BiH has not made any major steps in terms of innovation either, while Croatia is the worst scored among the European Union countries.

It is well-known that good fiscal policy is one of the factors that help economic growth in the medium or longer term. It also contributes to strengthening competitiveness and employment by specific measures. As key obstacles to growth and competitiveness in the domain of public finances, both the competent institutions in BiH, and various international institutions dealing

⁵⁴ Scores on the Graph are on a 0 to 100 scale, where 100 represents the optimal situation.

⁵⁵ Source: BiH Agency for Statistics, Labour Force Survey 2018.

with competitiveness, state problems that were previously mentioned in this and similar reports. These are: high fiscal burdens on labour (particularly high social contributions), a large number of non-tax benefits, problems with the financing of certain sectors (e.g. healthcare, which creates new debt, on accumulated debt from earlier periods). In recent years in BiH, at all levels of government, fiscal consolidation has been implemented, which has contributed to the sustainability of public finances. It is reflected in the slowdown in the growth of the public debt level, as well as the budgetary surplus achieved over the last three years. According to preliminary data of the CBBH for the nine months of 2018, public debt decreased by 0.3% compared to the same period of the previous year. Consolidated BiH general government data for 2017 show that the achieved budget surplus amounts to 2.5% of GDP, while data for the first half of 2018 related to the consolidated central government of BiH also point to a budget surplus of 5.2% of estimated GDP. The continuation of the implementation of fiscal consolidation measures and more responsible public spending, in order to achieve and preserve macroeconomic stability and fiscal sustainability, has yielded results in debt and deficit, but not in the change of the structure of expenditures. Most of the expenditures of the Consolidated General Government of BiH (but also individual levels of government) continue to include salaries and compensations for employees, expenditures for goods and services, as well as remittances for social protection (social transfers). According to the latest World Bank's (Doing Business) report for 2018, regarding the ease of paying taxes, BiH is ranked 137th out of 190 economies. Compared to the previous report, with regard to the ease of paying taxes, BiH has fallen four places back. The level of a country's tax burden compared to other countries is of great importance both for the fiscal policy of the country and for taxpayers and investors. If fiscal burdens are observed according to the types of taxes, BiH is the most heavily burdened with indirect taxes, with 22.6% for ten months in 2018 compared to 22.0% at the end of 2017. They are followed by contributions, with 13.5% for the eleven months of 2018. Compared to the end of the previous year, this type of burden recorded a decrease by about 1 percentage point. The lowest burden is with direct taxes, whose share in GDP in the eleven months of the current year was 4.2%. In addition to the above mentioned tax burdens on labour and VAT payments, the BiH economy and its participants are also faced with the problem of non-tax revenues. Due to the structure of the state such as it is, there are a large number of non-tax revenues paid by business entities to different levels of government. And this is a different kind of taxes, charges, membership fees that are mandatory. Another limiting factor affecting the improvement of competitiveness, which relates to the field of public finances, are public expenditures. Due to the complex BiH structure and the large number of budget users (BiH Institutions, Entity Governments and BD Government, Cantons, Municipalities and Cities; social security funds of all levels of government and extra budgetary funds, Entity public companies "*Autoceste*" (Motorways) and "*Ceste*" (Roads) of all levels of government), the share of public expenditure in BiH is still high, although governments continue to implement measures to restrict government spending.

In order to improve living standard in BiH, it is necessary to constantly work on attracting foreign investments, by creating a more favourable business environment for foreign investments that would enable new jobs and higher employment (through faster and simplified business registration procedure, land allocation, infrastructure construction, tax incentives, construction of technological parks and business incubators). At the same time, it would be necessary to adapt the education system to the needs and labour market reforms (through vocational training programs, various training and retraining programs) in order to increase the productivity and competence of the workforce. Of course, all these economic reforms should be accompanied by the promotion of health, cultural, sports and recreational facilities in order to meet the needs of BiH citizens, i.e. to achieve a better standard of living. To avoid excessive centralization of the financial system, the banking market needs to leave the general principle of

the universal bank and to enable greater segmentation of the BiH market by establishing separate specialized institutions (the establishment of specialized institutions such as investment banks, mortgage banks, trade union banks or digital banks). Based on all the above presented facts, Bosnia and Herzegovina must make a strong step forward when it comes to structural reforms in the field of education.

Priority measures in the coming period should be focused on:

- Improving the quality of public finances;
- Reducing the fiscal burden on labour;
- Improving the efficiency of public administration and local self-government;
- Tackling the issues of the lack of single economic space by harmonizing and coordinating industrial policies and policies for SMEs;
- Additional building of communication infrastructure;
- Improving the transport infrastructure;
- Improving links between the real sector and the scientific and research community, and addressing the mismatch between study programmes, enrolment policies and the real sector needs;
- Enhancing the level and quality of scientific productivity;
- Regulating prudential requirements of the banking operations and unregulated bank resolution process;
- Increasing the competitiveness of BiH by further promotion, improvement and development of tourism;
- Enhancing the technological level and productivity of agricultural production and enabling the use of grants from the EU pre-accession funds;
- Improving policies in the area of preschool education, secondary vocational education and lifelong learning;
- Improving the educational structure of the labour force;
- Improving links between the education system and the labour market;
- Ensuring quality, harmonised and timely official statistics for all users;
- Adopting the missing strategic documents in sectors of transport, energy and environmental protection;
- Providing additional sources of financing in the health sector;
- Improving the systems of pension and disability insurance and social protection.

4.2. SUMMARY OF REFORM PRIORITIES

I Energy and transport market reform:

1. Improving the strategic and legislative framework in accordance with the treaty establishing the energy community
2. Creating a sustainable rail infrastructure financing system

II Sectoral development:

3. Improving agricultural production

III Business environment and reduction of the informal economy:

4. Enhancing the quality infrastructure system in BiH according to the EU model
5. Health sector reform

6. Register of incentives for the economy
7. Reducing the share of expenditures for current spending in public administration
8. Intensifying the development of entrepreneurial infrastructure

IV Research, development and innovation and digital economy:

9. Improving the communication and information society sector along with the alignment of the regulatory framework with EU standards
10. Reform in the area of research in BiH
11. Establishing a more efficient management system of scientific research and innovation potential in the Republika Srpska

VI Education and skills:

12. Improving cooperation between education and the labour market

VIII Employment and labour markets:

13. Improving the labour market efficiency

IX Social inclusion, poverty reduction and equal opportunities

14. Establish an efficient system of health spending
15. Improving the social protection system

4.3. ANALYSIS BY AREA AND STRUCTURAL REFORM PRIORITIES

4.3.1 ENERGY AND TRANSPORT MARKET REFORM

4.3.1.1 Improving the strategic and legislative framework in accordance with the treaty establishing the energy community

(FBiH) Regarding the energy sector, the main obstacle is the fact that the state-wide Law on Electricity and Natural Gas Regulator, Transmission and Electricity Market in Bosnia and Herzegovina has not been adopted yet, which is significant for the development and functioning of the energy market in Bosnia and Herzegovina, as well as the fact that at the level of the Federation of Bosnia and Herzegovina the Law on Gas of the Federation of Bosnia and Herzegovina and a number of accompanying regulations stemming from this Law have not been adopted. The second obstacle is the non-compliance of the existing legislation with the Third Energy Package and the obligations arising directly from the Treaty Establishing the Energy Community in SEE.

The third obstacle to the development of the electricity market in the Federation of Bosnia and Herzegovina lies in the fact that the functional and legal unbundling of the Distribution System Operator from the activities of generation and supply in vertically organized companies has not been completed yet. In the field of energy efficiency, the Law on Energy Efficiency in the Federation of Bosnia and Herzegovina, adopted in 2017, provided the assumptions for sustainable energy development through energy savings that reduce the negative impacts on the environment, increase energy security, meet the needs of end-consumers for energy and the fulfilment of international commitments undertaken by Bosnia and Herzegovina in terms of energy savings in final consumption and reduction of greenhouse gas emissions by implementing energy efficiency measures. The fourth obstacle to the full implementation of the legally stated objectives in the field of energy efficiency is the non-adoption of all accompanying by-laws/implementing regulations and defining the legal mechanism for the establishment of financial mechanisms for the implementation of energy efficiency measures defined by the

Energy Efficiency Action Plan of the Federation of Bosnia and Herzegovina. Fifth obstacle may be characterized by insufficient dynamics in the development of energy infrastructure, which should follow new investments in the field of renewable energy generation, including the unsatisfactory dynamics in the implementation of projects under the Public Investment Programme in the Energy Sector.

In the field of energy market reform, the National Assembly of Republika Srpska, at its 25th session, held on 21 June 2018, adopted the Energy Development Strategy of Republika Srpska by 2035, and in September 2018, the Framework Energy Strategy of BiH was adopted. In the following period, the legal framework needs to be fully aligned with the Treaty establishing the Energy Community.

Description of measures: Amendments to (or the adoption of new) Law on Electricity in the Federation of Bosnia and Herzegovina and the adoption of the Law on Gas in the Federation of Bosnia and Herzegovina and their harmonisation with the Third Energy Package and legislation at the state level.

Adoption of all accompanying implementing regulations arising from the Law on Energy Efficiency in the Federation of Bosnia and Herzegovina and the definition of the legal mechanism (through amendments and supplements to this Law) for the establishment of financial mechanisms for the implementation of energy efficiency measures defined by the Energy Efficiency Action Plan in the Federation of Bosnia and Herzegovina.

Amendments to the Law on the Use of Renewable Energy Sources and Efficient Cogeneration in the Federation of Bosnia and Herzegovina with the aim of introducing new incentive schemes (Feed in Premium, Net Accounting and Auctions) in the field of renewable energy sources, including the adoption of a new Renewable Energy Action Plan of the Federation of Bosnia and Herzegovina for the period 2020-2030.

Expected impact on competitiveness: The implementation of reform measures through the adoption of the necessary legislative framework and its harmonisation with EU Directives, based on the principles of non-discrimination, transparency, market competition, free movement of goods, freedom to provide services, protection of the rights of end customers and the freedom to choose suppliers will, inter alia, create prerequisites for the development and competitiveness of the retail and wholesale energy market in Bosnia and Herzegovina and its inclusion in the regional and international energy market, and the fulfilment of the obligations assumed under the Treaty establishing the SEE Energy Community. Also, the impact of the reform measures will be reflected in increasing share of energy from renewable energy sources, increasing energy efficiency, and will contribute to both energy savings and a reduction of negative impacts on the environment, as well as creating an enabling environment for attracting domestic and foreign investment in the energy sector.

Key Performance Indicators (KPI)

- Adoption of planned laws and regulations/implementing acts, including the realization of the unbundling of energy activities (with particular reference to the establishment of the Distribution System Operator)
- Achieving a targeted share of renewable energy sources in the total final consumption in accordance with the Renewable Energy Action Plan of the Federation of Bosnia and Herzegovina
- Achieving energy savings in accordance with the Energy Efficiency Action Plan.

Estimated cost of the activities and the source of financing: There is no need to provide special funds from the Budget of the Federation of Bosnia and Herzegovina for the adoption of planned laws and regulations/implementing acts and the Electricity Sector Restructuring Program in the

Federation of Bosnia and Herzegovina. To encourage electricity generation from renewable energy sources, the funds will be provided from renewable energy feed-in tariffs, which, according to the Law on RESEC, is paid by all end-consumers of electricity. The total amount of the incentive funds and the amount of the unit fee are determined by the Government of the Federation of Bosnia and Herzegovina. The amount of the unit fee for 2017 was 0.001976 KM/kWh and for 2018 it was 0.002128 KM/kWh. For the implementation of the Programme of protection of vulnerable energy buyers, it is necessary to secure funds in the Budget of the Federation of Bosnia and Herzegovina or other sources of funding. For the implementation of energy efficiency measures, financial resources are provided from several sources of funding, such as: partly from the planned budgetary resources for this purpose, grants and funds from the Revolving Fund under the Environmental Protection Fund, other credit arrangements and future financial mechanisms that have to be defined and established through the amendments to the Law on Energy Efficiency in the Federation of Bosnia and Herzegovina.

Expected impact on employment and gender: The construction of new renewable energy generation capacities will provide additional employment, both in the stage of project implementation and in the exploitation phase, as well as additional employment in the event of energy audits and other supporting activities in the field of design and construction work, equipment production, construction materials etc. There are no legal restrictions when it comes to neutral gender impact.

Potential risks: Untimely adoption of legislation by Parliament at all levels of government in Bosnia and Herzegovina; Untimely adoption of regulations/implementing acts by the relevant ministries, institutions and the Government of the Federation of Bosnia and Herzegovina.

(RS)The improvement of the legal framework in compliance with the Energy Community Treaty requires restructuring of the Mixed Holding *Elektroprivreda Republike Srpske* a.d. Trebinje in accordance with the provisions of the Third Energy Package of the EU for Electricity. In addition, it is necessary to coordinate the work of large combustion plants, primarily thermal power plants, with the adopted EU standards and the Action Plan for reducing emissions from large combustion plants.

Dynamics of the implementation of measure:

- Improving the legal framework in the field of electricity market: adoption of the Law on Electricity, implementation of the Third EU energy package for electricity - deregulation and liberalization of electricity market (2019),
- Improving the legal framework in the field of renewable energy sources: Adoption of the Law on Amendments to the Law on Renewable Energy Sources; increasing competitiveness among renewable energy producers, introducing auction systems, limiting incentive systems (2019),
- Improving the regulatory framework in the field of energy efficiency: Adoption of the Law on Amendments to the Law on Energy Efficiency; Amendments to the Law on Spatial Planning and Construction; Adoption of the Energy Renovation Strategy for Buildings in Republika Srpska and regulations on Energy Efficiency in Buildings (2019),
- Construction of a flue gas desulphurisation facility in TPP Ugljevik with the aim of protecting the environment and reducing sulphur dioxide emissions by 98.4% (2019),
- Restructuring of a Public Company engaged in the production and distribution of electricity in accordance with the new regulation: the Law on Electricity - deregulation of electricity prices and liberalization of the market, and unbundling of activities (2020).

Expected impact on competitiveness: Depending on the market situation, price deregulation and market liberalization can produce significant shocks both to consumers (tariff shocks) and to

energy companies (non-competitive prices and non-profitable operations, surplus of employees, etc.). Harmonizing emissions from large combustion plants (thermal power plants) with the provisions of the Treaty increases the level of costs for electricity generation, thereby reducing the competitiveness of electricity prices. Also, the reorganization and change of ownership structure in the MH "Elektroprivreda Republike Srpske" a. d. Trebinje under the laws of the Republika Srpska, in compliance with EU rules, must be accompanied by a high level of protection of the rights of minority shareholders, for which, according to the estimates, multiannual financial resources should be provided. The ownership share of Republika Srpska, namely the Equity Fund of Republika Srpska in 10 joint stock companies of the MH *Elektroprivreda Republike Srpske* a. d. Trebinje, amounts to about 65%.

Key Performance Indicators: The success of the measure depends on minimizing potential restructuring costs, and minimizing tariff shocks that may affect consumption in the coming period.

Estimated cost of the activities and the source of financing: Reorganization and change of ownership structure requires significant financial resources, and their amount as well as source at this time cannot be estimated. Also, depending on the market situation, consumers and energy companies may be faced with tariff shocks, which cannot be estimated at this time.

Expected impact on employment and gender: Reorganization of MH *Elektroprivreda Republike Srpske* a.d. Trebinje will certainly require a more efficient organization and a reduction in labour costs, which can lead to a reduction in the number of employees and total staff costs. The realization of the measure has no effect on the gender issue.

Potential risks for the implementation of the measure: Risks for implementation of the measure are related to the expected costs whose estimate is not possible at this time.

Potential measures to mitigate risks for the implementation of the measure: Given that this measure is the obligation of Republika Srpska under the Energy Community Treaty, there is no possibility of defining alternative measures, but it is possible to define measures and adjust the dynamics of its realization, in order to reduce the potential costs of its implementation and tariff shocks that may affect the consumers and businesses to a minimum.

4.3.1.2 Creating a sustainable rail infrastructure financing system

(FBiH) The key obstacle to the railway sector management process in the FBiH is insufficient funding for the rail infrastructure maintenance which, according to the Law on Funding the Railway Infrastructure and Co-Funding the Passenger and Combined Transport ("Official Gazette of the Federation of Bosnia and Herzegovina" No. 57/03), the Federation of BiH has to finance from the Budget of FBiH. In order to complete the separation, i.e. restructuring of the JP *Željeznice Federacije BiH*, which is a commitment under the EU directives and the Law on Railways of BiH, it is necessary to create a sustainable rail infrastructure financing system by finding funds for these purposes. Reform activities are conditioned by the observed shortcomings in the application of laws related to this matter, incomplete involvement of the original revenues for road financing, non-dedicated spending of funds, accelerated development of infrastructure projects, implementation of strategic and planning documents, the accession of BiH to the EU and alignment with the EU Directives.

The Federation does not fully fund the costs of the rail infrastructure maintenance and does not co-finance public passenger transport in so far as it is the practice in European countries. These obligations are carried out to only 20% thus resulting in a loss of about KM 40 million per year. The loss incurred primarily due to failure to fulfil the obligation of funding the rail infrastructure is covered at the expense of equity, so the capital has been reduced over the past ten years by about KM 480 million or, more precisely KM 479,300,728.

Description of measures:

- Undertake measures to increase rail transport
- Increase funding for the current maintenance of the railway infrastructure
- Improving the state of the infrastructure through the development and implementation of the Programme of subsidies and capital investment.
- The Transport Strategy of the Federation of Bosnia and Herzegovina was adopted by the Government of the Federation BiH and both Houses of Parliament of the Federation of BiH.

The sequence of adoption of the Transport Strategy:

1. Decision of the BiH Parliament on the adoption of the 2015-2030 Framework Transport Policy for BiH (Official Gazette of BiH 62/15, 04 August 2015)
2. Decision of the Council of Ministers of BiH on the adoption of the Framework Transport Strategy of Bosnia and Herzegovina for the period 2016-2030 (Official Gazette of BiH 71/16, 23 September 2016)
3. Decree of the Parliament of FBiH on the promulgation of the Transport Strategy of the Federation of Bosnia and Herzegovina for the period 2016-2030 and Conclusions that are an integral part of the Transport Strategy of the Federation of Bosnia and Herzegovina for the period 2016-2030 (Official Gazette of FBiH 22/17, 24 March 2017)

According to this strategy, an action plan for the development of the motorways, roads and railways has been established. Increasing road safety by switching the transport of oil and petroleum products to the railway by passing the Law on the Transport of Dangerous Goods, directly affects the increase in the volume of rail transport. The draft Law on the Transport of Dangerous Goods contains a provision in Article 5, which reads: In order to protect the lives and health of people, the environment, material goods and traffic safety, the transport of dangerous goods of Class 3, related to oil and petroleum products in the territory of the Federation to the refinery and oil storage (terminal), is carried out by rail, and from oil storage (terminal) to the end buyer (fuel station for motor vehicles) by road traffic, unless otherwise specified by the contracts referred to in Article 6 of this Law.

Also, systematically increase the transport of goods by rail, i.e. through the competent authorities for the management of roads that would act according to the Rulebook for determining the excessive use of public roads (Official Gazette of the Federation of BiH 69/10) in order to provide funds for covering the increased costs of maintaining public roads that would allow for lesser differences in pricing between rail and road transport. The Government of FBiH has formed an IWG for drafting of the Law on Transport of Dangerous Goods, the proponent of the law is the FBiH Ministry of Internal Affairs. New models for the implementation of infrastructure projects (concessions, PPP etc.) are sought in cooperation with other relevant institutions.

Compared to the last year's ERP 2018-2020, there was a concrete step forward in relation to activities planned in the course of 2018 (the conclusions of the Inter-sectoral Working Group tasked to find the model for the original revenues for financing public roads to be placed under full control were adopted; the *Programme Capital transfers to public companies - transfer for the construction of motorways and express roads* was adopted in the amount of KM 107,000,000.00 set out in section 18 economic code 6154 of the budget of the Federation of Bosnia and Herzegovina for 2018).

Expected impact on competitiveness: The percentage of switching of freight from the road to the rail proportionally increases the safety of them, while increasing the volume of freight on

the rail, resulting in higher profits on railways. Financing of the entire railway infrastructure maintenance by the Federation of BiH would put a stop on discrimination or favouring other modes of transport, in this case the road transport, which has its own funding sources (excise on oil and road tolls).

Key Performance Indicators (KPI)

- Level of constructed or rehabilitated / reconstructed road infrastructure (number of km of new and rehabilitated motorways and roads in the Federation of BiH).
- The degree of investment of approved funds for the intended purpose (which % of the funds granted are specifically invested under the approved Programmes).
- Enhanced and improved capacities of the airports in Tuzla, Bihać and Mostar due to the implementation of the approved Programmes.
- Stable transportation of passengers and goods by railway infrastructure with possible increase in passenger and goods transport.

Estimated cost of the activities and the source of financing: In accordance with the plans of the public road managers and budget possibilities. In accordance with the investment plan for railway infrastructure made by the JP ŽFBiH and adopted by the governing bodies upon the approval of the Government of FBiH.

Expected impact on employment and gender: The construction and reconstruction of the railway network through investment in it leads to an increase in the number of jobs. Also, the construction and rehabilitation of railway infrastructure through the activities of local companies and the supporting industry has a direct positive social impact.

Potential risks: Risks to the realization of the planned activities are: the possibility of having insufficient financial resources necessary for the implementation of planned activities, **political instability**, possible extraordinary circumstances caused by natural or other disasters.

(RS) In the area of transport market reform, the reform process of Railways - *Željeznice Republike Srpske* is being implemented in accordance with the adopted Restructuring Program, which was prepared in cooperation with the World Bank experts. During 2018, the World Bank loan approval procedure was completed in the amount of EUR 51.3 million. This amount is divided into three components of the loan, as follows: for the needs of financial restructuring (so-called Component 1) an amount of EUR 42.7 million is foreseen; for the needs of labour restructuring (so-called Component 2), an amount of EUR 3.5 million is envisaged; and for the financing of organizational restructuring - unbundling of infrastructure and operations, consulting services and computerization (so-called Component 3), an amount of EUR 5 million is foreseen. Also, it was agreed that the Government of Republika Srpska will be liable for the Component 1 amount, and *Željeznice Republike Srpske* for Components 2 and 3. It is anticipated that in the course of 2018, 80% to 90% of the total amount of the loan will be withdrawn for the implementation of this project and the remaining amount by the end of 2021. Priority in the withdrawal of funds is the settlement of debts towards employees and the Tax Administration of Republika Srpska, as well as the downsizing the number of employees by 500.

Accordingly, in the period 2019-2021 it is necessary to complete the Restructuring of *Željeznice Republike Srpske* a. d. Doboj, which will be implemented through three components: ownership, financial and organizational restructuring. It is important to note that financial and organizational restructuring will be financed by World Bank loans (Credit No. IBRD 8808-BA). Ownership restructuring will be achieved through conversion of debt that *Željeznice Republike Srpske a.d.* has towards the Government of Republika Srpska based on international loans that the Government of Republika Srpska services on their behalf into equity. This way, the Republika Srpska will own more than 99% of the shares of the *Željeznice Republike Srpske a.d. Doboj*,

after which it will start purchasing the minority owned shares. Financial restructuring entails settling liabilities for taxes and contributions to the Tax Administration of Republika Srpska by 31 July 2018, settling liabilities to employees based on unpaid meal allowance, commuting allowance and vacation bonus for the period 2011–2016, conversion of debt to the Government of Republika Srpska into equity, which will set the basis for ownership restructuring and financing of the computerisation of the company. Organisational restructuring would be carried out through downsizing the number of employees, unbundling the infrastructure and operations into two separate accounting units and through forming profit centres from individual organisational parts of the company.

Dynamics of the implementation of measure:

- 2018: Downsizing the number of employees by 500 and settling debts to those employees, and making the selection of consultants for restructuring and contracting;
- 2019–2020: Ownership restructuring of the company through conversion of debt into shares, and buy out of the shares from minority shareholders;
- 2019: Financial restructuring of the company; Downsizing the number of employees by 200;
- 2020–2021: Unbundling the infrastructure and operations into two separate accounting units and forming profit centres from individual organisational parts of the company; Downsizing the number of employees by 300; Signing a contract with the RS Government for maintenance of infrastructure and support the operator through co-financing of passenger transport.

Expected impact on competitiveness: The implementation of this restructuring project will relieve *Željeznice Republike Srpske* from debt towards the Government of Republika Srpska based on foreign loans that they cannot service alone, and debt towards employees and the Tax Administration of Republika Srpska, as well as cut operating costs, primarily due to gross earnings expenses and optimisation of operations and computerisation of the company. The final result should be reflected in the ability of *Željeznice* to be financially self-sustainable as well as in the quality of services provided, which will significantly increase the competitiveness of this public company.

Key Performance Indicators: Success will be reflected in the reduction of the company's debt towards the Government of Republika Srpska on the basis of foreign loans and debt towards employees and the Tax Administration of Republika Srpska. Also, reducing the company's total operating costs should make the company financially self-sustainable.

Estimated cost of the activities and the source of financing: The implementation costs are equal to the total World Bank's loan in the amount of EUR 51.3 million for all three components of restructuring. The burden on the budget of Republika Srpska is the repayment of debt based on borrowing from the World Bank for financing of component 1, in the amount of EUR 42.7 million.

Expected impact on employment and gender: The restructuring of the company will lead to downsizing the number of employees. Downsizing is planned by 1,000 employees, with 500 employees by the end of 2018 and the remaining 500 until the end of the restructuring process by the end of 2021. Downsizing the number of employees and cutting the total company costs will have a negative impact on economic and social position of workers who are not remedied under the Law on Amendments to the Law on Railways of Republika Srpska (around 100 workers in 2017), i.e. workers who cannot exercise their right to pension. *Željeznice Republike Srpske* have prepared the Programme for Compensation of Redundant Employees in accordance with the Labour Law of Republika Srpska, to which the Government of Republika Srpska gave

its consent. Under this Programme, the employees whose contract is terminated pursuant the Law on Amendments to the Law on Railways of Republika Srpska will be compensated in a way that they will be able to exercise the right to full pension. In mid-2018, the voluntary departure procedure was also carried out with special benefits for voluntary departure. From 6 March 2017 to 31 August 2018, *Željeznice Republike Srpske* reduced the number of workers by 553. The implementation of the measure has no effect on the gender issue.

Potential risks for the implementation of the measure: The main risk of implementation of the restructuring of *Željeznice Republike Srpske* is reflected in obtaining political support at the level of Bosnia and Herzegovina, which may cause a delay in approval of the World Bank loan

Potential measures to mitigate risks for the implementation of the measure: Plan B for this complex project has not been considered.

4.3.2 SECTORAL DEVELOPMENT – AGRICULTURE

4.3.2.1 Improving agricultural production

At the BiH level, the objective is to enable the use of IPARD funds to improve the sustainability and competitiveness of farms engaged in agriculture and production as well as to enhance the institutional systems and capacities and to harmonise the legal framework in the field of agriculture and rural development.

Linkage with national strategies, priorities, main steps: Taking into account that the Common agricultural policy is one of the most important EU policies, it is necessary to provide support for the sector of agriculture and rural development of BiH to be integrated into European and global markets. Given the complexity of the system of the Common agricultural policy, the EU provides support to countries in the accession process in adapting the agricultural sector and rural areas, as well as for implementation of the EU *acquis* in the context of the Common agricultural Policy. The prerequisites that need to be met in order to use the funds intended for agriculture and rural development are related to the adoption of the Strategic Plan for Rural Development of BiH as well as the provision of the legal framework, i.e. the operational structure that is aligned with the IPA II Regulation. As Bosnia and Herzegovina adopted the SARD, there remains an operational structure which implies the establishment of a special institutional apparatus in charge of the implementation of IPARD funds. The process of building an IPARD operational structure implies the reform of existing management (or parts of management) in the IPARD operational structure. Although opinions on the IPARD operational structure are not fully harmonized, all competent institutions agree that it is necessary to reach an agreement on these matters as soon as possible and that it should be considered within all activities to meet the EU accession requirements. Strengthening institutional capacity for implementing agricultural policy and creating prerequisites for the use of EU funds is one of the most complex goals.

Activities by year: The relevant institutions are continuously working to harmonize the laws and regulations necessary for the agriculture and food sector, taking care to align them with the EU regulations as much as possible. Projects carried out in order to implement this measure, both in transposing the EU regulations and in strengthening the capacity and increasing the efficiency of institutions, imply a very high level of cooperation between all competent institutions at all levels of government. Activities are aligned with the Strategic Plan for Rural Development of BiH 2018-2021 - Framework Document.

- Implementation of the Strategic Plan for Rural Development
- Preparation of draft legal framework for the establishment of the IPARD structure
- Continuous activity on the establishment of the Agricultural Information System

Expected impact on competitiveness: The application of the SARD and the establishment of a special institutional apparatus in charge of the implementation of IPARD funds will enable farmers to have greater income stability and hence the possibility of producing agricultural products whose quality is aligned with EU requirements, which will enable export of agro-food products as they will be competitive on the EU market.

Key performance indicators:

- Increase in the number of agricultural holdings
- Increased export of agricultural and food products
- Number of implemented projects

Expected impact on employment and gender: Addressing problems related to the income of agricultural producers and their competitiveness in the market automatically requires an increased number of working-age population. Projects carried out in order to implement this measure, both in transposing the EU regulations and in strengthening the capacity and increasing the efficiency of institutions, imply a very high level of cooperation between all competent institutions at all levels of government. Activities are aligned with the Strategic Plan for Rural Development of BiH 2018-2021 - Framework Document.

Potential risks: The implementation of these activities is a lengthy process involving a wide range of state institutions and agencies responsible for the acceptance and adoption of the necessary procedures, so the risk related to the adoption of the procedures at different levels is high.

Implementation risks: Given that the implementation of the measure requires consensus at different levels of government, the implementation risks will be significant, especially if one takes into account that, in addition to expert support, implementation will require the political support too.

Establishing the efficient food safety and quality system in Bosnia and Herzegovina

Objective of the measure: Protecting life and health of BiH population and facilitating exports of agricultural products.

Linkage with national strategies, priorities, main steps: By the implementation of this measure, the requirements for safety and quality of agricultural and food products will be met, thus fulfilling the conditions for exporting these products to the large EU market. The same measure prevents the import of products that do not meet the safety and quality standards of agricultural and food products established on the BiH market.

Activities by year: Activities will be carried out on a continuous basis in the coordination and cooperation of all relevant institutions in the food safety network.

- Drafting and adoption of amendments to the set of three Laws in the field of food safety, agriculture and veterinary
- Continuing the activities on the transposition and alignment of standards with the requirements of the *acquis*.
- Implementing the subordinate legislation, with the need to align them with the requirements of the *acquis* as well as the deadlines for implementation, through amending them.
- Establishing the necessary bodies (SPS).
- Continuing the coordination of the support available from international projects and securing further support.

- Continuing the training of inspections in the food network and strengthening of the inspection services, with particular emphasis on capacity building in the area of food of non-animal origin.
- Further work on defining national monitoring programs.
- Further work on the establishment of registers prescribed by regulations.
- Continuing the staff training process in practice for all interested groups.

Expected impact on competitiveness: By implementing the listed activities and by establishing an efficient system between institutions in the food network, conditions for the export of products of plant and animal origin to EU countries are being created. Only a safe and healthy product can be competitive and find its way on a market with 500 million consumers.

Key performance indicators (KPI)

- Increased number of different agricultural products whose characteristics meet the EU standards and the quantity of exported agricultural and food products from BiH;
- Reduced number of health-affected population of BiH

Expected impact on employment and gender: Achieving standards, incomes, increasing competitiveness and safer product placement will increase interest in raising production and processing, which will automatically require more workforce.

Potential risks:

- **Implementation complexity: high**

The implementation of these activities is a lengthy process involving a wide range of state institutions and agencies responsible for the acceptance and adoption of the necessary procedures.

- **Implementation risks: medium**

These activities have also been carried out in the previous period, but unfortunately the impression is that these activities are not adequately supported by political structures. Political support is needed to adopt the necessary legislation that will establish an effective system, and later on to implement it. The design of the measure is of a wide spectrum, which can lead to a failure in its implementation. The poor implementation of laws and regulations also creates confusion and problems.

At the level of FBiH, the characteristics of the agricultural sector in the economy of the entity of the Federation of BiH are a relatively high share of agriculture in the structure of total GDP compared to developed and highly developed countries, a significant number of employees, and a significant share of agricultural and food products in the foreign trade deficit of the Federation of BiH and BiH. The real growth rate of gross value added in 2017 for the activities of agriculture, forestry and fishing is nominally lower by 10.6% compared to 2016, and the share of the GAV of the agriculture, forestry and fisheries sector for 2017 in the GDP of the Federation of BiH is decreasing to stand at 4.1%⁵⁶ and it is by 0.7% lower than in the previous year (4.8%), but is still significantly higher than the average in the EU countries (1.6%) and the OECD (1.5%)⁵⁷.

⁵⁶ Release, No 10.1.2. FBiH Institute for Statistics

⁵⁷ Competitiveness in South East Europe A Policy Outlook 2018

According to the Labour Force Survey, of the total number of employed persons in the Federation of BiH in 2017, 11.8% (487.000) were employed in agriculture, forestry and fisheries, which is an increase of 1.2% compared to 2016). Out of this number of employees, 37,000 persons are employed full-time, of which 54.2% are women, and 21,000 persons are employed part-time, of which 45.8% are women⁵⁸. However, according to statistical data on the number of employees and wages, the average annual number of employees in the field of agriculture, forestry and fisheries in 2017 was 10,389, out of which 5.091 in plant and livestock production, hunting and related services, 5.131 in forestry and timber logging (forest exploitation) and 167 in the activities in fisheries and aquaculture.⁵⁹

The total agricultural production in the Federation of BiH in 2017 was lower by 17.4%, plant production decreased by 25.5%, and livestock production went down by 1.0% compared to 2016.⁶⁰

In 2017, in the Farm and Client Register of the Federal Ministry of Agriculture, Water Management and Forestry, the number of 354 new agricultural holdings were registered with the status of trades and 66 new ones with the status of the enterprise. Thus, at the end of 2017 there were 74,073 entities registered in the register of farms⁶¹, of which 70,758 family farms and 3,315 legal entities and trades.

During 2018, the increase in the number of entities registered in the Farm and Client Register continued, and as by 23 November 2018, there were 78,438 entities registered⁶², of which 74,741 were family farms, carrying out their activities on the surface of 113,367.13 ha. Of the total number of registered farms, 68% are small farms with a holding of 0-1 ha, and only 1% are farms carrying out their activities on the surface of 10 to 50 or more hectares. The average size of agricultural holdings/farms in the Federation of BiH is small, averaging about 1.6 hectares, while in the EU the average size of the farm is about 16.1 ha. The production structure is also unfavourable, especially in plant production. We mainly produce grains, with insufficient fruits and vegetables production, although it is this segment, along with milk and dairy products that are identified as competitive, that we have the greatest potential.⁶³ In total, according to unofficial data, only 1,612.5 hectares or 0.2% of arable land are irrigated in the territory of the Federation of BiH⁶⁴, most agricultural products are of small value added, and low productivity is achieved in all branches of agricultural production.

The multiple jurisdiction over the agriculture sector, the lack of harmonized policies and standards in BiH for the field of agriculture and rural development, and their adoption without the expert-scientific basis / analysis and identification of real needs of the entities in this sector results in inadequate budgetary support, low productivity and low volume production of agricultural and food products that cannot meet even the domestic needs. The Agriculture Sector of the Federation of BiH has a negative trade balance; we import twice as many agro-food products than we export. This trend continued in 2018, with mild growth in both exports and imports of agricultural and food products. The foreign trade deficit in the group of agricultural and food products is the consequence of the non-competitiveness of domestic agricultural production and its causes are: small average size of farms, low share of irrigated land, low

⁵⁸ Labour Force Survey 2017- final results , No 21.1.1, FBiH Institute for Statistics

⁵⁹ Statistical Bulletin No 271/2018, FBiH Institute for Statistics

⁶⁰ Release, No 13.1.4., FBiH Institute for Statistics

⁶¹ FBiH Ministry of Agriculture, Water Management and Forestry- Excerpt from the Farm and Client Register on 07/12/2017.

⁶² FBiH Ministry of Agriculture, Water Management and Forestry- Excerpt from the Farm and Client Register on 23/11/2018.

⁶³ Decision on adoption of a Strategy to increase competitiveness and attract investment in value chains of milk and dairy products and fruits and vegetables in the Federation of BiH 2014-2020 (Official Gazette of FBiH, 1/15).

⁶⁴ Basics of Land Management – Irrigation and Land Consolidation Programme in the Federation of Bosnia and Herzegovina, Faculty of Agronomy and Food Technology of the University of Mostar

productivity, quality and quantity of products, small incentives and liberalized foreign trade regime.

In the past three years, the average annual amount allocated from the FBiH budget for agricultural subsidies is about KM 68 million and from the Cantonal Budget approximately KM 17.6 million. The established system of incentives for agriculture through financial support in the Federation of BiH has the following characteristics: the amount of cash support is significantly lower than in the countries in the environment and the EU, most of the cash support is directed towards current production - direct payments to farmers rather than long-term investments and development of rural areas. In 2018, the most represented food industry sectors in the Federation of Bosnia and Herzegovina were: milk and dairy production, meat and processed meat production, production of water and refreshing soft drinks, processing of grains and production of flour and mill-bakery products, production of alcoholic beverages (beer, wine and spirits) and processing of fruits and vegetables.

The food production capacities in the Federation of Bosnia and Herzegovina in 2017 were approximately the same as in the previous year. The only visible change in capacity was in the grain-mill industry, where several mills of medium capacity ceased to operate, and although the production of mill products was somewhat smaller compared to 2016, the utilization of existing capacities has increased. Fruit and vegetable processing capacities were also lower than in 2016 because the company "Hepok" d.d. Mostar moved its fruit and vegetable processing equipment, production of juices and soft drinks to a new facility in Brčko.

The utilization of capacity in the branches of the food industry in most companies is below 50%, excluding fruit and vegetable processing with capacity utilization of 72%, and in the milling industry, biscuits and wafers and non-alcoholic beverage production, which is slightly over 50%. The lowest capacity utilization is recorded in cigarettes production - 19.7% and wine production - 12.72%.

Taking into account that the activities for the implementation of last year's measures have not been fully implemented, the activities related to the implementation of measures for improving agricultural production need to be continued in 2019. An important priority for agriculture in the Federation of BiH and BiH, in the upcoming period, is the need to create agricultural and rural development policies, to restructure institutions and to introduce those instruments that will enable the gradual restructuring of the agricultural sector and the establishment of a system aligned with EU membership requirements.

Agricultural policy in the Federation of Bosnia and Herzegovina is aimed at improving the development of agriculture and related sectors by raising the technical-technological level, making more efficient use of available resources and respecting the demands of modern markets - increasing competitiveness, ensuring conditions for a stronger generation of more stable income within the agricultural sector and improving quality of living in rural areas - strengthening the diversification of rural economy.

Strategic and operational objectives, as well as measures and activities for harmonisation of agriculture in FBiH are defined in the Medium Term Strategy for Agricultural Sector Development 2015-2019 (MTSASD)⁶⁵. The aforementioned strategic objectives of agricultural policy are in line with strategic commitments and priorities of the Government of FBiH⁶⁶, and should contribute to the overall sustainable growth objective.

⁶⁵ Decision of the Parliament of the Federation of BiH on the adoption of the Medium-term Strategy for Agricultural Sector Development in the Federation of BiH 2015-2019 (Official Gazette of FBiH, 47/15).

⁶⁶ The Work Programme of the Government of the Federation of BiH for its mandate period 2015-2020; the Reform Agenda 2015-2018 and the Economic and Fiscal Policy Guidelines for the period 2018-2020, as well as the strategic framework that includes the EU 2020 Strategy and the South East Europe Development Strategy 2020.

As part of the Program for Financial Support for 2018, for the first time since 2012, rural development support has been introduced for the procurement of agricultural machinery and equipment, and for the certification of organic production. For this purpose, KM 3.58 million (€ 1.8 million) was reserved and KM 1.0 million provided for the capital investment model for the measures: regressing interest on loans for investments in agriculture, land management - land consolidation. The available amount and intensity of this support are far below the average in the EU countries.

Short description of measures: In order to implement the proposed measure, the following activities will be continued: development of new and amending the existing laws and subordinate legislation in the field of agriculture, rural development and financial support at the level of the Federation of BiH; development of strategies and programmes for agricultural sector harmonised within BiH and aligned with the EU *acquis* and international standards; improvement of implementation of the applicable legal provisions; establishment of regular payments of financial support and arrears to farmers; improvement of agricultural sector funding sources; setting up appropriate measures to protect domestic agricultural output; strengthening the control system; support and initiate the development and adoption of sectoral strategies and laws in the area of agriculture and rural development at the level of BiH (regulation of agricultural product market; domestic production protection; improvement of control system); improvement of the quality of public services (professional and advisory services); organisation of trainings for farmers; and the improvement and updating the information system, registers and databases in agriculture in compliance with the EU requirements (LPIS, GIS; Registers, etc.)

The dynamics of adopting and taking legislation aligned with EU legislation in 2017 and 2018 has been at a low level. Planned activities on the preparation and implementation of policy-making procedures, strategies and legislative frameworks and regulations governing the field of agriculture and rural development, financial support, livestock production, agricultural advisory services, agricultural land, and drafting of subordinate legislation for livestock production and agricultural organic production in order to further align these areas with the EU legislation and within Bosnia and Herzegovina and creating the conditions for applying the applicable laws have not been implemented.

The implementation and introduction of payment support measures per head of livestock in FBiH was carried out in 2016 and 2017. However, in 2018, this measure was abolished while the measure of incentives for milk was retained, i.e. output-based support (litre) in the amount of KM 0.28/litre for legal persons and KM 0.26/litre for natural persons, applicable since 1 July 2018.

Activities aimed at full application of the existing provisions of the Law on Agricultural Land for the purpose of using uncultivated agricultural land have been initiated but not implemented. Charges collected based on payments of taxes for uncultivated agricultural land are dedicated type of revenue of municipal budget that can be used for development, incentives and intensification of agricultural production in the municipality where they are collected, and the application of this statutory provision is of great importance for the enhancement of agricultural production at the local level.

The Federal Ministry of Agriculture, Water Management and Forestry has completed the development and implementation of software for processing agricultural incentives based on the existing Agricultural Farm Register and the FBiH Register of Clients. The software covers a complete process from reporting of production to the processing of requests and payments. It covers all the institutions at the local, cantonal and federal level working on processing of requests. At the beginning of 2018, software functionality was significantly improved in the segment of records of payment orders, processing, refunds and reporting.

The development of additional functionalities related to structural support measures is ongoing so that by the end of the year the Comprehensive Support Program for Agriculture and Rural Development together with structural measures will be fully processed electronically from receipt of requests to payment of funds.

Expected impact on competitiveness: The Implementation of the above mentioned activities is expected to increase the productivity of agricultural production with the preservation of the environment, to increase agricultural output with added value, to increase the utilization of agricultural and food capacities, and to reduce the trade deficit in agricultural and food products.

Estimated cost and information on the budgetary impact of the activities: Implementation of planned activities will not require additional funds to be allocated from the Budget of the Federation of BiH. Total projected amount of funds from the total expenditures of the Federation Budget for subsidies to private enterprises and entrepreneurs in 2019 - The incentive for agriculture amounts to KM 69.7 million, and this amount is projected for the next two years as well.

Expected impact on employment and gender: Implementation of planned activities is expected to contribute to sustainable and steady growth of agricultural and food production and ensure a better standard of living for farmers, which is set to result in growth of formal employment in the agricultural sector and activities associated with agriculture and food industry with greater engagement of women.

Potential risks: Potential risks are the lack of agreement and cooperation between all levels of government in the creation and implementation of policies and legislation as well as establishment of institutional systems in the sector of agriculture and rural development in line with EU requirements; new stricter policies and legislation in EU after 2020; delays and standstills in harmonisation of legal provisions; insufficient financial resources; adverse climate conditions (frosts, droughts, floods, etc.) and inadequate response to climate change in this sector.

Potential Risk for implementation of the Rural Development Programme in the Federation of BiH 2018-2021 is that the FBiH Government has not yet initiated a credit negotiation procedure so that the draft credit agreement on new borrowing has not been prepared and thus has not been submitted to the approval procedure. An additional risk is political instability that can prevent the BiH Parliamentary Assembly in granting consent for the conclusion of the credit agreement, but also the Parliament of the Federation of BiH in making the final Decision on external borrowing.

At the level of RS, in the field of agriculture in the previous period, the model for financing the development of the agrarian sector has been improved, through increasing the agricultural budget and amending the Rules for placement of funds of the IDBRS. Also, access to IPA 2 funds has been facilitated and the implementation of the following projects is financed from international sources: Rural Business Development (IFAD), Rural Competitiveness Development (IFAD) and Irrigation System Development Project (World Bank). Key obstacles to growth and competitiveness in the field of agricultural production are: low level of investment in agriculture, fragmentation of arable land, a high share of small farms, low productivity and outdated production and processing capacities, and the lack of agricultural information system and agricultural census.

Activities:

- Developing a new forestry information system to provide better quality data, monitoring and control in all business segments of the JP "Šume", while improving the work of reporting, diagnostic and forecasting services (RDF) through technological enhancement

will upgrade the forest health diagnostics and preventive actions to protect the forest ecosystems in order to prevent serious environmental and economic damage;

- Setting up a land parcel identification system;
- Implementing the animal identification process through development of the animal movement control system;
- Improvement of foreign trade and protection of domestic agricultural production is an activity that will be carried out continuously;
- Creating IPARD Operational structure.

Developing a new forestry information system: The goal is to provide better quality of data, monitoring and control in all business segments of the JP "Šume", and to improve the work of reporting, diagnostic and forecasting services (RDF) through technological enhancement. The objective is to upgrade the forest health diagnostics and preventive actions to protect the forest ecosystems in order to prevent serious environmental and economic damage.

Dynamics of the implementation: Based on the developed project task, the envisaged deadline for the development of IS is 18 months from the moment of signing the contract. Public procurement for the development was announced. It is realistic to expect that the activity will be implemented in the planned horizon.

Estimated cost of the activities and the source of financing: Funding IS is related to the withdrawal of KM 5.5 million of revolving funds (Partner Fund). The submitted bid is higher than the available funds and defining the model of financing from own and external funds is currently in progress.

Impact of this activity on competitiveness and employment: The information system in forestry is an integral business information system, whose application would enable a higher level of control and reliability in all stages of production and other business activities. Applying this kind of system would also increase the transparency of production, which enables manufacturers to realistically plan their own production in activities that are fully competitive and in relation to the most demanding markets, recording a steady growth of exports and employment.

Result of the implementation of this activity: Increasing the level of reliability within all manufacturing and business activities within the forestry sector, leading to greater transparency in the work and more objective controls, ultimately resulting in an increase in revenue.

Setting up a land parcel identification system: The establishment of land parcel identification system (LPIS) aims to achieve more efficient use of land-based subsidies. In order to promote better use of agricultural land and financial support per unit of land, besides the establishment of LPIS, it is necessary to simultaneously further develop and maintain the Register of Agricultural Farms (RPGs), Domestic Animal Registers, upgrade and maintain data collection and analysis system for agricultural accounting (FADN) and establishment and maintenance of agricultural market information system (AMIS).

Dynamics of the implementation: The implementation of this activity in 2019 is questionable. The practice in all countries in the pre-accession period was for these activities to be financed from EU pre-accession funds (IPA funds), however, in the upcoming period there is no project of the European Union to finance the establishment of LPIS.

Estimated cost of the activities and the source of financing: No funds from the domestic budget were planned. Also, there is still no IPA project planned from which this activity could be funded. An estimate by the Ministry of Agriculture, Forestry and Water Management of the Republika Srpska is that for the establishment of a land parcel identification system (LPIS) in Republika Srpska, it would take about 2 million euro.

Impact of this activity on competitiveness and employment: The primary goal is to achieve more efficient use of budgetary funds in the field of incentives for agricultural producers. Indirectly, through more efficient use of funds and streamlining them in the right direction, it can influence the strengthening of the competitiveness of agricultural producers, users of incentives.

Result of the implementation of this activity: The main result of the implementation of this activity is the more efficient application of cash incentives based on the land surface.

Implementing the animal identification process through development of the animal movement control system: The animal identification and movement control system has been set up within the animal health and food safety system, i.e. the responsibilities of DG SANTE, and the goal of the system is to establish traceability in the production of food of animal origin under the *farm-to-table* system. On the other hand, the implementation and monitoring of the animal identification and movement control system would, in analogy with the same EU systems, have to be in the part under the direct control of the veterinary services, as the competent body for animal health protection and the safety of food of animal origin. The objective of this activity is to improve the information basis for the identification and control of animal movement in order to use it for more efficient programming, implementation and monitoring of agricultural and rural policies in the field of livestock production.

Dynamics of the implementation: An Action Plan was prepared, which outlines the activities and obligations of the Ministry of Agriculture, Forestry and Water Management of Republika Srpska and the Office for Data Entry in the Animal Identification and Movement Control System. In the course of 2019, it is planned to draft regulations to define the Animal Identification and Movement Control System in Republika Srpska.

Estimated cost of the activities and the source of financing: The use of domestic budgetary funds is planned for the implementation of this activity.

Impact of this activity on competitiveness and employment: Indirect impact through facilitating more efficient use of incentive funds in the livestock sector.

Result of the implementation of this activity: The main result of the implementation of this activity is more efficient programming, implementation, and monitoring of agricultural policy in the field of livestock breeding, on the basis of accurate data on the number and movement of livestock in Republika Srpska.

Improvement of foreign trade and protection of domestic agricultural production Considering the obligations of BiH, as defined by the applicable free trade agreements with the EU, CEFTA and EFTA agreement, which allow for the importation of significant quantities of agricultural food products on the principle of free trade, it is necessary to continuously strengthen the mechanisms for protection of domestic production in the agricultural and food sector. The objective of this activity is for the Ministry of Agriculture, Forestry and Water Management of the Republika Srpska, by starting certain initiatives towards the Ministry of Foreign Trade and Economic Relations of BiH, on the one hand to affect the regulation of foreign trade and protection of domestic production, and on the other hand, through the promotion of support for the start-up, and the modernization of the family farm business, to affect the improvement of the competitiveness of domestic agricultural production. Regulation of foreign trade and the protection of domestic production is one of the guiding principles of the Strategic Plan for the Development of Agriculture and Rural Areas of Republika Srpska 2016-2020.

Dynamics of the implementation: This activity is carried out on a continuous basis.

Estimated cost of the activities and the source of financing: Implementation of this activity is carried out using domestic budget funds.

Impact of this activity on competitiveness and employment: Improving foreign trade and protecting domestic agricultural production is an activity that has a direct impact on increasing the competitiveness of domestic agricultural producers and the food processing industry, which will lead to an increase in employment.

Result of the implementation of this activity: Improvement of foreign trade and protection of domestic agricultural production through the application of measures allowed under the agreements aimed at the protection of domestic production, and through the implementation of financial support for the start-up, extension and modernization of family farm operations with the goal of improving the competitiveness of domestic agricultural producers and food processing industry.

Establishing IPARD Operational structure (The Managing Authority and the IPARD Payments Agency) is necessary since the fulfilment of this precondition will open the possibility of using EU funds for rural development. Therefore, the ultimate goal to be achieved by launching this activity is to resume inter-institutional cooperation, which will ultimately result in the use of IPARD funds of the European Union.

Dynamics of the implementation: It is expected that by 2020, if not sooner, the conditions for continuing the work of the institutions involved in the creation of the operational structure for the use of IPARD funds will be achieved in order to plan these funds in the IPA3 programming period. The Ministry of Foreign Trade and Economic Relations of BiH is a coordinating institution that should set in motion the activities related to the creation of IPARD Operational Structure in BiH.

Estimated cost of the activities and the source of financing: In the previous period (from 2008 to 2013), the practice was to use IPA funds for this type of activity through the implementation of certain EU projects. However, given the long-term discontinuation of activities on the issue of the IPARD Operating Structure, we believe that the re-activation of these activities in the form of meetings of the involved institutions could be financed by these institutions.

Impact of this activity on competitiveness and employment: In the long run, the impact of this activity on competitiveness and employment will be positive.

Result of the implementation of this activity: In the long run, the results of the implementation of this activity will be positive for several reasons. Pre-accession funds from the European Union's Rural Development Fund will be available to our agricultural holdings. By using these funds, agricultural producers will be introduced to the procedure for using EU funds, as well as the administrative capacity, which is the basis for the successful use of EU funds after acquiring the status of a member state. Given that this is a significant amount of funds for individual projects, it will open the possibility for the improvement of production capacities in the primary production and food processing industry, as well as in the area of food safety, phytosanitary field and veterinary. All of these will have a positive impact on the improvement of the overall sector of agriculture and rural development.

4.3.3 BUSINESS ENVIRONMENT AND REDUCTION OF THE INFORMAL ECONOMY

4.3.3.1 Enhancing the quality infrastructure system in BiH according to the EU model

At the level of BiH, the key issue arising from the underdeveloped quality infrastructure system is the distortion of the internal market of BiH and the single economic space. The consequence

of this state of affairs is its negative impact on the overall business environment, which is why the industrial sector is suffering significant consequences. In such an underdeveloped and non-stimulating business environment, BiH companies do not have the adequate assistance of the BiH quality infrastructure system in exports to the international market, especially the EU market, as the most important foreign trade partner of BiH. For this reason, BiH companies must use considerably more expensive services of foreign bodies for conformity assessment (laboratories) when exporting to the EU market, which has direct negative implications for their competitiveness.

Another important issue arising from the underdeveloped quality infrastructure system is the fact that the BiH market is unprotected from unsafe products from abroad. Furthermore, the reason for the reform is also the obligations of BiH under the Stabilization and Association Agreement with the EU which defines the alignment of the quality infrastructure system in BiH with the European model (Article 75 of SAA). Given that the SAA requirements so far have not been met, the current BiH quality infrastructure system presents a direct obstacle for BiH on its path to EU membership. Also, an important reason is the inability to use IPA funds for this area due to non-adoption of the BiH state-level quality infrastructure strategy.

Regarding the aforementioned, the key reform solution is the adoption of a BiH state-level strategy for quality infrastructure, which will address the following key issues: the transposition and implementation of the New Approach EU directives, the fulfilment of EU conditions in this area and make significant progress towards EU membership; BiH will be able to use EU funds to develop this sector, the companies will benefit from a modern quality infrastructure system and lower certification costs for their products, making them more competitive on the international market, and citizens will be protected from unsafe products.

The development of the quality infrastructure system is an EU requirement for BiH on its path to full membership, so the reform in this area is necessary. Furthermore, the underdeveloped quality infrastructure system hinders the development of the internal market of BiH, which is why we now in fact have a fragmented market in BiH with different principles that have a negative impact on the competitiveness of the BiH economy and domestic companies that face barriers when operating in entities. Moreover, from the total of the planned 28 New Approach EU directives, BiH has taken only seven in the form of orders, which is why domestic conformity assessment bodies have not been adequately developed, so BiH companies must use costly services from foreign conformity assessment bodies.

The ERP 2018 report clearly highlights problems related to the single economic space and quality infrastructure in BiH. In this connection, it explicitly states that *"The measure on harmonisation of the quality infrastructure is highly relevant and will contribute to creating a single economic space and to facilitating trade"*.

These problems in the system of quality infrastructure in BiH are also noted by the European Commission in its annual reports. Also, the OECD in its report (as in previous reports) *Competitiveness in South East Europe: A Policy Outlook 2018* highlights the problems associated with the underdeveloped quality infrastructure system in BiH.

Many local and international institutions, in their reports and analyzes, highlight this problem that has significant negative implications for the competitiveness of BiH economy.

The proposal of a reform measure is the adoption of a BiH quality infrastructure strategy at the level of the BiH Council of Ministers and its implementation. The key sub-measures in this regard would be: taking over the New Approach directives by the BiH institutions, the development of domestic laboratories, the signing of the Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA) with the EU in certain sectors of the industry.

Building a modern quality infrastructure system will lead to the development of domestic conformity assessment bodies (laboratories) where a number of professionals in this area will be employed. The adoption of a quality infrastructure strategy will enable these laboratories to use the EU-IPA funds. Given that the conformity assessment bodies use highly sophisticated modern technology, this will lead to the transfer of knowledge and technology in BiH.

Furthermore, the development of domestic conformity assessment bodies (laboratories) will enable export-oriented BiH companies to use cheaper services than those currently used abroad, which will directly contribute to strengthening of their competitiveness.

Building a modern quality infrastructure system in line with the EU model will lead to overall improvement of the business environment in BiH, thus improving the competitiveness of the BiH economy. Given that this measure has a direct impact on the competitiveness of BiH's economy and domestic companies, its implementation will certainly lead to job creation in conformity assessment bodies, export-oriented companies as well as those companies that have the potential to become exporters.

4.3.3.2 Health sector reform

At the level of RS, one of the key reforms in the coming period is the Health System Reform. The line ministry needs to take much more decisive action in order to speed up the analysis and implementation of the necessary measures, which will make the system fiscally sustainable. At a meeting between the Ministry of Health and Social Welfare and the World Bank held in September 2018, it was agreed to make an inventory of all liabilities in the health care system as by 31 December 2018. The World Bank will provide the necessary technical assistance in terms of defining the data and forms that will need to be completed, with the possibility of creating an application by which the data will be entered and analyzed. The database and application will remain in later use in the public health sector in the Republika Srpska after the completion of the inventory.

In addition, there is a need to define and implement two intermediate phases, before the introduction of health care institutions and the Health Insurance Fund into the treasury system. It is necessary to define and implement measures that will stop further growth of outstanding liabilities in each health care institution individually, and then define a model for settling outstanding arrears of each health care institution individually, so that the problem of arrears would not be transferred to the budgets of municipalities and cities or the budget of Republika Srpska. Of course, the precondition for all activities is to first define the clear responsibilities of all health care system stakeholders.

Therefore, it is necessary to continue with the measure of the Health System Reform. In line with the aforementioned, the reform will encompass the following phases: (1) Defining the clear responsibilities of all stakeholders in the health care system; (2) An inventory and analysis of all liabilities in the health care sector, with particular attention to arrears; (3) defining and implementing measures to prevent further growth of arrears in each health care institution; (4) finding models to settle outstanding arrears in the health care system thus creating the preconditions for completing the process of introducing health care institutions and the RS Health Insurance Fund into the treasury operations system; (5) Introducing Health Institutions and the RS Health Insurance Fund into the Treasury System; (6) Perform standardization of Republika Srpska health care system network, and (7) Finding new models of financing the health care system and define several "health care packages".

Dynamics of the implementation of measure:

2019: Defining the clear responsibilities of all stakeholders in the health care system; An inventory and analysis of all liabilities in the health care sector, with particular attention to arrears; In co-operation with the World Bank team, define and implement measures to prevent further growth of arrears in the health care system; In co-operation with the Ministry of Finance find models to settle outstanding arrears in the health care system thus creating the preconditions for completing the process of introducing health care institutions and the RS Health Insurance Fund into the treasury operations system; Introduction of the treasury operations system in health care institutions and the Health Insurance Fund of Republika Srpska; Perform standardization of Republika Srpska health care system network: Determine the type, number, spatial distribution and capacity of health care institutions founded by Republika Srpska, local self-government units or other legal or natural persons based on the number and age structure of the population, development of local self-government units, indentedness of the area of the local self-government unit, type of health care activity, and on the basis of certain population and/or nosological groups.

2020: Finding new models of the health care system financing – increase funding for health protection of the population and define several "health care packages".

Expected impact on competitiveness: Reform of the health care system will establish a fiscally viable system that will enable more efficient health care and thereby improve the health of the population, and consequently better labour productivity and efficiency. Also, by settling outstanding arrears, funds will be provided in the budget of the Republika Srpska and Municipal and City budgets, which will be used to boost competitiveness and capital expenditures.

Key Performance Indicators: An inventory made and the report on the analysis of liabilities completed; A package of measures to prevent further growth of arrears in the health care system prepared and implemented; Arrears of PHIs settled, total liabilities of PHIs reduced, liquidity of PHIs increased, financial stability of PHIs improved; The type, number, spatial distribution and capacity of health care institutions founded by Republika Srpska, local self-government units or other legal or natural persons determined; Larger amount of funds available for the health protection of the population of Republika Srpska.

Estimated cost of the activities and the source of financing: At this point, it is not possible to estimate the costs of reform, and part of the funding for reform will be secured through the grant and credit support of the World Bank. They will be observed after the completion of the inventory and analysis of all health care system liabilities.

Expected impact on employment and gender: By standardising the network of health care institutions, the analysis may show that the existence of some health care institutions is not justified, which can affect the reduction of the number of employees.

Potential risks for the implementation of the measure: Potential costs of implementing a measure can significantly slow down its implementation.

Potential measures to mitigate risks for the implementation of the measure: The reform model has first defined measures to mitigate the risk of non-implementation of the measure, namely the first four stages of the reform, while the final two stages of the reform represent the essential structural reforms.

4.3.3.3 Register of incentives for the economy

At the level of RS, the register of incentives for the economy aims at providing a clear overview of all the available incentives, in order to monitor their implementation and effects in practice,

both those awarded at the level of the Republika Srpska, local government units and possibly other providers of assistance.

Dynamics of the implementation of measure:

2019: Mapping of all available incentives and their sources (first quarter); Preparation and finalization of the software solution for the register and its testing (second quarter of 2019 until the first quarter of 2020); Drafting, harmonizing and adopting the legal framework for the development of the register of incentives (third to fourth quarter);

2020: Data entry, testing (first quarter); Promotion (first quarter).

Expected impact on competitiveness: Greater transparency, timely information for all business entities, equal status of all business entities, prevention of duplication of the same type of incentives, basis for better planning of the incentive allocation system.

Key Performance Indicators: A functional register was created that provides an analytical basis for improving the use of incentives.

Estimated cost of the activities and the source of financing: At this point, we do not have a clear estimate of the cost. Costs related to hiring staff would be implemented with the existing staff. However, additional costs mainly relate to the development of software solutions (and the accompanying hardware) and possibly support in the preparation of the legal framework. Funding can be from donors or budget sources.

Expected impact on employment and gender: There is a significant impact on employment since the transparent register allows easily available information to businesspersons (particularly on significant incentives allocated for employment) and on the other hand, provides a better approach to planning and avoiding duplication of this segment of incentives at different levels of government.

Potential risks for the implementation of the measure: The inclusion of a larger number of participants can make it difficult to implement the measure (local, Republika Srpska level, a number of institutions). Also, the lack of funds for the development of the register (since it needs to be done on a platform that requires a larger number of participants, it is expected that the funds for its development will be higher too).

Potential measures to mitigate risks for the implementation of the measure: It is not possible to define alternative measures.

The reform of the inspectorate will be implemented in two phases: (1) Developing and adopting the Action Plan for the Reform of Inspections in the Republika Srpska; and (2) Reforming the Republika Srpska Inspectorate and the Inspections from all levels of government in Republika Srpska. The goal is to regulate the situation in the field of inspections in order to overcome the identified deficiencies in the analysis of the situation.

Dynamics of the implementation of measure:

2019: Additional analysis of the situation and implementation of recommendations for reform (first quarter); Preparation and adoption of the Action Plan (second and third quarter) and the adoption of the new Law on Inspections (fourth quarter);

2020: Establishing a new organizational structure of the Republika Srpska Inspectorate.

Expected impact on competitiveness: Efficient and cost-effective, professional and accountable and transparent work of inspection bodies, which will contribute to the reduction of the gray economy in all spheres of life. An impartial, advisory and preventive approach to controlling the entity, in order to ensure that the final outcome of the inspection work is a greater degree of compliance with the regulations by the controlled entities.

Key Performance Indicators: Concrete measures and steps in the Action Plan set; Analysis of each implemented measure; The Republika Srpska Inspectorate is organized in accordance with the results of the implemented activities from the Action Plan.

Estimated cost of the activities and the source of financing: The implementation of these measures does not require any financial costs.

Expected impact on employment and gender: More efficient work of inspection bodies will contribute to the reduction of the gray economy and the transition from informal to formal employment. In addition, the burden of inspection controls on business entities will be reduced and enable more efficient work of the controlled entities.

Potential risks for the implementation of the measure: Local self-government units will certainly resist to taking the inspection competencies.

Potential measures to mitigate risks for the implementation of the measure: It is not possible to define alternative measures.

4.3.3.4 Reducing the share of expenditures for current spending in public administration

At the level of RS, reducing the share of expenditures for current spending in public administration will be implemented through the establishment of the Register of employees in users of budget funds, and through changing the organisation of the public administration and increasing the efficiency of its work.

The Register of employees in budget users was formally established by the adoption of relevant legislation. However, its operational establishment will be implemented in the following period, and the goal is to include all employees in the Republika Srpska who receive salaries from public funds. The goal is to establish a comprehensive Register of employees in budget users in order to create a single record of the number of employees and a more transparent use of budget funds for personal wages of employees, which will be the basis for the operationalisation of strategic plans to restrain total spending on wages. In this way, a more efficient and effective administration will be established, which will contribute to the improvement of the overall environment in Republika Srpska.

The goal of changing the organization of public administration and increasing the efficiency of its work is to improve the existing organization and system of functioning of the administration so that it is able to provide services to citizens and the business community, with the quality they expect, as well as to create the preconditions for implementing the reforms necessary for the process of European integration, respecting the principles and standards of the EU. The change of organization will be carried out by passing a new Law on Civil Servants. The Law on Civil Servants will determine the eligibility criteria and competency tests for the recruitment of civil servants and non-civil service employees.

Dynamics of the implementation of measure:

2019: Enable the Register to include the employees of the health care system of Republika Srpska; Pass the Instruction on keeping a register of employees in users of budget funds (after transfer of funds for these purposes from the World Bank); Development of the Register of employees in users of budget funds, together with CSA and other competent bodies; Adopt the Law on Civil Servants - after conducting the analysis in cooperation with SIGMA - whose principles are based on the establishment of a civil service whose scope and legal framework is clearly defined and applied in practice based on professionalism, employment, training and performance appraisal, correct and transparent payroll system, as well as promotion of integrity and prevention of corruption;

2020: Analysis of each individual job in the administrative bodies of Republika Srpska, given in the Register, to which the provisions of the Law on Civil Servants are applied; Based on the analysis and analytical assessment of all jobs, establish a system of wage setting based on values so as to establish a more equitable system of wages in the administrative bodies of Republika Srpska; Adopt the Operational plan for reducing the total payroll expenditure.

Expected impact on competitiveness: By creating the Register, it will be possible to analyse each individual job, review its performance and pay wages according to the performance. In this way, more efficient public administration will be established, and at the same time the total payroll expenditure in relation to GDP will be reduced, thus creating space to increase capital spending. Based on the analysis and analytical assessment of all jobs, a value system of jobs in the administrative bodies of Republika Srpska will be established so as to create assumptions for a more fair pay system. By determining the eligibility criteria and introducing competency tests, the efficiency and effectiveness of the work of the employees in the administrative bodies of Republika Srpska will be improved, while respecting the EU principles.

Key Performance Indicators: the Instruction on keeping a register of employees in users of budget funds passed; The Register of employees in users of budget funds established; the Law on Civil Servants adopted; the eligibility criteria determined and competency tests prepared for each job in the recruitment of civil servants and non-civil service employees; Analysis of each individual job in the administrative bodies of Republika Srpska carried out; The Law on Salaries of Employees in the administrative bodies of Republika Srpska adopted; the Operational plan for reducing the total payroll expenditure adopted; The share of payroll expenditure in public sector relative to GDP reduced.

Estimated cost of the activities and the source of financing: Financing the development of the Register will be done from the World Bank funds planned for this purpose. The financing of the adoption of the Law on Civil Servants will be carried out from the budget of Republika Srpska and from the funds intended for implementation of projects in the area of public administration reform.

Expected impact on employment and gender: It will be possible to see the impact on employment only after the analysis of each individual job from the Register.

Potential risks for the implementation of the measure: There are no risks for the implementation of this measure.

Potential measures to mitigate risks for the implementation of the measure: It is not possible to define alternative measures.

(FBiH)

4.3.3.5 Intensifying the development of entrepreneurial infrastructure

Lack of harmonization of sectoral strategies and action plans with strategies at the cantonal and state level and the Action Plan for the Federation of BiH. In addition to this harmonization, it is necessary to align these sectoral strategies with the EU recommendations and the Small Business Act.

Insufficient budget allocations to encourage the development of small and medium-sized enterprises, as well as entrepreneurial infrastructure. The lack of synchronization of budget allocations to support the development of small business sector at all levels of government in the Federation of Bosnia and Herzegovina.

Lack of clear criteria at all levels to determine the categorization of the small business entities, and the single legal framework for the implementation of the development programmes, i.e. the incentives for the development of entrepreneurship and the unique criterion for awarding

incentives with an emphasis on incentives for those activities included in the Development Strategy (which is, in fact, respecting the specificities of a particular canton).

Reform measures:

- Creating a favourable entrepreneurial environment with a special emphasis on reducing the administrative and financial barriers for the growth and development of small businesses;
- Improving the entrepreneurial infrastructure in the Federation of BiH;
- SME support projects to strengthen competitiveness and preserve and increase employment in the SME sector.

Short description of measures: The FBiH Ministry of Development, Entrepreneurship and Crafts will undertake a number of measures and activities aimed at increasing the number of small and medium enterprises, stimulating the growth of innovative and export-oriented SMEs, and creating a favourable business environment for the establishment and development of small business entities.

It will continue, with other development holders of the Federation of BiH, with the implementation of the Small Business Act for Europe (SBA) and the defining of the framework of support policies for SMEs that need to be adopted and developed in order to improve the entrepreneurial environment and increase competitiveness SMEs. By supplementing and amending the existing legislation, a more favourable environment will be provided for the activities of the small business entities in order to maintain their stability and development.

Regarding budgetary allocations for business zones, in the coming period we plan to continue to encourage their development, although with reduced funds. Through this measure, support is provided to the development of entrepreneurial zones for the purpose of economic growth and employment at the local level. This measure also contributes to the implementation of the economic priorities defined in the strategies of the development of local self-government units and the implementation of the priorities established in the strategic documents of the Federation of BiH. As part of this activity, we are actively working on the project of the *Development of the Information System* with the web portal of business zones in the Federation of BiH. With this project, for the first time we will have a register of business zones in the FBiH in one place under the supervision of this ministry, and it will have multiple benefits for investors as well as for the authorities at all levels.

In the coming period, the Ministry will, through incentive programs, continue to support small business entities in order to strengthen competitiveness, which will lead to increased employment. The most important projects of support to small and medium enterprises are granting of loans and grants. Loans will be placed in the following period with an interest rate of 1% to 7 years. Grants will be allocated through projects: strengthening competitiveness, support for newly established small businesses and for encouraging crafts (old and traditional and related and special). By supplementing and amending the existing legislation, a more favourable environment will be provided for the activities of the small business entities in order to maintain their stability and development.

In this segment, the following activities are planned for the coming year:

- Amendments to the Law on Incentives for Small Businesses Development, for which the first draft was prepared and sent to the Government of the Federation of BiH for consideration and adoption;

- Amendments to the Law on Crafts and Related Activities - The proposal of this law was determined by the Government of the Federation of BiH and sent for adoption in both houses of the Parliament of the Federation of BiH.

In the coming period, we plan to encourage the development of entrepreneurial infrastructure and entrepreneurial support institutions in the Federation of BiH. Through this measure, support is provided to the development of entrepreneurial infrastructure for the purpose of economic growth and employment at the local level. This measure also contributes to the implementation of the economic priorities defined in the strategies of the development of local self-government units and the implementation of the priorities established in the strategic documents of the Federation of BiH.

Through the incentive programs, the Ministry will support small businesses for employment, which is primarily guided by the principles of creating demand for human resources through increasing economic activities, and strengthening export capacities.

In order to create a favourable business environment, it is necessary to harmonize sectoral strategies, as well as to align them with the recommendations from the Small Business Act. It is necessary to make an Action Plan for the Development of the Small Business Sector in the Federation of BiH by the end of 2020, as a transitional period until the development of the Strategy 2021-2027. The proposed activities aimed at harmonizing sectoral strategies and action plans with strategies at national, federal and cantonal levels have not been implemented to a significant extent, so they will continue to be implemented in 2019.

Expected impact on competitiveness: More efficient action plans for the implementation of sectoral strategies, as well as budget allocations for business zones and SMEs, will contribute to improving the competitiveness of the private sector in the Federation of BiH. In addition, the alignment of sectoral strategies with the EU recommendations and the Small Business Act will also lead to a more favourable impact on the competitiveness of small and medium-sized enterprises in the Federation of BiH.

Key Performance Indicators (KPI):

- Adoption of the planned legislation
- Realizing a targeted increase in the number of small business entities and the number of employees in the small business sector
- Realizing a targeted increase in the number of small business entities and the number of employees as a result of the improvement of entrepreneurial infrastructure.

Estimated cost of the activities and the source of financing: The aforementioned activities will be carried out by the staff of the Federal Ministry of Development, Entrepreneurship and Crafts, so that the implementation costs will be regular expenses for the salaries of employees (there will be no additional costs), except the funds envisaged in the Budget of the Federation of BiH for the improvement of entrepreneurial infrastructure.

In the plan for 2019 there was a significant reduction in the funds envisaged in the Budget of the Federation of BiH for the development of entrepreneurial zones.

Expected impact on employment and gender: Creating a better business environment for the growth and development of small businesses in the Federation of Bosnia and Herzegovina.

Potential risks: Untimely adoption of laws by the Parliament of the Federation of BiH. There is a risk of a lack of planned financial resources.

4.3.4 RESEARCH, DEVELOPMENT AND INNOVATION (RDI) AND THE DIGITAL ECONOMY

4.3.4.1 Improving the communication and information society sector along with the alignment of the regulatory framework with EU standards

The situation in the field of communications and information society in BiH needs to be improved so as to follow the modern global trends and dynamics through the adoption and implementation of new technologies in the field of telecommunications and information society, and regulatory compliance with the Regulatory framework for electronic communications of the European Union. Economic growth will be stimulated through the introduction of new services and openness to investments, creating conditions for job creation, increasing the productivity of existing work processes, revenue and return on investment. Investment in the area of broadband access directly affects the GDP growth, the competitiveness of all sectors of the economy and improvement of life of citizens. BiH is the only country in the region that has no Broadband Access Strategy.

BiH legislation in the field of communication and information society is not aligned with the EU regulatory framework in these areas. Pursuant to Article 104 of the Stabilization and Association Agreement between the European Communities and their Member States and Bosnia and Herzegovina (hereinafter: the Agreement), the harmonization of the area of electronic communications networks and electronic communications services with the European Electronic Communications Framework should be carried out one year after the entry into force of this Agreement. ERP 2017-2019 also defines measures to overcome these obstacles (Law, Strategy, Policy, Digitalisation Project) and they are being implemented on a continuous basis. The drafting of the Broadband Access Strategy as well as the drafting of the Law on Electronic Communications and Electronic Media are under way while the Electronic Communications Sector Policy in Bosnia and Herzegovina for the period 2017-2021 was adopted (Official Gazette BiH“, 46/17).

The European Commission assesses that little progress has been made in the field of communications and information society, and that deadlines, carriers of activities, indicators for measuring progress and increasing competition need to be more clearly defined. In order for BiH legislation pertaining to communications and information society to be aligned with the EU regulatory framework in these fields and to be regulated, it is necessary to develop and adopt the following:

- the Broadband Access Strategy,
- Strategy for information society development,
- Law on Electronic Communications and Electronic Media.

The funds from the Budget of BiH have been secured for the development of these regulations, which will be implemented through the wages and fees of the activity holders. The reform is ongoing with some delays. The reform should be completed in 2021.

Economic growth will be stimulated through the introduction of new services and openness to investments, creating conditions for job creation, increasing the productivity of existing work processes, revenue and return on investment. Investment in the area of broadband access directly affects the GDP growth, the competitiveness of all sectors of the economy and improvement of life of citizens.

4.3.4.2 Reform in the area of research in BiH

A small country with limited resources such as BiH can only successfully build its own prosperity on the development of a technology-based and innovation-based economy. In BiH,

higher education, scientific research and technological development as a common set of activities must become a national priority, with the ultimate goal of reaching the standards applicable in these areas in the EU. Innovation is one of the key opportunities for creating a modern BiH. The key weaknesses of the innovation system in BiH are the following: lack of demand for innovation; inadequate understanding of the role of innovation in economic growth and social development; a small number of I & R staff and outdated or inadequate research infrastructure; STI is facing a problem of critically insufficient funding. Sustainable development of the country's science and research sector depends on how effectively the results of the research are used, in particular those financed by the public sector, for commercial purposes. Key actors in this sector are: universities, innovation and research centres, SMEs, development agencies, chambers of commerce, social partners, industry, professional associations (clusters etc.), business institutions, non-governmental organizations and other public and private institutions / organizations.

The goal is to put science and technology in the forefront in the fight against the economic crisis, i.e. to support the real sector in order to expand the innovative capacities and competitiveness of enterprises, especially micro, small and medium enterprises, namely by:

- Providing additional funding for science and technological development;
- Streamlining science, research and development projects in the needs of the economy, strengthening public science and research institutes and university institutes and their collaboration with the economy;
- Enhancing scientific, research and technological infrastructure (equipment, facilities, systems, laboratories);
- Increasing financial "*start-up*" assistance for high-tech enterprises.

According to the global comparison of the INSEAD **Global Innovation Index (GII)**⁶⁷, Bosnia and Herzegovina is ranked 82rd out of 141 countries. The country has a better average in business sophistication, where it is ranked 45th, human capital and research where it is ranked 52nd, while in market sophistication it is 58th. The areas of relative weakness are infrastructure (traditional and ICT) and the creative outputs, both ranked 90th. In the area of knowledge diffusion Bosnia and Herzegovina is ranked 84th, while in cooperation between university and industry it is ranked 123rd. The inadequate understanding among policymakers of the **role of research and innovation in economic growth and social development** can be manifested as a serious lack of funding by both public and private sources.

The OECD noted in 2012 that "*the quality of the business environment in Bosnia and Herzegovina remains highly problematic and continues to lag behind the economies in Southeast Europe; [...] No notable progress has been made in the field of institutional policy and coordination at the state level since the report*". Compared with other countries in the region, critical areas have been identified with regard to the regulatory framework for SME policy development, the operational environment for SMEs, and the internationalization of small and medium enterprises. (OECD, 2012)

Over the past 20 years, economic growth in BiH has been based on cheap labour, foreign investment and an increasing domestic demand thanks to reconstruction. GDP in 2014 amounted to EUR 13.97 billion, with an unstable growth rate (2010: 0.8%, 2011: 0.9%, 2012: -0.9%, 2013: 2.4%, 2014: 1.05%). The foreign trade balance usually shows deficits (varies between -3.3% and -3.8% in the same year⁶⁸). The composition of GDP is mainly services (65.5%); while

⁶⁷ See <http://global-indices.insead.edu/gii/documents/GII2014report.pdf> accessed 24/11/2015

⁶⁸ For more details see Annex IV, the Main Report pages III-IV

the share of industry (26.3%) and agriculture (8%) is much smaller (data for 2014)⁶⁹. According to official data published by the BiH Agency for Statistics, GERD (gross expenditure on R & D) in 2012 amounted to € 35.574m (0.27% of GDP). This figure has increased slightly in 2013 to € 43.994m (0.32% of GDP). In 2014 it amounted to € 35,944 million (0.26% of GDP), in 2015 to € 31,952 million (0.21% of GDP), in 2016 to € 33,017 million (0.21% of GDP). BERD (business sector research and development expenditure) amounted to 0.2%. As far as research results are concerned, the analysis of scientific publications and patents in the Danube region countries has provided some important insights into the position of BiH (Lampert, 2015). According to this study, BiH has a low annual number of scientific publications⁷⁰ and patents. However, in the case of scientific publications, there is a large annual growth in the period from 2003 to 2013 in most research fields (300% or more but starting from a very low level).

There are about 800 innovators who register around 50 patents annually⁷¹, with the relevant international institutions, which is a small number compared to the number of inhabitants. The share of medium and high technology products takes 18.76% of exported products (Ergarac, 2014).

Participation of BiH in FP7 (the Seventh Framework Program of the European Union for Research, Development including Demonstration Activities), Horizon 2020 (8th EU Framework Program for Research and Innovation, H2020) and other pan-European research collaborations (such as COST and EUREKA) provides a great chance and opportunity.

SEE 2020 - Smart growth Pillar of the SEE 2020, which calls for the transformation of the state system of science and innovation in the direction of the modern model of the triple helix supports aims to promote cooperation between the private sector and research and educational institutions as a way of strengthening the innovation-based competitiveness. The **EU Strategy for the Danube Region -EUSDR** Priorities: 7 - Knowledge Society and 8 - Competitiveness within the Pillar of the Prosperity Building. The Strategy for the Development of Science in BiH for the period 2017-2022-revised document is a document that provides strategic guidelines and action plan for the development of R&D and innovation in Bosnia and Herzegovina for the period 2017-2022 aiming at prosperous development of science and research, economy, education and culture in Bosnia and Herzegovina in accordance with the recommendations for science development in Europe and the worldwide.

Reform measures:

- Decision on setting up a platform for coordination and linking activities in the field of science and economy in BiH
- Document on the Establishment of the Research, Development and Innovation Coordination Body in BiH
- Decision on Adoption of Roadmap for Coordination of Activities on Implementation of ERA Priorities
- Promotion and presentation of the EU programmes with the aim of strengthening the capacities and greater success rate
- Allocation of more funds to support projects in the field of science
- Strategies for smart specialisation

Changes should focus on the following general goals:

⁶⁹ CIA World Factbook, Bosna i Hercegovina. Downloaded from <https://www.cia.gov/library/publications/resources/the-world-factbook/geos/bk.html> na 24.11.2015.

⁷⁰ The analysis is based on data for the period from 2003 to 2013 using the Elsevier Scopus and Thomson Reuter's Web of Sciences

⁷¹ See **Annex IV** of the Main Report, page 7.

- **Improve human resources**, especially young scientists and innovators (start-uppers) - internationalization and contribution to local industrial growth and well-being should be the key criterion for selection;
- **Encourage companies to increase innovation and research requirements** (tax incentives, public procurement policies, special financial schemes for improving cooperation with the academic community, etc.);
- Observe **quality as the primary criterion** at all times of public decision making (policy making, funds, promotion of university professors, etc.);
- **Increase private and public funding for ITRI**;

4.3.4.3 Establishing a more efficient management system of scientific research and innovation potential in the Republika Srpska

The Strategy for Scientific and Technological Development of the Republika Srpska for the period from 2017 to 2021 - "Knowledge for Development" shows that significant progress has been made in R&D in the Republika Srpska in the previous five-year period, such as the institutionalisation of this area, the organization of scientific research labour and technological development, introduction of contemporary criteria for co-financing of program activities and raising the quality of scientific research work and innovation. Also, significant (mostly credit) funds were invested in the modernization of scientific research equipment in a number of institutions and organizational units of public universities. However, in the area of research and innovation, further steps forward must be taken.

The situation in the area of research and innovation is similar to the situation in other countries in the region, although there are some specificities related to Republika Srpska. In terms of research, the institutional framework is not sufficiently aligned with good practices in Europe, the level and quality of scientific productivity is insufficient, the level of cooperation of the scientific community with the economy is also insufficient, the level of investment into science and research is extremely low, there is resistance towards the introduction of external performance appraisal of individuals and organisations, and a lack of a interdisciplinary approach to research.

The area of technological development is characterized by a distinct gap between the ability of the economy to absorb new technological solutions and insufficiently developed awareness of decision makers on the importance of innovation and the necessity of using modern technological solutions. At the same time, a small number of large companies are investing in innovation in the Republika Srpska. There is no systemic focus on the development of innovation at higher education institutions, nor is there an adequate system for evaluating and rewarding innovators, or intellectual property management.

Scientific productivity in Republika Srpska is much smaller than the scientific productivity of the countries in the region. Also, the RS invests significantly less than the expected level, when considering the level of general development. The competitiveness of countries increasingly depends on their innovative abilities. Republika Srpska is among the "modest" innovators.

The key obstacles to growth and competitiveness in the field of research, development and innovation and the digital economy are: Institutional framework that is insufficiently aligned with good European practices; unsatisfactory level and quality of scientific productivity; low level of cooperation between scientific research community and economy; extremely low investment into scientific and research development in comparison with developed European countries; resistance towards the introduction of external performance appraisal of individuals and organisations, and underdeveloped e-services.

Establishing a more efficient management system of scientific research and innovation potential in the Republika Srpska: The previous period was characterized by significant positive developments in terms of institutionalization of this area, stronger promotion and better organization of scientific research work and technological development, introduction of modern criteria for co-financing of program activities and raising the overall quality of scientific research work and innovation. In the forthcoming period, it is necessary to apply clear and targeted public policies aimed at increasing the quality of research results, strengthening the existing ones and building up modern capacities in line with the previously set priorities, since only such an approach can increase the capacity of the economy in terms of applying innovative solutions as an effective tool for increasing competitiveness.

The assumptions for implementation of the said reform measure in the following period are: More objective evaluation of the results of scientific research work; Changing the model of funding for research and innovation, which includes the establishment of the Science and Innovation Fund of Republika Srpska (SIFRS); and Aligning the legal framework with reform objectives.

Dynamics of the implementation of measure:

2019: Law on the Science and Innovation Fund of Republika Srpska; throughout the year: Encouraging collaboration between scientific research and innovation communities with the economy through the financing of pilot projects that will find direct application in the economy and help improve business; throughout the year: Establishing an electronic service for connecting young scientific research staff, educational institutions and businesses; Establish regional cooperation with the goal of internationalizing science and innovation through the scholarship policy for young scientific research staff (Fourth Quarter); Establishing an efficient system in the field of scientometrics and bibliometrics through the formation of a team of consultants in this field (continuously);

2020: Establishment of the Science and Innovation Fund of Republika Srpska with an alternative measure of changing the science financing model in terms of multi-annual project funding; Establishing an adequate and stimulating legal framework for research and innovation as a process requiring a coordinated approach of several ministries in the Government of Republika Srpska and other public institutions and agencies, as well as all participants in the socio-economic life of Republika Srpska (First and second Quarter); Evaluation of the appropriateness of the scientometrics analysis carried out in 2019 (Third Quarter);

2021: Harmonization of the legal framework in accordance with the observed shortcomings and needs for a more efficient functioning of the scientometrics and science promotion system, as well as the Science and Innovation Fund of Republika Srpska (First and second quarters); Comparative analysis of the previous and new management system of science research and innovation potential of Republika Srpska; Further improvements based on the results of the previous analysis (Third and fourth quarter).

Expected impact on competitiveness: Innovative and active environments significantly increase competitiveness not only between local businesses, but also in relation to a wider market. Research leads to innovative solutions that the real sector can absorb and use, making it necessary to continuously strengthen the process of linking the academic and business community, in a favourable environment and with the help of tools available to the public sector.

Key performance indicators: Application of innovative processes or products; Intensive growth and development; Higher wages and employment.

Estimated cost of the activities and the source of financing: The significant fiscal effects of proposed reform measures will only be visible in the long term, considering the specificity of

investments into research and development. On the other hand, investments in the implementation of proposed measures will be relatively modest, given the expected effects. Another type of financial effect relates to the savings in the business sector that will result from engaging better quality of researchers to resolve business problems which they face.

Expected impact on employment and gender: The application of innovative processes or products, taken over or developed within a business entity, has a strong financial effect and results in intense growth and development. This leads to an additional effect - higher earnings mean greater opportunity for investing resources in research and development and the possibility of new jobs, thus continuing the cycle of positive activities in this area. Additional financial effects and effects on competitiveness will have a long-term impact on, on the one hand, the increase in employment in scientific research and the creation of new jobs in the real sector and, on the other hand, on the effects of the use of high-quality and practical research and innovative solutions.

Potential risks for the implementation of the measure: Risk of lack of institutional cooperation; Stagnation or further decline in investments in scientific-research activity

Potential measures to mitigate risks for the implementation of the measure: It is not possible to define alternative measures.

4.3.6 EDUCATION AND SKILLS

4.3.6.1 Improving cooperation between education and the labour market

Barriers to growth and competitiveness in the area of education and skills are multiple: mismatch of the enrolment policies with the labour market requirements; Insufficiently developed entrepreneurial-innovative and digital competence; Lack of a strategic framework for the development of human resources, financial resources, adequate staffing and training for teaching and non-teaching staff; Insufficiently developed infrastructure and inadequate equipment of educational institutions; Practical lessons and out-of-school education are not available to most pupils secondary vocational schools and students, in addition to a lack of mentors to monitor the work of pupils and students; Teaching processes are not sufficiently adapted to contemporary methods and forms of work in the field of education and training.

The main reason for implementing this reform measure is the extremely high percentage of the unemployed, especially young people, which requires measures to increase their employability in terms of developing quality human resources. The reform that involves the development of key competences with a focus on entrepreneurial-innovative and digital competence in the field of secondary and higher education, the development of new qualifications based on learning outcomes, the harmonization of occupational standards and qualifications standards with labour market needs is the only way to accelerate economic development and thereby increase employability.

According to data from the Labour Force Survey 2018 carried out by the BiH Agency for Statistics, the unemployment rate was 18.4% (17.2% for men and 20.3% for women), while in the same period of 2017 it stood at 20.5% (18.9% for men and 23.1% for women). The unemployment rate was highest among young people aged 15-24 and stood at 38.8% (35.4% for men and 45.5% for women).

The educational structure of employed persons shows that 68.2% of persons have completed secondary education, followed by those who completed academic education 16.9%, and those with completed primary or lower education 14.8%. The educational structure of the unemployed persons shows that 71.8% of them have completed secondary education, followed by 14.9%

persons with primary or lower education, and 13.3% of those with completed academic education.

SEE 2020, through the dimension of "education and competences", defines the improvement of the regional knowledge base and sets specific goals in two main areas: reducing the number of early leavers from education and training and increasing the share of tertiary education.

According to the BiH Reform Agenda, in the medium-term, the education system needs to be reformed in order to increase its links with the labour market. In the Sector Planning Document for the period 2018-2020, the focus is on vocational and higher education and inclusion in the labour market. One of the priorities is the development and introduction of key competences for lifelong learning at all levels of education with a focus on entrepreneurial and digital competence. There is also a continuation of activities on further development and implementation of the qualifications framework for lifelong learning in BiH, where certain elements related to the qualification framework for general education and the qualifications framework for lifelong learning, i.e. vocational and adult education and training, have been developed in the previous period.

Regarding the recommendations / comments of ERP 2018 related to pre-school education, it is important to point out that, according to estimates, the coverage of children with pre-school education in BiH is on the rise but is still considerably lower than the European average. According to the estimates of the population of BiH by 2017, the rate of participation of children: 6 years - 7,8%, 5 years - 19,4%, 4 years - 17,3%, 3 years - 14,7, 2 years - 9,5 % and 1 year - 4.1%. Data from the Agency for Statistics of BiH indicate that in 2017/2018 in BiH there were a total of 322 preschool institutions with 25.844 enrolled children. Compared to the previous school year, the number of preschool institutions is lower by 3%, while the number of children in preschool institutions increased by 3.7 %.

According to the Platform for the Development of Preschool Education in BiH for the period 2017-2022, the goals of PPE are to increase the coverage of children to 100% in the year prior to going to school, ensuring continuous educational work of at least three hours (180 minutes) daily throughout the school year. Also, the goal is to increase the coverage of children from 3 to 5 years of age to 50% of the population, and increase the coverage of children from 0 to 3 years of age to 20%.

In the context of quality assurance of education and training (according to recommendations / comments by ERP 2018, Joint conclusions dialogue between the EU and WB and Turkey), the development and implementation of the qualification framework in BiH is one of the long-term reform priorities, which implies, *inter alia*, the development of standards of occupation and qualification standards and new study programs and curricula based on learning outcomes and key competences at all levels of education. The main objective is for the knowledge, skills and competences, i.e. the qualifications gained by the participants in the process of education and training at all levels, to match the needs of the labour market and new technologies, which will increase employability and labour mobility and have an impact on improving the quality of education. The competent education authorities, in cooperation with other relevant institutions, consider the modalities for introducing entrepreneurial and digital competences in curricula.

- Introducing key competences in curricula, with a focus on entrepreneurial and digital competence.
- Developing a methodology for valuating non-formal and informal education, in order to ensure sufficient mobility and recognition of qualifications, and remove the barriers to efficient monitoring of the labour market.
- Developing a quality assurance system in secondary vocational and higher education, as well as links between the sectors of education and training, and labour and employment.

Further developing and implementing the qualifications framework for lifelong learning, which includes qualifications based on learning outcomes and key competences that are relevant in the labour market.

Given the competences in education, funding for the implementation of reform measures is not foreseen by the budget of the BiH institutions. The implementation of these measures is envisaged to be funded from EU funds and other donor funds. Improving the link between education and the labour market is a lengthy process that requires continuous activity, both by competent institutions and society as a whole.

Prior to the successful linking of education and labour market, enrolment policies in secondary and tertiary institutions need to be harmonised with the needs of employers and the labour market. The new qualifications based on the learning outcomes (knowledge, skills and competencies needed for a modern, global and constantly changing labour market) and key competencies should increase employability and enable workers to find or change employment more easily.

At the level of FBiH, the reasons for the reform are the implementation of the Bologna Process and the document Strategic Directions for Higher Education Development in the Federation of Bosnia and Herzegovina 2012-2022. The core objective of the Foundation for the Mobility of Students and Teaching Staff of the Federation of Bosnia and Herzegovina is to support the implementation of international academic and student mobility and exchange programmes, to encourage and stimulate the mobility of students and teachers, development and improvement of higher education, and in particular: support for the implementation of EU programmes; support for the implementation of bilateral and multilateral international agreements and protocols on cooperation in the field of higher education; support for the establishment of studies in foreign language in public higher education institutions in the Federation of Bosnia and Herzegovina; support for the establishment and operation of commercially viable summer schools; support for internationalization projects and improvement of the quality of higher education; support for student internships and practice abroad; support for student mobility of domestic students; support for student mobility of foreign students; support for mobility of domestic teaching staff; support for mobility of foreign teaching staff; support for the education of a teaching staff in short supply from public higher education institutions in the Federation of BiH.

At the proposal of the FBiH Minister of Education and Science, the Government of the Federation of Bosnia and Herzegovina adopted

- The Decision on the establishment of the Foundation for the Mobility of Students and Teachers of the Federation of Bosnia and Herzegovina at its 100th Session, held on 27.04.2017. The Decision was published in the Official Gazette of the Federation of Bosnia and Herzegovina, 34/17 of 10 May 2017;
- The Decision on the conditions and criteria for the appointment of the chairperson and members of the Managing Board of the Foundation, VNo.: 1741/2017 of 21 December 2017

In 2018, the Government of the Federation of BiH issued a

- Decision on temporary appointment of the Managing Board of the Foundation VNo: 531/2018 of 26 April 2018 (Official Gazette of FBiH, 35/18);
- Decision on approval of the Statute of the Foundation VNo: 532/2018 of 26 April 2018 (Official Gazette of the FBiH, 35/18) and
- Decision on appointing a person authorized to represent the Foundation VNo: 533/2018 of 26 April 2018 (Official Gazette of the FBiH, number 35/18).

The registration of the Foundation with the Federal Ministry of Justice and the selection of the chairperson and members of the Managing Board of the Foundation in accordance with the aforementioned Decision on the conditions and criteria for the appointment have been completed.

Reform measures: Improving the competencies of inter-university, regional and international cooperation

Short description of measures: By achieving these goals, Bosnia and Herzegovina will move closer to the European Higher Education Area and improve domestic and international mobility. At this point in the Federation of Bosnia and Herzegovina, except in the context of a transfer for the implementation of the Bologna Process, there is no institutional support for national and international mobility.

Documents:

- Higher Education Development Priorities in Bosnia and Herzegovina for the period 2016-2026 (Priority: P-6 - Internationalisation);
- Paris Communiqué 2018 (to align policies with the document according to which the European Higher Education Area should pave the way for large-scale student mobility, improve the comparability and transparency of our systems, and increase quality and attractiveness);
- Strategic Directions for Higher Education Development in the Federation of Bosnia and Herzegovina 2012-2022.

Expected impact on competitiveness: Student mobility increases competition among higher education institutions through the pressure to transfer the points earned, for better and more courses in foreign languages, and the pressure of more demanding students to improve the quality of studies.

Key performance indicators (KPI): Implementation of the activities envisaged by this measure leads to the improvement of students' competencies and skills, and hence their faster employment, while teacher mobility enables better teaching and application of new teaching methods with the use of new technologies.

Estimated cost of the activities and the source of financing: The financial request of FMES for budget funds - the period from 2019 to 2021- foresees Transfer for the Foundation in the amount of KM 200.000,00 annually from the entity budget.

Expected impact on employment and gender: The mobility of students and teaching staff enables them to improve transversal skills and creates far greater employment opportunities and competitiveness in the labour market. When implementing the activities, due attention will be paid to the gender issue.

Potential risks:

- Insufficient financial resources needed to cover all identified needs for mobility and exchange, expressed on the basis of valid bilateral and multilateral agreements / institutional agreements and contracts / and other mobility and exchange programs.
- Problems in raising financial resources from other sources (grants, etc.)
- The lack of project monitoring and the failure of the cantonal ministries of education to provide financial support.

At the level of RS, improving links between education and the labour market is a long-term process that requires continuous activity, both by the competent institutions and the society as a whole. Creating an enrolment policy for the academic year 2018/19, the Ministry of Education

and Culture has been guided by the strategic directions for higher education development and has taken into account the data of the Chamber of Commerce of the Republika Srpska on the expressed needs of employers for recruitment of highly qualified staff in consultation with higher education institutions, student representatives, the Council for the Development of Higher Education and Quality Assurance, the Chamber of Commerce of the Republika Srpska and the Union of Employers' Associations of Republika Srpska. Successful linking of education and labour market requires a detailed analysis of the labour market situation in order to harmonize enrolment policies in secondary schools and higher education institutions with the needs of employers and the labour markets of local self-government units. Placing emphasis on entrepreneurial and innovative components in the field of secondary and higher education, and harmonising the occupational standards and qualifications standards with the needs of the labour market, together with the strengthening of cooperation between the real sector and the education sector, may be the shortest route to accelerate economic development in the Republika Srpska. The Ministry of Education and Culture has accepted as its strategic goal the improvement of these components of successful linking of the labour market and the education system.

Barriers to growth and competitiveness in the area of education and skills are the following: mismatch of the enrolment policies with the labour market requirements; Insufficiently developed entrepreneurial-innovative and digital competence; Practical teaching and out-of-school education are not available to most pupils and students in companies, in addition to a lack of mentors in companies to work with and to monitor the work of pupils and students; Teaching processes are not sufficiently adapted to contemporary methods and forms of work in the field of education.

Based on identified key barriers, the key reform measure of the Republika Srpska Government in 2019 in the field of education and skills is:

Improving links between education and the labour market requires a detailed analysis of the labour market situation in order to harmonize enrolment policies in secondary vocational schools and higher education institutions with requirements of employers.

Occupational qualifications should correspond to the relevant labour market requirements, and in order to achieve this, all social partners must be involved in initiating the procedure of developing the qualifications framework of Republika Srpska, which will enable adequate monitoring, evaluation and alignment of study programmes and curricula, i.e. modules, with the needs of employers and the labour market.

The qualifications framework will describe and evaluate in the same way all the qualifications gained in secondary education, higher education institutions and in the workplace. The qualifications framework includes all qualifications gained through formal, informal and non-formal education and defines the qualifications levels and learning outcomes of each level. Education is an activity of general social interest and therefore it is necessary to continually work on raising its quality.

The first step in these activities is better creation of enrolment policies in secondary schools and higher education institutions.

The enrolment plan should reflect the needs of the economy of the Republika Srpska, through compliance with the needs of employers, the labour market, local self-government units and expressed needs for continuation of further education at higher education institutions.

When drafting a plan for enrolment in secondary schools and higher education institutions, it is necessary to take into account the opinion of the local self-government units, the Employment Agency of the Republic of Srpska, the Chamber of Commerce of Republika Srpska, the Chamber of Crafts of Republika Srpska, and the Union of Employers' Associations of Republika Srpska.

Creating an enrolment policy for the academic year 2018/19, the Ministry of Education and Culture has been guided by the strategic directions for higher education development and has taken into account the data of the Chamber of Commerce of the Republika Srpska on the expressed needs of employers for recruitment of highly qualified staff in consultation with higher education institutions, student representatives, the Council for the Development of Higher Education and Quality Assurance, and the Chamber of Commerce of the Republika Srpska.

The measure of the Government of the Republika Srpska in the field of education and skills - *Improving links between education and the labour market* will be implemented on a continuous basis.

In the field of higher education, the measure will be implemented through innovations in study programmes that will orientate them towards practical and research aspects of studies, as well as through cooperation of higher education institutions and the industry, which will increase participation of vocational study programmes to 7% over a period of up to five years.

In secondary vocational education it is necessary to continuously work on creating the conditions for developing occupational standards and qualifications standards based on learning outcomes. Occupational standards are a list of all jobs that an individual carries out in a particular profession and a list of competences needed to successfully perform them.

The medium term work plan of the Ministry of Education and Culture for the period 2018-2020 includes plans for development of occupational, i.e. qualification standards for each respective year. In accordance with occupational standards and qualifications standards, vocational education programs are formed, through which it is possible to acquire the qualification of the appropriate level of education, with the goal of employment or pursuing further education.

The Ministry has started activities on the development of occupational standards within five professions and 19 occupations, as follows:

1. Mechanical engineering and metal processing in occupations: CNC technology technician, automotive mechanic, locksmith, welder, plumber, tinsmith, blacksmith, mechanic, metal grinder technician, assembler, metal cutting technician, precision mechanic and heating and cooling technology mechanic;
2. Forestry and woodworking, in the occupation: carpenter;
3. Agriculture and food processing in the occupation: baker;
4. Catering and Tourism in Occupations: Chef and Waiter;
5. Textile and Leather Crafts in Occupations: textile technician, footwear molder technician and dressmaker.

Since the school year 2017/2018, the Ministry has put special emphasis on increasing the number of hours of practical teaching with employers. In order for this field of vocational education to be implemented in formal secondary vocational education, the Ministry approved the experimental implementation of the curriculum with an increased number of practical classes for occupations of the third level: for occupation of the carpenter: in the JU Ivo Andrić secondary school Centre, Prnjavor and JU Technical school "Mihajlo Pupin", Bijeljina and for the occupation of footwear technician: in JU secondary school Centre "Mihajlo Pupin", Derventa. Although the economy has shown interest and the Ministry approved the enrolment according to the experimental curriculum for the occupation of shoemaker in the JU secondary school Centre "Nikola Tesla", Kotor Varoš and for the occupation of carpenter in the secondary school Centre "Ivo Andrić", there were no interested students so the enrolment has not been implemented.

Also in the school year 2018/2019, the Ministry of Education and Culture has approved the introduction of a dual system of secondary vocational education, as a pilot class, for the occupation of welder in the JU Technical school centre Zvornik.

The objective of these experiments is to improve the quality of secondary vocational education and training for the needs of the labour market and employment in the Republika Srpska by testing the value of the new forms, methods and organization of the work of the dual education system and the possibility of introducing them into a regular teaching process. Evaluation of the experiments will reflect on new forms, methods and organization of dual system work and its effects on the labour market.

Qualification standard is a standard that sets out the requirements for acquiring a public qualification certificate, which includes all the information needed to determine the level, scope and qualification profile, and the information required to ensure and improve the quality of the qualification standard and is prepared on the basis of the standards of occupations resulting from the need for specific qualification for the purpose of employment or continuing education.

In secondary vocational education, the curriculum involves the application of a modular methodology that enables a rapid response to change in society and technology, as well as the possibility that a part of the curriculum in the amount of 30% is determined in accordance with the needs of the labour market of a local self-government unit in which secondary school operates.

Dynamics of the implementation of measure:

2019: First quarter: Develop 20 occupational standards; Third quarter: Develop flexible curricula with up to 20% of curricula created by teachers, pupils and schools in cooperation with the local community; Fourth quarter: In cooperation with relevant institutions, draw up the Action Plan of developing revised modular curricula, in accordance with the needs of the labour market and start developing it; Continuously: Raise awareness on the importance of entrepreneurial education;

2020: First quarter: Define rules and procedures for development of the Qualifications Framework for secondary vocational education; Second quarter: Develop ten occupational standards; Fourth quarter: Developed Qualifications Framework from the second to the fifth qualifications level; Continuously: Adopt Continuous Training Programme for Teachers in Vocational Education harmonised with labour market needs;

2021: First quarter: Propose and adopt the Qualification Framework for Secondary Vocational Education as a pilot project for a period of up to five years; Second quarter: Evaluation of modernized modular curricula with an increased number of practical classes, with the aim of introducing them into a regular teaching process; Fourth quarter: Develop Qualification Framework for II, III, IV and V qualification levels up to 20 qualification standards, Develop criteria and indicators for the quality of textbooks.

Expected impact on competitiveness: Increased efficiency of education and, consequently, of the labour market will significantly affect competitiveness of the economy of Republika Srpska, with the ultimate goal of reducing the unemployment rate.

Key performance indicators: Increasing the efficiency of education; Better linkage between education and labour market; reducing structural unemployment; increasing labour market efficiency; increasing employment; fewer years of waiting for employment.

Estimated cost of the activities and the source of financing: Currently, it is not possible to estimate the fiscal effects, considering that the measure is to be implemented in the medium-term period.

Expected impact on employment and gender: Increased competitiveness of the Republika Srpska economy and its attractiveness for foreign investments, through increasing the efficiency of the labour market, has a direct impact on employment and the social position of the population.

Potential risks for the implementation of the measure: The risk of implementation of this measure is reflected in a large number of partners involved and requires a very detailed and comprehensive analysis of the required occupations by each local government unit

Potential measures to mitigate risks for the implementation of the measure: It is not possible to define alternative measures.

4.3.7 EMPLOYMENT AND LABOUR MARKETS

4.3.7.1 Improving the labour market efficiency

At the level of RS, in the area of labour and employment, the main problem remains to be the high unemployment rate and economic inactivity of the working-age population. Although, through the implementation of the 2016 Law on Labour, there has been a reduction of rigidity in the hiring procedures, exercising and protecting the labour-related and dismissal-related rights, there are still complaints from the business community about the insufficient flexibility of the labour legislation. Also, social dialogue between representatives of employers and trade unions, particularly in the lowest forms of organization, has been insufficient, resulting in a relatively small number of concluded collective agreements at the employer level and level of sector, field or branch. Although negotiations were repeatedly held several times in 2017 to conclude a General Collective Agreement, which would commit all workers and employers in Republika Srpska, by the end of the third quarter of 2018, it has not yet been concluded. In order to determine the situation in the field of implementation of the Law on Labour, in the fourth quarter of 2017 and in the first quarter of 2018, several public debates were held on the application of this law, a Report on the analysis of the implementation of the Law on Labour was drafted and discussed at the session of the Economic and Social Council of Republika Srpska when it was concluded that the said report would be the basis for future interventions in the law.

Obstacles to growth and competitiveness in the field of employment and the labour market are: lack of precise records and data on active labour supply; weak linkage between the education system and the labour market; insufficient compliance and uncoordinated activities and weak development of the labour market institutions, and low level of employability of active job seekers.

In order to increase employment, it is necessary to provide a new business environment and to expand the labour market through organized and systematic development of agricultural and industrial production and to utilise the advantages that exist in these areas through developing a new model of business and entrepreneurship in general.

Based on the identified key obstacles, the key reform measure of the Republika Srpska Government in 2019, in the field of employment and labour market, is:

Improving the labour market efficiency and continuing the Employment Institute reforms

Partial success was achieved in the implementation of this measure, which has been implemented since 2017. Namely, the key activity for improving the labour market efficiency in Republika Srpska under this measure was to reform and redefine the role of the public employment service – PI Republika Srpska Employment Institute, in line with adopted strategic goals from the Strategy of Employment of Republika Srpska 2016–2020 and Action Plan for Employment in Republika Srpska for 2017 and 2018. The basis for the planned measure is

adoption of amendments to the Law on Mediation in Employment and Rights during Unemployment and other regulations regarding unemployment records. To that end, an interdepartmental working group was formed, which actively includes representatives of social partners. After the meetings and analyzes of the labour market situation, and in particular analysis of cash benefits during unemployment and other passive measures, this working group prepared the draft text of this law, but further activities were suspended due to the fact that at the same time no significant progress was made in the drafting of the new Law on health insurance, which, among other things, should regulate the exercise of the right to health insurance for the unemployed persons in a different way, and whose adoption is a prerequisite for further activities in formalizing the draft Law and other related regulations.

Dynamics of the implementation of measure:

2019: Adoption of the Law on Amendments to the Law on Strike; Adoption of the Law on Amendments to the Law on Mediation in Employment and Rights during Unemployment (and other regulations related to keeping records of unemployed persons) which directly depends on the adoption of the Law on Health Insurance of Republika Srpska which will adequately regulate the right of unemployed persons to health insurance; The separation of the records of unemployed persons registered at the institute; Redefining the role of the Employment Service of Republika Srpska.

Expected impact on competitiveness: The Employment Institute of the Republika Srpska will be relieved of servicing health insurance services, by separating active job seekers from those who are on record for the purpose of extending the right to health insurance and other rights whose realization is conditioned by the status of unemployment. By separating the active from the passive job seekers, the intermediary role of the Employment Institute will be strengthened for the purpose of mediation for persons who are actively seeking employment.

Key performance indicators: Strengthened intermediary role of the Employment Institute and increased quality of mediation services, and improved targeting of active employment policies.

Estimated cost of the activities and the source of financing: The implementation of this measure does not require any additional costs.

Expected impact on employment and gender: Strengthening the intermediary role of the Employment Institute and increasing the quality of mediation services and better targeting of active employment policies will surely impact on greater support to employment.

Potential risks for the implementation of the measure: Given that this is a complex area, which is also socially sensitive, it is necessary to carry out a professional, detailed and careful analysis of the situation for the purpose of synchronising the activities of separating health insurance from the Employment Institute and the Ministry of Labour based on experiences from other countries in the environment. These activities should be carried out in continuity through the Ministry of Health and Social Welfare and the Health Insurance Fund, with previously created normative assumptions, all aimed at ensuring that the unemployed have continued health protection. The risk for the implementation of the measure is the failure to adopt the Law on Health Insurance of Republika Srpska, which is an activity to be previously carried out by the Ministry of Health and Social Welfare of Republika Srpska.

Potential measures to mitigate risks for the implementation of the measure: It is not possible to define alternative measures.

The analysis of main obstacles at the level of FBiH:

- High share of long-term unemployed persons;

- Lack of Single Information System in Employment (common databases available to all relevant stakeholders);
- Mismatch of the education system with the needs of the market;
- High share of informal employment.

Reform measures:

- Improving the labour market efficiency
- Creating an enabling legal environment for strengthening the role of mediation in employment and effective employment policies

Short description of measures:

- Proposal of the Employment Strategy in the Federation of Bosnia and Herzegovina (2018-2021) - In July 2018, the Government of the Federation of Bosnia and Herzegovina sent this proposal to the Parliament of the Federation of Bosnia and Herzegovina for consideration and adoption.
- Proposal of the Law on Occupational Safety - The Government of the Federation of Bosnia and Herzegovina has established a proposal of this Law in February 2018 and sent it to the Parliament of the Federation of Bosnia and Herzegovina for consideration and adoption.
- Proposal of the Law on Peaceful Resolution of Labour Disputes - After the proposal of this law was established by the Government of the Federation of Bosnia and Herzegovina, it was considered and adopted at the House of Representatives of the Parliament of the Federation of Bosnia and Herzegovina on 20 June 2018, and for its coming into force it is expected to be considered, i.e. adopted by the House of Peoples.
- A new Rulebook on records in the field of employment was adopted - which came into force on 27 September 2018, after publication in the Official Gazette of the Federation of BiH, 74/18;
- A Decree amending the Decree on Private Agencies for Mediation in Employment was adopted, which came into force after its publication in the Official Gazette of the Federation of BiH, 36/18.

Expected impact on competitiveness - The implementation of these measures could have an impact on competitiveness, economic growth and growth of employment, as ERP's main goals, given that these measures are aimed at increasing the employment rate.

Key performance indicators (KPI) - Laws drafted, legislation, by-laws and strategic documents implemented, implemented employment projects.

Estimated cost of the activities and the source of financing: Financing of the activities that are under the responsibility of the Federal Ministry of Labour and Social Policy is based on secured budget funds.

Expected impact on employment and gender: The adoption of these legal and strategic documents is expected to have a positive impact on employment, i.e. increase in employment rate. The same applies to the gender issue, considering that the Proposal of the Employment Strategy in the Federation of Bosnia and Herzegovina (2018-2021) stipulates that the target groups of active labour market programs will include young, long-term unemployed, those with lower level of education, persons older than 40 and disadvantaged groups, while women are direct target groups because they are over-represented in each of these target groups.

Potential risks Untimely adoption of these and strategic documents, which especially refers to the Proposal of the Employment Strategy in the Federation of Bosnia and Herzegovina (2018-2021); Lack of harmonisation between social partners.

4.3.8 SOCIAL PROTECTION AND INCLUSION

4.3.8.1 Establish an efficient system of health spending

The constitutions at all levels in BiH obligate health authorities to provide conditions for exercising the rights to health care and protection, which are defined by international documents as basic human rights. In order to provide affordable, efficient and high-quality health care that meets the needs of the population, health authorities must rationally use available resources and monitor health care costs. In order to monitor health spending in Bosnia and Herzegovina, the National Health Account (NHA) was implemented in the period 2012-2013 as part of the Public Health Reform Project II funded by the European Union, after which it continued with activities for the development and analysis of NHAs in BiH. The purpose of the analysis of indicators of health financing and health expenditures is to identify the possibilities offered by NHAs as a basis for the macro level health policies. The indicators provide information on the general health expenditure trends in BiH and enable international comparisons that point to areas in which BiH deviates from other European countries.

In order for the work of health systems in BiH to be as efficient and as successful as possible, which will result in improved health of the population, special attention should be paid to reducing health expenditures without compromising the quality of health care, i.e. improving the distribution of funds within the health sector. Due to improved control of expenditures and increased fiscal accountability, it will be possible to achieve savings in the health system and redirect the saved funds towards increasing the quality of health services.

According to data from the National Health Accounts of Bosnia and Herzegovina, the total of 9.2% of GDP in BiH was allocated for health in 2016, 71% of which are public expenditures and 29% private. Looking at the structure of total spending by purpose (2016), about 55% of expenditures goes to treatment services (HC.1), and 27% to medicines and other medical devices (HC.5). The share of private expenditures is most pronounced in medical devices for outpatient services (57% represents private expenditures compared to 43% public) and rehabilitation treatment (about 32% private in comparison to 68% of public expenditures).

There is no country-wide strategic document for the health sector, but the health sector is covered by the revised IPA II Indicative Strategy Paper for BiH for 2014-2020, in the part dealing with the protection of human rights.

The grant for "Co-financing projects of non-governmental organizations in the field of HIV and Tuberculosis prevention in BiH" for 2018. With Technical Assistance of WHO, training of staff was conducted for preparing National Health Accounts as well as distribution by diseases. The introduction of fiscal measures such as increased taxes on tobacco, alcohol and beverages that contain high levels of sugar is a priority measure for establishing an efficient system of health spending.

1. Launch systemic increase of public funds for preventive health care. In the planned budgets and funds for the coming years, the growth rates of expenditures for preventive protection and public health should be higher than the growth rate of total public funds for health.
2. The introduction of fiscal measures such as increased taxes on tobacco, alcohol and beverages that contain high levels of sugar.

Further strengthening of the implementation of the National Health Accounts by inclusion in the Law on Healthcare Records of FBiH and the Law on Records and Statistical Surveys in the field of Health Care of the Republika Srpska.

Impact on competitiveness:

- Through preventive actions, reduce the risks of diseases.
- Increasing awareness of the population on socially responsible activities.

Medium-term and long-term gradual introduction of a mix of health care financing system - stabilization of the social health insurance system with reinforcing transfers from the budget and with increasing the direct budget financing of health protection. Medium-term and long-term gradual introduction of a mix of health care financing system - stabilization of the social health insurance system with reinforcing transfers from the budget and with increasing the direct budget financing of health protection

4.3.8.2 Improving the social protection system

(RS) The social protection system and the rights provided by the social policy of Republika Srpska are highly divided among different institutions and support is provided from different levels of government in Republika Srpska. All of this indicates that social benefits are usually status-based rather than needs-based. All this makes the social protection system underdeveloped, and the efficiency of social benefits is limited. In addition, beneficiaries of social benefits that have greater needs often emphasise that social benefits are not sufficient to meet their needs, and the inadequacy of social benefits is the direct result of their poor "targeting". And "targeting" cannot be corrected, as there is no comprehensive "mapping" of social benefits. In addition, the regulations governing the promotion and protection of the rights of national minorities in Republika Srpska are: the Law on the Protection of the Rights of Persons belonging to National Minorities (Official Gazette of Republika Srpska, 2/05), Rulebook on the co-financing of cultural creativity of national minorities (Official Gazette Republika Srpska, 25/15). The National Assembly of Republika Srpska formed the Council of National Minorities of Republika Srpska, and the Union of National Minorities of Republika Srpska was established, with the status of association of public interest. In addition, associations have been formed for each national minority in Republika Srpska, operating as non-governmental organizations and acting independently.

Obstacles to the promotion and protection of the rights of national minorities in Republika Srpska are the following: The Law does not comprehensively define the protection of the rights and the position of national minorities in the society, and the constitutional category "Others" is not precisely defined; The 2013 census of population, households and dwellings in Republika Srpska did not establish the exact number of persons belonging to a particular national minority; National minorities or "Others" by constitutional and legal frameworks are not sufficiently represented in the executive and legislative bodies; and there is insufficient media coverage.

Key measures in the field of social protection in the period 2019-2021 are:

- Improving the targeting of social benefits;
- Enhancing and protecting the rights of national minorities in Republika Srpska.

Improving the targeting of social benefits is aimed at needs –based social benefits rather than those based on status and belonging to a particular category of society. In this way, the overall system of social benefits can be improved and fiscal space created to increase benefits to beneficiaries who really need them. All this would make the social protection system more efficient and effective.

Dynamics of the implementation of measure:

2019: Conduct a comprehensive "mapping" of all social benefits in Republika Srpska, which are granted at all levels of government;

2020: Develop the Register of Social Benefits in Republika Srpska; Make the analysis of all the social benefits provided in the Register ;

2021: Make a transition from status-based to needs-based support.

Expected impact on competitiveness: Better targeting of social benefits will make the overall system more efficient and effective.

Key performance indicators: A list of all social benefits at all levels of government in Republika Srpska; Register of Social Benefits in Republika Srpska; More efficient use of budgetary funds for social programs.

Estimated cost of the activities and the source of financing: The costs of creating the Register at this moment cannot be estimated. Better targeting of social benefits will result in savings, which can be used to increase benefits for the most vulnerable users of social benefits.

Expected impact on employment and gender: This measure does not have any impact on employment.

Potential risks for the implementation of the measure: Given that this is a complex area, which is also socially sensitive, it is necessary to carry out a professional, detailed and careful analysis of the situation.

Potential measures to mitigate risks for the implementation of the measure: It is not possible to define alternative measures.

On enhancing and protecting the rights of national minorities in Republika Srpska, Republika Srpska will work through the adoption of the Strategy for the Enhancement and Protection of the Rights of National Minorities in the Republika Srpska for the period 2019-2023. The aim is to determine the direction for the enhancement and protection of the rights of persons belonging to national minorities, as well as for the authorities in Republika Srpska, in order to preserve the cultural, religious, linguistic and other identity of members of national minorities.

Dynamics of the implementation of measure:

2019: Analysis of the situation in the area of protection of the rights of members of national minorities in Republika Srpska (Second quarter); Drafting the Strategy, in consultation with the RS administration bodies, representatives of national minorities in Republika Srpska, the media, the professional and scientific community (Third quarter); Adoption of the Strategy for the Enhancement and Protection of the Rights of National Minorities in Republika Srpska for the period 2019-2023 (Fourth quarter),

2020: Action Plan for implementation of the Strategy for the Enhancement and Protection of the Rights of National Minorities in Republika Srpska for the period 2019-2023 (First and second quarter).

Expected impact on competitiveness: Improving the position of members of national minorities in different spheres of life and promotion.

Key performance indicators: Situation analysis conducted; An analysis of existing regulations in this area carried out; Possible need for passing new law identified; a framework for the authorities established, and their obligations to protect the rights and status of members of national minorities; the Strategy for the Enhancement and Protection of the Rights of National Minorities in Republika Srpska for the period 2019-2023 adopted.

Estimated cost of the activities and the source of financing: No funds are required for the preparation and adoption of the Strategy.

Expected impact on employment and gender: Improving the position of members of national minorities in different spheres of life and promotion.

Potential risks for the implementation of the measure: There are no risks for the implementation of the measure.

Potential measures to mitigate risks for the implementation of the measure: Given that there is no risk for the implementation of the measure, it is not necessary to define alternative measures.

Analysis of main obstacles at the level of FBiH: It is necessary to define and ensure the minimal material security of individuals and families in meeting the basic living needs, to define and enable accessibility and uniformity of realization of the basic package of rights to family with children in its minimum amounts throughout the Federation of BiH, to provide access and equality of services and rights in social protection, define the conditions for the development of social protection services in the Federation of Bosnia and Herzegovina, to create equal opportunities for individuals to live independently and actively participate in the community, to preserve and improve family relationships and to foster family solidarity, to prevent and eliminate the consequences of abuse, neglect and exploitation.

Reform measures: Improving the functioning of the social protection system in FBiH

Short description of measures: Under the reform measure *Improving the Functioning of the Social Protection System of the Federation of Bosnia and Herzegovina*, the **Law on the Basics of Social Protection in the Federation of Bosnia and Herzegovina** is being drafted, which seeks to define a better targeting model for the poorest and most vulnerable categories of population and thus increase the social assistance for those who really need it. **The Law on Foster Care in the Federation of Bosnia and Herzegovina** was adopted in 2017 (Official Gazette of the Federation BiH, 19/17), and it has been in force since March 2018.

In 2018, the Working Group prepared a **Public Policy on Protection of Families with Children in the Federation of Bosnia and Herzegovina** and the first draft of the **Law on Support to Families with Children in the Federation of Bosnia and Herzegovina**. The Government of the Federation of Bosnia and Herzegovina has established a draft of this Law and has sent it to parliamentary procedure. This law regulates the basics of material support to families with children, determines the material rights to support families with children (child allowance and financial assistance to unemployed mothers), procedure for exercising rights, conditions and way of exercising rights, financing material support to families with children, supervision and other issues of importance for providing support to families with children in the Federation of Bosnia and Herzegovina.

The mapping of social services at the level of the Federation of BiH was finalized and an assessment of the impact of the **Law on Social Services in the Federation of Bosnia and Herzegovina** was carried out in cooperation with the cantonal line ministries, with the support of USAID and non-governmental organizations. The development of the first draft of the Law is underway. Regarding the **Law on Social Work Activities in the Federation of Bosnia and Herzegovina**, the Working Group, including representatives of cantonal line ministries, is making the assessment of the impact of this law. The development of the first draft of the Law is underway.

An Action Plan for the Implementation of the Strategy for De-institutionalization and Transformation of Social Protection Institutions in the Federation of Bosnia and Herzegovina was prepared, on which the Government of the Federation of BiH gave its consent

by the Decision VNo. 1591/2017 of 7 December 2017. Implementation of activities from the Action Plan continues the process of establishing the system of services and enables the empowerment of families in order to prevent institutionalization, i.e. relocation of users from institutions.

Drafting of the **Strategy for the Improvement of the Position of the Elderly Persons in the Federation of Bosnia and Herzegovina (2018-2027)** is in progress.

The **Law on the Single Register of Non-Contributory Cash Benefit Users** (Official Gazette of FBiH, 25/17) and the **Rulebook on the Establishment of a Single Register**, were adopted. The establishment of the **Single Register of Cash Benefit Users in the FBiH** (Consolidated Database for Social Protection) is underway.

The **Law on Organizations of Persons with Disabilities and Representative Organizations of Persons with Disabilities and Civilian Victims of War in the Federation of BiH** was prepared in order to legally regulate this area and to provide support to these organizations of the non-governmental sector. At the 151st Session of the Government of FBiH dated 19 July 2018, the draft of this Law has been established and sent to the parliamentary procedure in the regular procedure;

The draft text of the **Law on Uniform Principles and the Framework of Material Support for Persons with Disabilities** was prepared in accordance with the principles of the UN Convention on the Rights of Persons with Disabilities;

Implementation of the **Strategy for advancement of rights and status of persons with disabilities in FBiH 2016-2021** is ongoing.

The new **Law on Pension and Disability Insurance** entered into force on 1 March 2018 and was published in the Official Gazette of the Federation of BiH, 13/18. So far, the implementation of the law has been neat and no major problems have been noted in either formal or legal terms, as well as in financial terms, since the dynamics of the collection of contributions and the payment of pensions are carried out regularly and in accordance with the statutory deadlines (no delays in the payment of pensions). Legally prescribed pension adjustment has been carried out, so pensions were increased by 3.5%, and by a special decision of the Government of the Federation of Bosnia and Herzegovina, the amount of the lowest pension was increased by 3.1%. Based on the above, it is evident that the new Law on Pension and Disability Insurance has already had positive effects on the system of pension and disability insurance in the Federation of BiH.

Expected impact on competitiveness: We are not able to indicate how and to what extent the implementation of these measures will affect competitiveness, economic growth and employment growth as the main objectives of ERP.

Key performance indicators (KPI)

- Mitigating the effects of poverty
- Establishing a more just and equitable social protection system
- Strengthening capacities of competent institutions in the social protection system

Estimated cost of the activities and the source of financing: We are currently unable to estimate the cost of implementing these activities. Namely, prior to adoption of any law, a regulation impact assessment must be carried out as the foundation for the legislator to select one option.

Expected impact on employment and gender: The adoption of these solutions is expected to have a positive impact on employment and gender.

Potential risks: Bearing in mind that the Constitution of the Federation of BiH divided jurisdiction in the field of social policy between the FBiH and cantonal authorities, we note that the implementation of these activities can lead to problems related to the lack of support from the cantons in making these laws, particularly in relation to securing the funds necessary for the implementation of legislative solutions.

5. BUDGETARY IMPLICATIONS OF STRUCTURAL REFORMS

Government of the Federation of BiH

Budgetary implications of the Economic Reform Programme 2019-2021 are displayed in Annex -Table 10.

This Programme includes the implications that we have managed to quantify by now.

Unfortunately, capacities for this type of analysis are limited so we need further strengthening of knowledge and capabilities to assess the impact of policy changes both on the budgets and other important economic variables.

The total estimated costs of the reform priorities identified by this Programme per year are not specified since we were not able to define all the activities per individual year. The largest share of the costs of the proposed reform priorities will be secured by borrowing, taking into account the borrowing ability of the Federation of BiH.

Government of Republika Srpska

Twelve of the eighteen structural measures from the Economic Reform Program of Republika Srpska for the period 2019-2021 have found their place in the BiH Economic Reform Program 2019-2021.

In accordance with the Guidance, the expected cost of the implementation and sources of financing are stated for each measure. A summary review is given in the Tables 10a and Tables 10b. The comment in the Guidance that the tables do not need to be attached to measures at the entity level is not acceptable, since the largest number of measures are the exclusive competence of the entity.

For some of the measures, it was not possible at this time to define the amount of funds needed, and thus the sources of financing (such cases are marked with "-").

Regarding the restructuring of the Republika Srpska Railways-, the costs will only arise from repayment of loans to the World Bank, so there is no cost in the period 2019-2021, while the inflow from the project loan is planned in 2019.

For some measures, the source of funding is known, but the costs are still not known, so the source is indicated in the tables in a way that only the source of funding is clearly defined (WB - World Bank).

In accordance with the aforementioned, the currently known costs of implementing the structural reform measures are EUR 4.0 million (goods and services) in 2019, EUR 11.2 million (EUR 4.2 million of goods and services and EUR 7.0 million capital expenditures) in 2020 and EUR 4.0 million (goods and services) in 2021.

On the other hand, the current sources of funding in 2019 amount to EUR 55.3 million (EUR 4.0 million from the Budget of the Republika Srpska and EUR 51.3 million under the World Bank's Project Loan), in 2020 they amount to EUR 11.2 million (EUR 6.0 million from the Budget of the Republika Srpska, EUR 3.0 million from other sources of public finances, EUR 2.0 million from IPA funds and EUR 0.2 million from other grants), and in 2021 they amount to EUR 4, 0 million (Budget of the Republika Srpska).

6. INSTITUTIONAL ISSUES AND STAKEHOLDER INVOLVEMENT

Overview of institutional issues and stakeholder involvement in the process of preparation of the BiH Economic Reform Programme 2019-2021 is presented in Chapter 1 of the Programme. A detailed overview of institutional issues and stakeholder involvement in the Federation of BiH and Republika Srpska is outlined below.

Government of Republika Srpska

In the process of drafting the Proposal for RS ERP 2019-2021, the Government of Republika Srpska, at its 168th session, held on 15 March 2018, discussed the information on activities carried out at the BiH level in connection with the BiH Economic Reform Program and demanded that each the future activity related to the preparation of the BiH Economic Reform Program is done exclusively through the working bodies established by the system of coordination of the European integration process in BiH.

Republika Srpska started the process of drafting the Proposal of RS ERP 2019-2021 in December 2017, when through the Joint Policy Memorandum for the 2018-2020 period with the Union of Employers' Associations and the Memorandum of Joint Measures for the period 2018-2020 with the Federation of Trade Unions of Republika Srpska it defined the key policies for the period 2018-2020.

Continuation of the activities defined in the Memorandum with the Union of Employers' Associations are the Economic Development Guidelines, on which the Government of the Republika Srpska worked together with the representatives of the Union of the Employers' Associations of Republika Srpska and the Chamber of Commerce of Republika Srpska since April 2018. Economic development guidelines were presented at the conference "Economy of the Republic of Srpska 2019-2022 - a Dialogue for the Future" and they represent the basis of all our policies in the period 2019-2021.

In accordance with the European Commission's Guidance, the coordinator for the development of RS ERP 2019-2021, requested from the line ministries to submit an analysis of the implementation of the measures from the Republika Srpska Economic Reform Program 2018-2020, as well as proposals for reforms from their respective area for 2019- 2021, in accordance with the previously defined policy framework.

The Coordinator for the preparation of the RS ERP 2019-2021, in cooperation with the ministries and institutions of Republika Srpska, drafted the first version of the structural measures and submitted them on 26 September 2018 to the OECD , which provides technical assistance in the development of the document. At the OECD Workshop, held in Sarajevo on 9-10 October 2018, OECD representatives made comments and suggestions on the proposed measures, which were submitted to the line ministries.

In line with the OECD comments, the RS ERP 2019-2021 coordinator and the relevant ministries have prepared a draft of RS ERP 2019-2021, according to the methodology required by the European Commission, and submitted it for consideration and adoption to the Government of Republika Srpska.

At its 202nd regular session, held on 9 November 2018, the Government of Republika Srpska adopted the Draft Economic Reform Program of Republika Srpska for the period 2019-2021 and placed it on the the Republika Srpska Government's website to enable all interested parties to submit their written proposals and comments for its improvement. The proposals of measures were submitted by the Chamber of Commerce of Republika Srpska, the Union of the Employers'

Associations of Republika Srpska, and the Confederation of Trade Unions of Republika Srpska, and through consultations on the composition of the new Government of Republika Srpska, all Government partners also had the opportunity to verbally present their proposals and suggestions to the mandatar for the new government composition.

Accordingly, the basic framework for the preparation of the Proposal of the RS ERP 2019-2021 is the memoranda of common policies and measures, signed in December 2017 with the social partners of the Government of Republika Srpska, the Economic Development Guidelines being prepared by the Government of Republika Srpska since April 2018 together with representatives of the Union of the Employers' Associations of Republika Srpska and the Chamber of Commerce of Republika Srpska, which were presented at the conference "The Economy of Republika Srpska 2019-2022 - a Dialogue for the Future", and the Programme of the Government of the Republic of Srpska for the Term Period 2018-2022.

Based on the methodology and guidance submitted by the European Commission, Republika Srpska has prepared a Proposal of the RS ERP 2019-2021. It was adopted at the 209th session of the Government of Republika Srpska, held on 14 December 2018. Support to the Proposal of the RS ERP 2019-2021 was also given by the Economic and Social Council of Republika Srpska at its session held on 19 December 2018. Additional consultations with all partners were also held on 20 December 2018, but there were no comments. Finally, Proposal of the RS ERP 2019-2021 was considered and adopted at the 3rd Special Session of the National Assembly of Republika Srpska, held on 21 and 22 December 2018.

Government of the Federation of BiH

The 2019-2021 Economic Reform Programme of the Federation of Bosnia and Herzegovina was prepared based on the following strategic documents adopted by the Government of the Federation of BiH:

- Reform Agenda, adopted by all levels of government;
- Work programme of the Government of the Federation of BiH in the period 2018-2020 adopted at the beginning of 2018;
- Budget of the Federation of Bosnia and Herzegovina, which was adopted in a two-step decision making process in the Parliament of the Federation of BiH which was subject to a public debate;
- Action Plan for the Implementation of the Reform Agenda and the Updated Action Plan for the Implementation of the Reform Agenda;
- Individual sectoral strategies.

The following activities have been undertaken in order to prepare contributions from the Federation of BiH for development of the BiH Economic Reform Programme:

- A round table/workshop was organised in Sarajevo in cooperation with the European Commission and the OECD with the theme of ERP development, where all relevant ministries were present and where the representatives of the European Commission presented the Guidance for Economic Reform Programme.
- All the responsible line ministries submitted their written proposals of reform priorities serving for the preparation of the first draft of the Economic Reform Programme from the Federation of BiH.
- OECD submitted its observations to the Draft Economic Reform Programme from the Federation of BiH at the workshop.

- The final updated text of the ERP of the Federation of BiH with the incorporated remarks of the European Commission and OECD with the proposed tables, in which the responsible line ministries took part.
- Text was published on the website of the Federal Ministry of Finance before the adoption at the Government session, in order to ensure a public debate according to the request of the European Commission.
- After the Government of the Federation of BiH approved the 2019-2021 Economic Reform Programme of the Federation of BiH, the Programme has been submitted to the Directorate for Economic Planning for consolidation.

ANNEX 1:

Table 1a: Macroeconomic prospects

	ESA Code	2017	2017	2018	2019	2020	2021
		bn €	Rate of change				
1. Real GDP at market prices	B1*g	16,403	3,4	3,3	3,5	3,7	3,8
2. Current GDP at market prices	B1*g	16,514	4,1	4,6	4,6	4,8	5,3
Components of real GDP							
3. Private consumption expenditure	P3	12,372	1,3	2,1	1,8	1,7	2,0
4. Government consumption expenditure	P3	3,255	1,5	0,8	0,3	0,2	0,1
5. Gross fixed capital formation	P51	2,806	5,8	10,3	7,0	6,8	6,3
6. Changes in inventories and net acquisition of valuable (% of GDP)	P52+P53	0,479	37,8	-5,0	8,5	12,4	18,3
7. Exports of goods and services	P6	5,982	10,1	8,9	7,0	6,5	6,1
8. Imports of goods and services	P7	8,490	6,3	6,3	4,1	3,6	3,7
Contribution to real GDP growth							
9. Final domestic demand		18,4	2,3	3,5	2,7	2,6	2,7
10. Change in inventories and net acquisition of valuables	P52+P53	0,5	0,8	-0,1	0,2	0,4	0,6
11. External balance of goods/services	B11	-2,5	0,3	-0,1	0,6	0,7	0,5

Table 1b: Price developments

Percentage changes, annual averages	ESA Code	2017	2018	2019	2020	2021
1. GDP deflator	% yoy	0,7	1,3	1,1	1,1	1,5
2. Private consumption deflator	% yoy	1,7	1,3	1,2	1,3	1,3
3. HICP ⁷²	% yoy	:	:	:	:	:
4. National CPI change	% yoy	1,3	1,3	1,2	1,4	1,5
5. Public consumption deflator	% yoy	0,1	1,2	1,5	1,5	1,5
6. Investment deflator	% yoy	3,0	0,3	0,4	0,5	0,4
7. Export price deflator (goods & services)	% yoy	4,1	2,1	2,0	2,1	3,1
8. Import prices deflator (goods & services)	% yoy	5,1	1,5	1,9	2,1	2,1

⁷² Agency for Statistics of BiH does not publish HICP.

Table 1c: Labour markets developments

	ES A Co de	2017	2017	2018	2019	2020	2021
		Level	Rate of change				
1. Population (thousands)			3.511,0	3.511,0	3.511,0	3.511,0	3.511,0
2. Population (growth rate in %)			0,0	0,0	0,0	0,0	0,0
3. Working-age population (persons)			2.407,3	2.395,7	2.398,1	2.402,4	2.406,7
4. Participation rate			42,6	42,1	42,5	43,1	43,6
5. Employment, persons			815,7	822,4	843,0	864,9	886,5
6. Employment, hours worked			:	:	:	:	:
7. Employment (growth rate in %)			1,8	0,8	2,5	2,6	2,5
8. Public sector employment (persons)			191,7	192,0	:	:	:
9. Public sector employment (growth in %)			2,2	0,2	:	:	:
10. Unemployment rate			20,5	18,4	17,4	16,4	15,5
11. Labour productivity, persons		39,3	1,5	2,5	1,0	1,0	1,2
12. Labour productivity, hours worked			:	:	:	:	:
13. Compensation of employees	D1	14,6	3,4	:	:	:	:

Note Data on working-age population, employment and unemployment rates are taken from the Labor Force Survey for BiH. Population data is an estimate from 2016 and was taken over by the BiH Agency for Statistics, Demography 2016. BiH Agency for Statistics does not publish data on the number of employees per hour. Employee data in the public sector is not published by the BiH Statistics Agency. The above administrative figure in Table 1c (paragraph 8) is the sum of the number of employees in the fields of public administration, health and education (for the year 2018 data refer to period I-IX). This data includes not only employed in state schools and healthcare (hospitals) but also employed in private schools and healthcare. Therefore, data does not fully represent the number of public sector employees (as in previous years). Projections for these areas of activity are also unavailable. The growth rates of the number of employed and unemployed persons (as well as data) in 2017 and 2018 in Table 1c do not coincide with growth rates / numbers from the ERP text section because they are in the textual part of ERP (Chapter 2) presented administrative data published by statistics and employment agencies, and table 1c presented the survey data (due to better comparison with other countries). Employee fees are taken from national accounts and expressed in billions of KM (projections for this item are unavailable). Item 4. Rate of participation - refers to the participation of the labor force in the working population (survey data).

Table 1d: Sectoral balances

% of GDP	ESA Code	2017	2018	2019	2020	2021
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	-3,5	-3,6	-3,1		
of which:						
- Balance of goods and services		-16,0	-15,9	-15,2		
- Balance of primary incomes & transfers		11,6	11,3	11,2		
- Capital account		1,0	0,9	0,9		
2. Net lending/borrowing of the private sector	B.9/ EDP B.9					
3. Net lending/borrowing of general government						
4. Statistical discrepancy						

Table 1e: GDP, investment and gross value added

	ESA Code	2017	2018	2019	2020	2021
GDP and investment						
GDP level at <i>current</i> market prices (in domestic currency)	B1g	32,3	33,8	35,3	37,0	39,0
Investment ratio (% of GDP)		17,5	18,5	19,0	19,5	19,7
Growth of Gross Value Added, percentage changes at constant prices						
1. Agriculture		-8,1	:	:	:	:
2. Industry (excluding construction)		5,3	:	:	:	:
3. Construction		4,2	:	:	:	:
4. Services		3,6	:	:	:	:

Note: There are no projections for Growth of Gross Value Added.

Table 1f: External sector developments

		2017	2018	2019	2020	2021
1. Current account balance (% of GDP)	% of GDP	-4,6	-4,0	:	:	:
2. Export of goods	Bn EUR	4,8	5,1	:	:	:
3. Import of goods	Bn EUR	8,6	9,0	:	:	:
4. Trade balance	Bn EUR	-3,8	-3,9	:	:	:
5. Export of services	Bn EUR	1,7	1,7	:	:	:
6. Import of services	Bn EUR	0,5	0,5	:	:	:
7. Service balance	Bn EUR	1,2	1,2	:	:	:
8. Net interest payments from abroad	Bn EUR	-0,1	-0,1	:	:	:
9. Other net factor income from abroad	Bn EUR	0,0	0,0	:	:	:
10. Current transfers	Bn EUR	1,9	2,0	:	:	:
11. <i>Of which</i> from EU	Bn EUR	:	:	:	:	:
12. Current account balance	Bn EUR	-0,8	-0,7	:	:	:
13. Capital and financial account	Bn EUR	-0,4	-0,4	:	:	:
14. Foreign direct investment	Bn EUR	-0,3	-0,3	:	:	:
15. Foreign reserves	Bn EUR	5,4	5,9	:	:	:
16. Foreign debt	Bn EUR	8,2	8,3	:	:	:
17. <i>Of which</i> : public	Bn EUR	4,2	4,3	:	:	:
18. <i>O/w</i> : foreign currency denominated	Bn EUR	8,2	8,3	:	:	:
19. <i>O/w</i> : repayments due	Bn EUR	:	:			
21. Exchange rate vis-à-vis EUR (annual average)	NCU/EUR	2,0	2,0	2,0	2,0	2,0
<i>p.m. Exchange rate vis-à-vis EUR (annual average)</i>	<i>%, year-on-year</i>	<i>0,0</i>	<i>0,0</i>	<i>0,0</i>	<i>0,0</i>	<i>0,0</i>
20. Exchange rate vis-à-vis EUR (end-year)	NCU/EUR	2,0	2,0	2,0	2,0	2,0
<i>p.m. Exchange rate vis-à-vis EUR (end-year)</i>	<i>%, year-on-year</i>	<i>0,0</i>	<i>0,0</i>	<i>0,0</i>	<i>0,0</i>	<i>0,0</i>
22. Net foreign saving	% of GDP	:	:	:	:	:
23. Domestic private saving	% of GDP	:	:	:	:	:
24. Domestic private investment	% of GDP	:	:	:	:	:
25. Domestic public saving	% of GDP	:	:	:	:	:
26. Domestic public investment	% of GDP	:	:	:	:	:

Source: CBBiH

Table 1g: Sustainability indicators

	Dimension	2014	2015	2016	2017	2018
1. Current account balance	% of GDP	-7,3	-5,3	-4,5	-4,6	-4,0
2. Net international investment position	% of GDP	-56,8	-54,9	-50,2	-46,5	-43,4
3. Export market shares	%, yoy	:	:	:	:	:
4. Real effective exchange rate	%, yoy	-0,7	-2,7	-1,1	-0,6	0,5
5. Nominal unit labour costs	%, yoy	:	:	:	:	:
6. Private sector credit flow	% of GDP	:	:	:	:	:
7. Private sector debt	% of GDP	:	:	:	:	:
8. General government debt	% of GDP	41,6	41,9	39,0	33,9	32,9

Izvor: CBBiH

Table 2a: General government budgetary prospects - **Bosnia and Herzegovina**

	ESA Code	Year 2017	Year 2017	Year 2018	Year 2019	Year 2020	Year 2021
		Level	% of GDP				
Net lending (B9) by sub-sectors							
1. General government	S13	305.2	0.9	-0.7	0.0	0.4	0.8
2. Central government	S1311	-0.8	0.0	-0.7	-0.2	0.1	0.5
3. State government	S1312						
4. Local government	S1313	150.7	0.5	0.2	0.4	0.5	0.5
5. Social security funds	S1314	155.3	0.5	-0.3	-0.3	-0.2	-0.1
General government (S13)							
6. Total revenue	TR	12,193.4	37.8	39.2	37.3	36.0	34.9
7. Total expenditure ⁷³	TE	11,888.2	36.8	40.0	37.3	35.7	34.1
8. Net borrowing/lending	EDP.B9	305.2	0.9	-0.7	0.0	0.4	0.8
9. Interest expenditure	EDP.D41	250.9	0.8	0.9	0.8	0.9	0.8
10. Primary balance ⁷⁴		556.1	1.7	0.1	0.8	1.2	1.6
11. One-off and other temporary measures ⁷⁵							
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		6,354.4	19.7	20.0	19.7	19.4	19.0
12a. Taxes on production and imports	D2	5,124.1	15.9	16.2	16.2	16.0	15.7
12b. Current taxes on income and wealth	D5	1,224.9	3.8	3.8	3.5	3.4	3.3
12c. Capital taxes	D91	5.4	0.0	0.0	0.0	0.0	0.0
13. Social contributions	D61	4,624.7	14.3	14.0	13.5	13.0	12.5
14. Property income	D4	153.3	0.5	0.5	0.5	0.5	0.5
15. Other (15 = 16-(12+13+14)) ⁷⁶		1,061.0	3.3	4.7	3.6	3.1	3.0
16=6. Total revenue	TR	12,193.4	37.8	39.2	37.3	36.0	34.9
p.m.: Tax burden (D2+D5+D61+D91-D995) ⁷⁷		10,979.1	34.0	34.0	33.1	32.4	31.5

⁷³ Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

⁷⁴ The primary balance is calculated as (EDP.B9, item 8) plus (EDP D41 + FISIM recorded as intermediate consumption, item 9).

⁷⁵ A plus sign means deficit-reducing one-off measures.

⁷⁶ P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91).

⁷⁷ Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate.

Table 2a (continued)

	ESA Code	Year 2017	Year 2017	Year 2018	Year 2019	Year 2020	Year 2021
		Level	% of GDP				
Selected components of expenditures							
17. Collective consumption	P32	5,367.6	16.6	17.5	16.6	15.9	15.2
18. Total social transfers	D62 + D63	4,780.8	14.8	14.8	14.5	14.0	13.4
18a. Social transfers in kind	P31 = D63	690.1	2.1	2.1	2.1	2.1	2.0
18b. Social transfers other than in kind	D62	4,090.7	12.7	12.7	12.4	11.9	11.4
19 = 9. Interest expenditure	EDP.D41	250.9	0.8	0.9	0.8	0.9	0.8
20. Subsidies	D3	429.1	1.3	1.6	1.5	1.4	1.3
21. Gross fixed capital formation	P51	573.3	1.8	4.2	2.8	2.1	2.0
22. Other (22 = 23-(17+18+19+20+21) ⁷⁸		486.5	1.5	1.0	1.0	1.5	1.5
23 = 7. Total expenditures	TE ⁷⁹	11,888.2	36.8	40.0	37.3	35.7	34.1
p.m. Compensation of public sector employees	D1	3,275.9	10.1	10.3	9.7	9.3	8.9

⁷⁸ D.29+D4 (other than D.41)+D.5+D.7+D.9+P.52+P.53+K.2+D.8.

⁷⁹ Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

Table 2a: General government budgetary prospects – Institutions of BiH

	ESA Code	Year	Year	Year	Year	Year	Year
		2017	2017	2018	2019	2020	2021
		Level	% of GDP				
Net lending (B9) by sub-sectors							
1. General government	S13	0.7	0.0	0.0	-0.2	-0.2	-0.2
2. Central government	S1311	0.7	0.0	0.0	-0.2	-0.2	-0.2
3. State government	S1312	0.0	0.0	0.0	0.0	0.0	0.0
4. Local government	S1313	0.0	0.0	0.0	0.0	0.0	0.0
5. Social security funds	S1314	0.0	0.0	0.0	0.0	0.0	0.0
General government (S13)							
6. Total revenue	TR	925.6	2.9	2.7	2.5	2.4	2.3
7. Total expenditure ⁸⁰	TE	924.9	2.9	2.8	2.7	2.6	2.5
8. Net borrowing/lending	EDP.B9	0.7	0.0	0.0	-0.2	-0.2	-0.2
9. Interest expenditure	EDP.D4 1	0.8	0.0	0.0	0.0	0.0	0.0
10. Primary balance ⁸¹		1.5	0.0	0.0	-0.2	-0.2	-0.2
11. One-off and other temporary measures ⁸²							
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		750.0	2.3	2.2	2.1	2.0	1.9
12a. Taxes on production and imports	D2	750.0	2.3	2.2	2.1	2.0	1.9
12b. Current taxes on income and wealth	D5	0.0	0.0	0.0	0.0	0.0	0.0
12c. Capital taxes	D91	0.0	0.0	0.0	0.0	0.0	0.0
13. Social contributions	D61	0.0	0.0	0.0	0.0	0.0	0.0
14. Property income	D4	0.0	0.0	0.0	0.0	0.0	0.0
15. Other (15 = 16-(12+13+14)) ⁸³		175.6	0.5	0.5	0.4	0.4	0.4
16=6. Total revenue	TR	925.6	2.9	2.7	2.5	2.4	2.3
p.m. Tax burden (D2+D5+D61+D91-D995) ⁸⁴		750.0	2.3	2.2	2.1	2.0	1.9

⁸⁰ Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

⁸¹ The primary balance is calculated as (EDP.B9, item 8) plus (EDP D41 + FISIM recorded as intermediate consumption, item 9).

⁸² A plus sign means deficit-reducing one-off measures.

⁸³ P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91).

⁸⁴ Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate.

Table 2a (continued)

	ESA Code	Year 2017	Year 2017	Year 2018	Year 2019	Year 2020	Year 2021
		Level	% of GDP				
Selected components of expenditures							
17. Collective consumption	P32	802.2	2.5	2.4	2.5	2.3	2.2
18. Total social transfers	D62 + D63	1.5	0.0	0.0	0.0	0.0	0.0
18a. Social transfers in kind	P31 = D63	0.0	0.0	0.0	0.0	0.0	0.0
18b. Social transfers other than in kind	D62	1.5	0.0	0.0	0.0	0.0	0.0
19 = 9. Interest expenditure	EDP.D41	0.8	0.0	0.0	0.0	0.0	0.0
20. Subsidies	D3	1.7	0.0	0.0	0.0	0.0	0.0
21. Gross fixed capital formation	P51	99.8	0.3	0.2	0.2	0.1	0.1
22. Other (22 = 23 - (17+18+19+20+21)) ⁸⁵		18.9	0.1	0.1	0.1	0.1	0.1
23 = 7. Total expenditures	TE ⁸⁶	924.9	2.9	2.8	2.7	2.6	2.5
p.m. Compensation of public sector employees	D1	640.9	2.0	1.9	1.9	1.9	1.8

⁸⁵ D.29+D4 (other than D.41)+D.5+D.7+D.9+P.52+P.53+K.2+D.8.

⁸⁶ Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

Table 2a: General government budgetary prospects – Federation BiH

	ESA Code	Year	Year	Year	Year	Year	Year
		2017	2017	2018	2019	2020	2021
		Level	% of GDP				
Net lending (B9) by sub-sectors							
1. General government	S13	173.3	0.5	-0.3	0.1	0.2	0.4
2. Central government	S1311	-88.1	-0.3	-0.3	0.1	0.1	0.3
3. State government	S1312						
4. Local government	S1313	118.0	0.4	0.3	0.3	0.4	0.4
5. Social security funds	S1314	143.4	0.4	-0.2	-0.3	-0.3	-0.3
General government (S13)							
6. Total revenue	TR	7,120.9	22.0	23.3	22.0	21.1	20.4
7. Total expenditure ⁸⁷	TE	6,947.6	21.5	23.6	21.9	20.9	19.9
8. Net borrowing/lending	EDP.B9	173.3	0.5	-0.3	0.1	0.2	0.4
9. Interest expenditure	EDP.D4 1	131.6	0.4	0.5	0.4	0.5	0.5
10. Primary balance ⁸⁸		304.9	0.9	0.2	0.5	0.7	0.9
11. One-off and other temporary measures ⁸⁹							
Components of revenues							
12. Total taxes (12=12a+12b+12c)		3,266.1	10.1	10.3	10.2	10.2	9.9
12a. Taxes on production and imports	D2	2,519.5	7.8	8.0	8.1	8.1	7.9
12b. Current taxes on income and wealth	D5	745.3	2.3	2.3	2.1	2.1	2.0
12c. Capital taxes	D91	1.3					
13. Social contributions	D61	3,204.0	9.9	9.6	9.1	8.8	8.4
14. Property income	D4	22.4	0.1	0.1	0.1	0.0	0.0
15. Other (15 = 16-(12+13+14)) ⁹⁰		628.4	1.9	3.4	2.6	2.1	2.0
16=6. Total revenue	TR	7,120.9	22.0	23.3	22.0	21.1	20.4
p.m. Tax burden (D2+D5+D61+D91-D995) ⁹¹		6,470.1	20.0	19.8	19.3	18.9	18.3

⁸⁷ Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

⁸⁸ The primary balance is calculated as (EDP.B9, item 8) plus (EDP D41 + FISIM recorded as intermediate consumption, item 9).

⁸⁹ A plus sign means deficit-reducing one-off measures.

⁹⁰ P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91).

⁹¹ Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate.

Table 2a (continued)

	ESA Code	Year	Year	Year	Year	Year	Year
		2017	2017	2018	2019	2020	2021
		Level	% of GDP				
Selected components of expenditures							
17. Collective consumption	P32	3,310.5	10.2	10.9	10.2	9.7	9.3
18. Total social transfers	D62 + D63	2,758.7	8.5	8.6	8.2	7.9	7.5
18a. Social transfers in kind	P31 = D63	0.0					
18b. Social transfers other than in kind	D62	2,758.7	8.5	8.6	8.2	7.9	7.5
19=9. Interest expenditure	EDP.D4 1	131.6	0.4	0.5	0.4	0.5	0.5
20. Subsidies	D3	267.7	0.8	1.0	1.0	1.0	0.79
21. Gross fixed capital formation	P51	232.4	0.7	2.5	2.0	1.4	1.3
22. Other (22 = 23-(17+18+19+20+21) ⁹²		246.9	0.8	0.1	0.0	0.5	0.5
23 = 7. Total expenditures	TE ⁹³	6,947.6	21.5	23.6	21.9	20.9	19.9
p.m. Compensation of public sector employees	D1	1,648.9	5.1	5.3	4.8	4.6	4.3

⁹² D.29+D4 (other than D.41)+D.5+D.7+D.9+P.52+P.53+K.2+D.8.

⁹³ Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

Table 2a: General government budgetary prospects – Republika Srpska

	ESA Code	Year 2017	Year 2017	Year 2018	Year 2019	Year 2020	Year 2021
		Level	% of GDP				
Net lending (B9) by sub-sectors							
1. General government	S13	99.8	0.3	-0.4	0.1	0.4	0.6
2. Central government	S1311	65.5	0.2	-0.3	0.0	0.2	0.4
3. State government	S1312		0.0	0.0	0.0	0.0	0.0
4. Local government	S1313	32.7	0.1	0.0	0.1	0.1	0.1
5. Social security funds	S1314	11.9	0.0	-0.1	0.0	0.1	0.1
General government (S13)							
6. Total revenue	TR	3,934.6	12.2	12.5	12.2	12.0	11.7
7. Total expenditure ⁹⁴	TE	3,834.8	11.9	12.8	12.1	11.6	11.2
8. Net borrowing/lending	EDP.B9	99.8	0.3	-0.4	0.1	0.4	0.6
9. Interest expenditure	EDP.D4 1	118.1	0.4	0.4	0.4	0.4	0.3
10. Primary balance ⁹⁵		217.8	0.7	0.0	0.5	0.7	0.9
11. One-off and other temporary measures ⁹⁶							
Components of revenues							
12. Total taxes (12=12a+12b+12c)		2,138.1	6.6	7.0	6.8	6.7	6.6
12a. Taxes on production and imports	D2	1,680.7	5.2	5.5	5.5	5.4	5.4
12b. Current taxes on income and wealth	D5	453.2	1.4	1.4	1.3	1.2	1.2
12c. Capital taxes	D91	4.1	0.0	0.0	0.0	0.0	0.0
13. Social contributions	D61	1,420.7	4.4	4.4	4.4	4.3	4.1
14. Property income	D4	130.9	0.4	0.4	0.5	0.5	0.4
15. Other (15 = 16-(12+13+14)) ⁹⁷		245.0	0.8	0.7	0.6	0.6	0.6
16=6. Total revenue	TR	3,934.6	12.2	12.5	12.2	12.0	11.7
p.m.: Tax burden (D2+D5+D61+D91-D995) ⁹⁸		3,558.7	11.0	11.3	11.1	10.9	10.7

⁹⁴ Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

⁹⁵ The primary balance is calculated as (EDP.B9, item 8) plus (EDP D41 + FISIM recorded as intermediate consumption, item 9).

⁹⁶ A plus sign means deficit-reducing one-off measures.

⁹⁷ P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91).

⁹⁸ Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate.

Table 2a (continued)

	ESA Code	Year 2017	Year 2017	Year 2018	Year 2019	Year 2020	Year 2021
		Level	% of GDP				
Selected components of expenditures							
17. Collective consumption	P32	1,158.1	3.6	3.9	3.6	3.5	3.4
18. Total social transfers	D62 + D63	1,971.8	6.1	6.0	6.0	5.9	5.6
18a. Social transfers in kind	P31 = D63	690.1	2.1	2.1	2.1	2.1	2.0
18b. Social transfers other than in kind	D62	1,281.6	4.0	3.9	3.9	3.8	3.7
19=9. Interest expenditure	EDP.D4 1	118.1	0.4	0.4	0.4	0.4	0.3
20. Subsidies	D3	132.7	0.4	0.5	0.5	0.4	0.4
21. Gross fixed capital formation	P51	238	0.7	1.3	0.7	0.6	0.6
22. Other (22 = 23-(17+18+19+20+21) ⁹⁹		216.2	0.7	0.8	0.9	0.9	0.8
23 = 7. Total expenditures	TE ¹⁰⁰	3,834.8	11.9	12.8	12.1	11.6	11.2
p.m. Compensation of public sector employees	D1	921.2	2.9	2.8	2.8	2.7	2.5

⁹⁹ D.29+D4 (other than D.41)+D.5+D.7+D.9+P.52+P.53+K.2+D.8.

¹⁰⁰ Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

Table 2a: General government budgetary prospects – Brčko District

	ESA Code	Year 2017	Year 2017	Year 2018	Year 2019	Year 2020	Year 2021
		level	% of GDP				
Net lending (B9) by sub-sectors							
1. General government	S13	31.4	0.1	-0.1	0.0	0.0	0.0
2. Central government	S1311	31.4	0.1	-0.1	0.0	0.0	0.0
3. State government	S1312						
4. Local government	S1313						
5. Social security funds	S1314						
General government (S13)							
6. Total revenue	TR	212.3	0.7	0.7	0.6	0.6	0.5
7. Total expenditure ¹⁰¹	TE	180.9	0.6	0.7	0.6	0.6	0.5
8. Net borrowing/lending	EDP.B9	31.4	0.1	-0.1	0.0	0.0	0.0
9. Interest expenditure	EDP.D4 1	0.4	0.0	0.0	0.0	0.0	0.0
10. Primary balance ¹⁰²		31.8	0.1	-0.1	0.0	0.0	0.0
11. One-off and other temporary measures ¹⁰³							
Components of revenues							
12. Total taxes (12=12a+12b+12c)		200.3	0.6	0.6	0.6	0.5	0.5
12a. Taxes on production and imports	D2	173.9	0.5	0.5	0.5	0.5	0.4
12b. Current taxes on income and wealth	D5	26.4	0.1	0.1	0.1	0.1	0.1
12c. Capital taxes	D91						
13. Social contributions	D61						
14. Property income	D4						
15. Other (15 = 16-(12+13+14)) ¹⁰⁴		12.0	0.0	0.1	0.0	0.0	0.0
16=6. Total revenue	TR	212.3	0.7	0.7	0.6	0.6	0.5
p.m. Tax burden (D2+D5+D61+D91-D995) ¹⁰⁵		200.3	0.6	0.6	0.6	0.5	0.5

¹⁰¹ Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

¹⁰² The primary balance is calculated as (EDP.B9, item 8) plus (EDP D41 + FISIM recorded as intermediate consumption, item 9).

¹⁰³ A plus sign means deficit-reducing one-off measures.

¹⁰⁴ P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91).

¹⁰⁵ Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate.

Table 2a (continued)

	ESA Code	Year 2017	Year 2017	Year 2018	Year 2019	Year 2020	Year 2021
		Level	% of GDP				
Selected components of expenditures							
17. Collective consumption	P32	96.8	0.3	0.3	0.3	0.3	0.3
18. Total social transfers	D62 + D63	48.9	0.2	0.2	0.2	0.2	0.2
18a. Social transfers in kind	P31 = D63						
18b. Social transfers other than in kind	D62	48.9	0.2	0.2	0.2	0.2	0.2
19=9. Interest expenditure	EDP.D4 1	0.4	0.0	0.0	0.0	0.0	0.0
20. Subsidies	D3	27.0	0.1	0.1	0.0	0.0	0.0
21. Gross fixed capital formation	P51	3.1	0.0	0.1	0.0	0.0	0.0
22. Other (22 = 23-(17+18+19+20+21) ¹⁰⁶		4.7	0.0	0.0	0.0	0.0	0.0
23=7. Total expenditures	TE ¹⁰⁷	180.9	0.6	0.7	0.6	0.6	0.5
p.m. Compensations of public sector employees	D1	64.9	0.2	0.2	0.2	0.2	0.2

¹⁰⁶ D.29+D4 (other than D.41)+D.5+D.7+D.9+P.52+P.53+K.2+D.8.

¹⁰⁷ Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

Table 2b: General government budgetary prospects - Bosnia and Herzegovina

	ESA Code	Year 2017	Year 2018	Year 2019	Year 2020	Year 2021
		Bn NCU				
1. General government	S13	305.2	-248.1	-5.1	134.7	315.9
2. Central government	S1311	-0.8	-231.5	-58.6	42.3	191.7
3. State government	S1312					
4. Local government	S1313	150.7	68.5	157.3	166.9	180.9
5. Social security funds	S1314	155.3	-85.1	-103.8	-74.5	-56.7
6. Total revenue	TR	12,193.4	13,259.8	13,172.3	13,343.7	13,629.3
7. Total expenditure ¹⁰⁸	TE	11,888.2	13,507.9	13,177.4	13,209.0	13,313.4
8. Net borrowing/lending	EDP.B9	305.2	-248.1	-5.1	134.7	315.9
9. Interest expenditure	EDP.D4 1	250.9	288.8	289.4	315.4	323.1
10. Primary balance ¹⁰⁹		556.1	40.7	284.3	450.1	639.0
11. One-off and other temporary measures ¹¹⁰		0.0	0.0	0.0	0.0	0.0
12. Total taxes (12=12a+12b+12c)		6,354.4	6,769.2	6,948.7	7,185.2	7,394.7
12a. Taxes on production and imports	D2	5,124.1	5,478.1	5,714.4	5,929.1	6,115.3
12b. Current taxes on income and wealth	D5	1224.9	1285.3	1228.4	1250.1	1273.2
12c. Capital taxes	D91	5.4	5.8	5.9	6	6.2
13. Social contributions	D61	4,624.7	4,716.7	4,760.2	4,822.6	4,886.0
14. Property income	D4	153.3	174.3	193.4	182.2	186.5
15. Other (15 = 16-(12+13+14)) ¹¹¹		1,061.0	1,599.6	1,270.0	1,153.7	1,162.1
16=6. Total revenue	TR	12,193.4	13,259.8	13,172.3	13,343.7	13,629.3
p.m. Tax burden (D2+D5+D61+D91-D995) ¹¹²		10,979.1	11,485.9	11,708.9	12,007.8	12,280.7

¹⁰⁸ Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

¹⁰⁹ The primary balance is calculated as (EDP.B9, item 8) plus (EDP D41 + FISIM recorded as intermediate consumption, item 9).

¹¹⁰ A plus sign means deficit-reducing one-off measures.

¹¹¹ P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91).

¹¹² Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate.

Table 2b (continued)

	ESA Code	Year	Year	Year	Year	Year
		2017	2018	2019	2020	2021
		Bn NCU				
17. Collective consumption	P32	5,367.6	5,926.6	5,878.9	5,882.6	5,921.6
18. Total social transfers	D62 + D63	4780.8	4994.8	5121.9	5172.1	5217.5
18a. Social transfers in kind	P31 = D63	690.1	714.9	748.4	759.8	770.2
18b. Social transfers other than in kind	D62	4,090.7	4,279.9	4,373.5	4,412.3	4,447.30
19=9. Interest expenditure	EDP.D4 1	250.9	288.8	289.4	315.4	323.1
20. Subsidies	D3	429.1	541.2	513.3	512.9	511.1
21. Gross fixed capital formation	P51	573.3	1404.6	1006	783.0	766.4
22. Other (22 = 23- (17+18+19+20+21)) ¹¹³		486.5	351.9	367.9	543.0	573.7
23=7. Total expenditures	TE ¹¹⁴	11,888.2	13,507.9	13,177.4	13,209.0	13,313.4
p.m. Compensations of public sector employees	D1	3275.9	3476.0	3439.2	3445.4	3453.7

¹¹³ D.29+D4 (other than D.41)+D.5+D.7+D.9+P.52+P.53+K.2+D.8.

¹¹⁴ Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

Table 2b: General government budgetary prospects – Institutions of BiH

	ESA Code	Year 2017	Year 2018	Year 2019	Year 2020	Year 2021
		Bn NCU				
1. General government	S13	0.7	-12.2	-86.0	-67.6	-68.9
2. Central government	S1311	0.7	-12.2	-86.0	-67.6	-68.9
3. State government	S1312					
4. Local government	S1313					
5. Social security funds	S1314					
6. Total revenue	TR	925.6	925.0	880.0	889.4	888.1
7. Total expenditure ¹¹⁵	TE	924.9	937.2	966.0	957.0	957.0
8. Net borrowing/lending	EDP.B9	0.7	-12.2	-86.0	-67.6	-68.9
9. Interest expenditure	EDP.D4 1	0.8	0.8	1.1	1.0	1.0
10. Primary balance ¹¹⁶		1.5	-11.4	-84.9	-66.6	-67.9
11. One-off and other temporary measures ¹¹⁷						
12. Total taxes (12=12a+12b+12c)		750.0	750.0	750.0	750.0	750.0
12a. Taxes on production and imports	D2	750.0	750.0	750.0	750.0	750.0
12b. Current taxes on income and wealth	D5					
12c. Capital taxes	D91					
13. Social contributions	D61					
14. Property income	D4					
15. Other (15 = 16-(12+13+14)) ¹¹⁸		175.6	175.0	130.0	139.4	138.1
16=6. Total revenue	TR	925.6	925.0	880.0	889.4	888.1
p.m. Tax burden (D2+D5+D61+D91-D995) ¹¹⁹		750.0	750.0	750.0	750.0	750.0

¹¹⁵ Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

¹¹⁶ The primary balance is calculated as (EDP.B9, item 8) plus (EDP D41 + FISIM recorded as intermediate consumption, item 9).

¹¹⁷ A plus sign means deficit-reducing one-off measures.

¹¹⁸ P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91).

¹¹⁹ Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate.

Table 2b (continued)

	ESA Code	God. 2017	God. 2018	God. 2019	God. 2020	God. 2021
		Bn NCU				
17. Collective consumption	P32	802,2	823,0	866,4	870,0	872,2
18. Total social transfers	D62 + D63	1,5	2,4	2,1	2,1	2,1
18a. Social transfers in kind	P31 = D63					
18b. Social transfers other than in kind	D62	1,5	2,4	2,1	2,1	2,1
19=9. Interest expenditure	EDP.D4 1	0,8	0,8	1,1	1,0	1,0
20. Subsidies	D3	1,7				
21. Gross fixed capital formation	P51	99,8	80,0	61,1	41,6	40,3
22. Other (22 = 23- (17+18+19+20+21) ¹²⁰		18,9	31,0	35,3	42,3	41,4
23=7. Total expenditures	TE ¹²¹	924,9	937,2	966,0	957,0	957,0
p.m. Compensations of public sector employees	D1	640,9	653,0	682,1	688,4	691,2

¹²⁰ D.29+D4 (other than D.41)+D.5+D.7+D.9+P.52+P.53+K.2+D.8.

¹²¹ Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

Table 2b: General government budgetary prospects – Federation BiH

	ESA Code	Year 2017	Year 2018	Year 2019	Year 2020	Year 2021
		Bn NCU				
1. General government	S13	173.3	-79.6	43.8	60.3	163.1
2. Central government	S1311	-88.1	-96.9	39.1	35.6	121.2
3. State government	S1312					
4. Local government	S1313	118.0	83.1	116.1	131.8	141.8
5. Social security funds	S1314	143.4	-65.8	-111.4	-107.1	-99.9
6. Total revenue	TR	7,120.9	7,899.0	7,779.8	7,812.2	7,947.2
7. Total expenditure ¹²²	TE	6,947.6	7,978.6	7,736.0	7,751.9	7,784.1
8. Net borrowing/lending	EDP.B9	173.3	-79.6	43.8	60.3	163.1
9. Interest expenditure	EDP.D4 1	131.6	163.2	155.9	177.5	185.5
10. Primary balance ¹²³		304.9	83.6	199.7	237.8	348.6
11. One-off and other temporary measures ¹²⁴						
12. Total taxes (12=12a+12b+12c)		3,266.1	3,468.1	3,611.0	3,766.0	3,870.4
12a. Taxes on production and imports	D2	2,519.5	2,690.0	2,852.6	3,002.4	3,101.2
12b. Current taxes on income and wealth	D5	745.3	776.7	756.9	762.1	767.7
12c. Capital taxes	D91	1.3	1.4	1.5	1.5	1.5
13. Social contributions	D61	3,204.0	3,240.2	3,216.8	3,242.5	3,268.5
14. Property income	D4	22.4	28.4	28.3	11.5	11.6
15. Other (15 = 16-(12+13+14)) ¹²⁵		628.4	1,162.3	923.7	792.2	796.7
16=6. Total revenue	TR	7,120.9	7,899.0	7,779.8	7,812.2	7,947.2
p.m. Tax burden (D2+D5+D61+D91-D995) ¹²⁶		6,470.1	6,708.3	6,827.8	7,008.5	7,138.9

¹²² Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

¹²³ The primary balance is calculated as (EDP.B9, item 8) plus (EDP D41 + FISIM recorded as intermediate consumption, item 9).

¹²⁴ A plus sign means deficit-reducing one-off measures.

¹²⁵ P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91).

¹²⁶ Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate.

Table 2b (continued)

	ESA Code	Year 2017	Year 2018	Year 2019	Year 2020	Year 2021
		Bn NCU				
17. Collective consumption	P32	3,310.5	3,681.2	3,604.7	3,597.1	3,613.1
18. Total social transfers	D62 + D63	2,758.7	2,890.1	2,906.3	2,924.0	2,939.6
18a. Social transfers in kind	P31 = D63	0.0	0.0	0.0	0.0	0.0
18b. Social transfers other than in kind	D62	2,758.7	2,890.1	2,906.3	2,924.0	2,939.6
19=9. Interest expenditure	EDP.D4 1	131.6	163.2	155.9	177.5	185.5
20. Subsidies	D3	267.7	348.4	350.8	353.0	354.8
21. Gross fixed capital formation	P51	232.4	846.4	704.0	523.8	492.2
22. Other (22 = 23- (17+18+19+20+21) ¹²⁷		246.9	49.3	14.3	176.5	198.9
23=7. Total expenditures	TE ¹²⁸	6,947.6	7,978.6	7,736.0	7,751.9	7,784.1
p.m. Compensations of public sector employees	D1	1,648.9	1,803.4	1,696.7	1,692.7	1,693.9

NOTE: Consolidated data for all government levels in the Federation BiH (budget of the Federation BiH, budgets of the cantons of the Federation BiH, budgets of the municipalities of the Federation BiH, financial plans of extrabudgetary funds of the Federation BiH, as well as business plans of public companies of the Federation BiH) are presented in the table. In relation to the last year's ERP, there are changes in the presentation of data on code D2 where, in addition to others, the amounts of indirect taxes remitted by the ITA are presented, but without the amount earmarked for repayment of the external debt, considering the fact that there are no expenses for its repayment on the expenditure side. Furthermore, we emphasize that, as in the previous year, the data under "Collective consumption" contain expenses of materials and services and expenditures for gross salaries and compensations of employees.

¹²⁷ D.29+D4 (other than D.41)+D.5+D.7+D.9+P.52+P.53+K.2+D.8.

¹²⁸ Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

Table 2b: General government budgetary prospects - Republika Srpska

	ESA Code	Year 2017	Year 2018	Year 2019	Year 2020	Year 2021
		Bn NCU				
1. General government	S13	99.8	-129.6	37.2	142.0	221.7
2. Central government	S1311	55.2	-95.8	-11.7	74.3	139.4
3. State government	S1312					
4. Local government	S1313	32.7	-14.6	41.2	35.1	39.1
5. Social security funds	S1314	11.9	-19.3	7.6	32.6	43.2
6. Total revenue	TR	3,934.6	4,212.7	4,304.4	4,432.0	4,581.9
7. Total expenditure ¹²⁹	TE	3,834.8	4,342.3	4,267.2	4,290.0	4,360.2
8. Net borrowing/lending	EDP.B9	99.8	-129.6	37.2	142.0	221.7
9. Interest expenditure	EDP.D4 1	118.1	124.4	130.9	135.6	135.5
10. Primary balance ¹³⁰		217.9	-5.2	168.1	277.6	357.2
11. One-off and other temporary measures ¹³¹						
12. Total taxes (12=12a+12b+12c)		2,138.0	2,353.2	2,391.2	2,470.7	2,573.8
12a. Taxes on production and imports	D2	1,680.70	1,866.80	1,941.80	2,004.70	2,090.10
12b. Current taxes on income and wealth	D5	453.2	482	445	461.5	479
12c. Capital taxes	D91	4.1	4.4	4.4	4.5	4.7
13. Social contributions	D61	1,420.70	1,476.50	1,543.40	1,580.10	1,617.50
14. Property income	D4	130.9	145.9	165.1	170.7	174.9
15. Other (15 = 16-(12+13+14)) ¹³²		245.0	237.1	204.7	210.5	215.7
16=6. Total revenue	TR	3,934.60	4,212.70	4,304.40	4,432	4,581.90
p.m. Tax burden (D2+D5+D61+D91-D995) ¹³³		3,558.7	3,829.7	3,934.6	4,050.8	4,191.3

¹²⁹ Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

¹³⁰ The primary balance is calculated as (EDP.B9, item 8) plus (EDP D41 + FISIM recorded as intermediate consumption, item 9).

¹³¹ A plus sign means deficit-reducing one-off measures.

¹³² P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91).

¹³³ Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate.

Table 2b (continued)

	ESA Code	Year 2017	Year 2018	Year 2019	Year 2020	Year 2021
		Bn NCU				
17. Collective consumption	P32	1,158.10	1,311.40	1,288.70	1,295.60	1,316.80
18. Total social transfers	D62 + D63	1971.7	2042.6	2138.3	2170.8	2200.6
18a. Social transfers in kind	P31 = D63	690.1	714.9	748.4	759.8	770.2
18b. Social transfers other than in kind	D62	1,281.60	1,327.70	1,389.90	1,411	1,430.40
19=9. Interest expenditure	EDP.D4 1	118.1	124.4	130.9	135.6	135.5
20. Subsidies	D3	132.7	164.4	162.5	159.9	156.3
21. Gross fixed capital formation	P51	238	437.3	236.1	211	223.5
22. Other (22 = 23- (17+18+19+20+21)) ¹³⁴		216.2	262.2	310.7	317.1	327.5
23=7. Total expenditures	TE ¹³⁵	3,834.80	4,342.30	4,267.20	4,290	4,360.20
p.m. Compensations of public sector employees	D1	921.2	945.9	978.8	982.2	986.5

¹³⁴ D.29+D4 (other than D.41)+D.5+D.7+D.9+P.52+P.53+K.2+D.8.

¹³⁵ Prilagođeni sljedećim prilivima vezanim za swap, tako da TR-TE = EDP.B9.

Table 2b: General government budgetary prospects - Brčko District

	ESA Code	Year 2017	Year 2018	Year 2019	Year 2020	Year 2021
		Bn NCU				
1. General government	S13	31.4	-26.6	0.0	0.0	0.0
2. Central government	S1311	31.4	-26.6	0	0	0
3. State government	S1312					
4. Local government	S1313					
5. Social security funds	S1314					
6. Total revenue	TR	212.3	223.1	208.1	210.1	212.1
7. Total expenditure ¹³⁶	TE	180.9	249.7	208.1	210.1	212.1
8. Net borrowing/lending	EDP.B9	31.4	-26.6	0.0	0.0	0.0
9. Interest expenditure	EDP.D4 1	0.4	0.4	1.5	1.3	1.1
10. Primary balance ¹³⁷		31.8	-26.2	1.5	1.3	1.1
11. One-off and other temporary measures ¹³⁸						
12. Total taxes (12=12a+12b+12c)		200.3	197.9	196.5	198.5	200.5
12a. Taxes on production and imports	D2	173.90	171.30	170.00	172.00	174.00
12b. Current taxes on income and wealth	D5	26.4	26.6	26.5	26.5	26.5
12c. Capital taxes	D91	0	0	0	0	0
13. Social contributions	D61	0.00	0.00	0.00	0.00	0.00
14. Property income	D4	0	0	0	0	0
15. Other (15 = 16-(12+13+14)) ¹³⁹		12.0	25.2	11.6	11.6	11.6
16=6. Total revenue	TR	212.30	223.10	208.10	210	212.10
p.m. Tax burden (D2+D5+D61+D91-D995) ¹⁴⁰		200.3	197.9	196.5	198.5	200.5

¹³⁶ Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

¹³⁷ The primary balance is calculated as (EDP.B9, item 8) plus (EDP D41 + FISIM recorded as intermediate consumption, item 9).

¹³⁸ A plus sign means deficit-reducing one-off measures.

¹³⁹ P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91).

¹⁴⁰ Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate.

Table 2b (continued)

	ESA Code	Year 2017	Year 2018	Year 2019	Year 2020	Year 2021
		Bn NCU				
17. Collective consumption	P32	96.80	111.00	119.10	119.90	119.50
18. Total social transfers	D62 + D63	48.9	59.7	75.2	75.2	75.2
18a. Social transfers in kind	P31 = D63	0	0	0	0	0
18b. Social transfers other than in kind	D62	48.90	59.70	75.20	75	75.20
19=9. Interest expenditure	EDP.D4 1	0.4	0.4	1.52	1.28	1.1
20. Subsidies	D3	27	28.4			
21. Gross fixed capital formation	P51	3.1	40.9	4.8	6.6	10.4
22. Other (22 = 23- (17+18+19+20+21) ¹⁴¹		4.7	9.3	7.5	7.1	5.9
23=7. Total expenditures	TE ¹⁴²	180.90	249.70	208.10	210	212.10
p.m. Compensations of public sector employees	D1	64.9	73.7	81.6	82.1	82.1

¹⁴¹ D.29+D4 (other than D.41)+D.5+D.7+D.9+P.52+P.53+K.2+D.8.

¹⁴² Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9

Table 3: General government expenditure by function – Bosnia and Herzegovina

Percentage of GDP	COFOG code	Year 2017	Year 2018	Year 2019	Year 2020	Year 2021
1. General public services	1	7.9	8.9	8.2	7.8	7.5
2. Defence	2	0.9	0.9	0.9	0.9	0.8
3. Public order and safety	3	2.9	2.9	2.8	2.6	2.5
4. Economic affairs	4	1.9	2.2	1.9	1.8	1.7
5. Environmental protection	5	0.3	0.4	0.3	0.3	0.3
6. Housing and community	6	0.8	1.1	0.9	0.9	0.8
7. Health	7	5.1	5.5	5.2	4.9	4.6
8. Recreation, culture and	8	0.6	0.7	0.6	0.6	0.6
9. Education	9	3.4	3.6	3.4	3.2	3.1
10. Social protection	10	13.0	13.9	13.2	12.7	12.2
11. Total expenditure (item 7 = 23 in Table 2)	TE	36.8	40.0	37.3	35.7	34.1

Table 3: General government expenditure by function – Bosnia and Herzegovina

Billions (national currency)	COFOG code	Year 2017	Year 2018	Year 2019	Year 2020	Year 2021
1. General public services	1	2,558.5	2,991.6	2,885.9	2,899.9	2,911.5
2. Defence	2	297.3	306.5	317.3	316.8	318.7
3. Public order and safety	3	947.2	983.9	977.1	977.1	987.1
4. Economic affairs	4	598.7	744.8	663.5	651.7	669.1
5. Environmental protection	5	108.2	123.5	118.6	119.4	120.2
6. Housing and community	6	242.4	358.8	313.8	318.0	326.5
7. Health	7	1,657.0	1,872.3	1,822.6	1,807.7	1,810.0
8. Recreation, culture and	8	196.9	220.6	212.5	215.4	217.6
9. Education	9	1,088.8	1,221.1	1,201.7	1,202.9	1,207.8
10. Social protection	10	4,193.2	4,684.8	4,664.4	4,700.1	4,744.9
11. Total expenditure (item 7 = 23 in Table 2)	TE	11,888.2	13,507.9	13,177.4	13,209.0	13,313.4

Table 3: General government expenditure by function - Institutions of BiH

Percentage of GDP	COFOG code	Year 2017	Year 2018	Year 2019	Year 2020	Year 2021
1. General public services	1	0.9	0.9	0.9	0.8	0.7
2. Defence	2	0.9	0.9	0.9	0.8	0.8
3. Public order and safety	3	0.9	0.8	0.8	0.8	0.7
4. Economic affairs	4	0.1	0.2	0.2	0.2	0.2
5. Environmental protection	5	0.0	0.0	0.0	0.0	0.0
6. Housing and community	6	0.0	0.0	0.0	0.0	0.0
7. Health	7	0.0	0.0	0.0	0.0	0.0
8. Recreation, culture and	8	0.0	0.0	0.0	0.0	0.0
9. Education	9	0.0	0.0	0.0	0.0	0.0
10. Social protection	10	0.0	0.1	0.0	0.0	0.0
11. Total expenditure (item 7 = 23 in Table 2)	TE	2.9	2.9	2.8	2.7	2.5

Table 3: General government expenditure by function – Institutions of BiH

Billions (national currency)	COFOG code	Year 2017	Year 2018	Year 2019	Year 2020	Year 2021
1. General public services	1	294.0	299.0	309.7	302.7	293.7
2. Defence	2	271.5	277.8	288.9	288.3	290.1
3. Public order and safety	3	268.7	269.0	270.1	268.3	274.8
4. Economic affairs	4	54.2	60.0	58.0	58.4	58.8
5. Environmental protection	5	6.5	6.0	6.0	6.0	6.0
6. Housing and community	6	0.0	0.0	0.0	0.0	0.0
7. Health	7	5.2	5.2	6.9	6.8	7.2
8. Recreation, culture and	8	12.1	7.9	10.1	10.1	10.1
9. Education	9	3.1	3.1	3.4	3.4	3.3
10. Social protection	10	9.6	11.0	12.9	13.0	13.0
11. Total expenditure (item 7 = 23 in Table 2)	TE	924.9	937.2	966.0	957.0	957.0

Table 3: General government expenditure by function - Federation BiH

Percentage of GDP	COFOG code	Year 2017	Year 2018	Year 2019	Year 2020	Year 2021
1. General public services	1	5.53	5.8	5.4	5.1	4.9
2. Defence	2	0.1	0.1	0.1	0.1	0.1
3. Public order and safety	3	1.1	1.3	1.2	1.1	1.1
4. Economic affairs	4	0.7	0.8	0.7	0.7	0.7
5. Environmental protection	5	0.3	0.3	0.3	0.3	0.2
6. Housing and community	6	0.4	0.5	0.5	0.4	0.4
7. Health	7	2.9	3.2	3.0	2.9	2.7
8. Recreation, culture and	8	0.3	0.4	0.3	0.3	0.3
9. Education	9	1.9	2.1	1.9	1.8	1.8
10. Social protection	10	8.5	9.3	8.6	8.2	7.8
11. Total expenditure (item 7 = 23 in Table 2)	TE	21.5	23.6	21.9	20.59	19.9

Table 3: General government expenditure by function – Federation BiH

Billions (national currency)	COFOG code	Year 2017	Year 2018	Year 2019	Year 2020	Year 2021
1. General public services	1	1,700.70	1,953.60	1,893.90	1,897.60	1,905.40
2. Defence	2	25.5	29.3	28.4	28.5	28.6
3. Public order and safety	3	367.8	423.0	410.3	411.1	412.7
4. Economic affairs	4	226.4	260.4	252.5	253.1	254.1
5. Environmental protection	5	85.4	98.2	95.2	95.4	95.8
6. Housing and community	6	143.2	164.7	159.8	160.1	160.7
7. Health	7	950.8	1,093.5	1,060.7	1,062.8	1,067.0
8. Recreation, culture and	8	104.4	120.1	116.5	116.7	117.2
9. Education	9	612.9	704.8	683.7	685.1	687.8
10. Social protection	10	2,730.5	3,131.0	3,035.0	3,041.50	3,054.8
11. Total expenditure (item 7 = 23 in Table 2)	TE	6,947.6	7,978.6	7,736.0	7,751.9	7,784.1

Table 3: General government expenditure by function – Republika Srpska

Percentage of GDP	COFOG code	Year 2017	Year 2018	Year 2019	Year 2020	Year 2021
1. General public services	1	1.5	1.8	1.7	1.7	1.6
2. Defence	2	0.0	0.0	0.0	0.0	0.0
3. Public order and safety	3	0.9	0.8	0.8	0.7	0.7
4. Economic affairs	4	1.0	1.3	1.0	0.9	0.9
5. Environmental protection	5	0.1	0.1	0.0	0.0	0.0
6. Housing and community	6	0.3	0.6	0.4	0.4	0.4
7. Health	7	2.1	2.2	2.1	1.9	1.8
8. Recreation, culture and	8	0.2	0.2	0.2	0.2	0.2
9. Education	9	1.4	1.4	1.3	1.3	1.2
10. Social protection	10	4.4	4.5	4.5	4.4	4.2
11. Total expenditure (item 7 = 23 in Table 2)	TE	11.9	12.8	12.1	11.6	11.2

Table 3: General government expenditure by function – Republika Srpska

Billions (national currency)	COFOG code	Year 2017	Year 2018	Year 2019	Year 2020	Year 2021
1. General public services	1	489.3	614.6	605.9	623.1	634.3
2. Defence	2	0.3	0	0	0	0
3. Public order and safety	3	296.4	273.3	275.6	276.7	277.9
4. Economic affairs	4	318.1	424.4	353	340.2	356.2
5. Environmental protection	5	16.3	19.3	17.4	18	18.4
6. Housing and community	6	97.8	191.2	152.1	156	163.8
7. Health	7	681.8	754.2	726.8	708.8	707
8. Recreation, culture and	8	66.7	75.5	71.1	73.8	75.5
9. Education	9	437.9	472.5	475.3	475	477
10. Social protection	10	1,430.20	1,517.40	1,590.10	1,618.40	1,650.10
11. Total expenditure (item 7 = 23 in Table 2)	TE	3,834.8	4,342.4	4,267.3	4,290.0	4,360.2

Table 3: General government expenditure by function – Brčko District

Percentage of GDP	COFOG code	Year 2017	Year 2018	Year 2019	Year 2020	Year 2021
1. General public services	1	0.2	0.4	0.2	0.2	0.2
2. Defence	2					
3. Public order and safety	3	0.0	0.1	0.1	0.1	0.1
4. Economic affairs	4					
5. Environmental protection	5					
6. Housing and community	6					
7. Health	7	0.1	0.1	0.1	0.1	0.1
8. Recreation, culture and	8	0.0	0.1	0.0	0.0	0.0
9. Education	9	0.1	0.1	0.1	0.1	0.1
10. Social protection	10	0.1	0.1	0.1	0.1	0.1
11. Total expenditure (item 7 = 23 in Table 2)	TE	0.6	0.7	0.6	0.6	0.5

Table 3: General government expenditure by function – Brčko District

Billions (national currency)	COFOG code	Year 2017	Year 2018	Year 2019	Year 2020	Year 2021
1. General public services	1	74.5	125.0	76.4	76.5	78.1
2. Defence	2					
3. Public order and safety	3	14.3	19.2	21.1	21.0	21.7
4. Economic affairs	4					
5. Environmental protection	5					
6. Housing and community	6	1.4	2.9	1.9	1.9	2.0
7. Health	7	19.2	19.4	28.2	29.3	28.8
8. Recreation, culture and	8	13.7	17.1	14.8	14.8	14.8
9. Education	9	34.9	40.7	39.3	39.4	39.7
10. Social protection	10	22.9	25.4	26.4	27.2	27.0
11. Total expenditure (item 7 = 23 in Table 2)	TE	180.9	249.7	208.1	210.1	212.1

Table 4: General government debt developments

Percentages of GDP	ESA code	Year 2017	Year 2018	Year 2019	Year 2020	Year 2021
1. Gross debt ¹⁴³		33.9	32.9	32.1	31.1	28.9
2. Change in gross debt ratio		-5.1	-1.0	-0.8	-1.0	-2.2
Contributions to change in gross debt						
3. Primary balance ¹⁴⁴		-1.7	-0.1	-0.8	-1.2	-1.6
4. Interest expenditure ¹⁴⁵		0.8	0.9	0.8	0.9	0.8
5. Stock flow adjustments		-4.1	-1.7	-0.9	-0.6	-1.4
Of which:						
- Differences between cash and accruals ¹⁴⁶						
- Net accumulation of financial assets ¹⁴⁷						
Of which:						
- Privatisation proceeds						
- Valuation effects and other ¹⁴⁸						
p.m. implicit interest rate on debt ¹⁴⁹		2.1	2.6	2.6	2.8	2.8
Other relevant variables						
6. Liquid financial assets ¹⁵⁰						
7. Net financial debt (7 = 1 - 6)						

¹⁴³ As defined in Regulation 3605/93 (not an ESA concept).

¹⁴⁴ Cf. item 10 in Table 2.

¹⁴⁵ Cf. item 9 in Table 2.

¹⁴⁶ The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant.

¹⁴⁷ Liquid assets, assets on third countries, government controlled enterprises and the difference between quoted and non-quoted assets could be distinguished when relevant.

¹⁴⁸ Changes due to exchange rate movement, and operation in secondary market could be distinguished when relevant.

¹⁴⁹ Proxied by interest expenditure divided by the debt level of the previous year.

¹⁵⁰ AF1, AF2, AF3 (consolidated at market value, AF5 (if quoted in stock exchange; including mutual fund shares).

Table 5: Cyclical developments

% of GDP	ESA code	Year 2017	Year 2018	Year 2019	Year 2020	Year 2021
1. Real GDP growth (%)	B1g	3.4	3.3	3.5	3.7	3.8
2. Net lending of general government	EDP.B.9	0.9	-0.7	0.0	0.4	0.8
3. Interest expenditure	EDP.D.41	0.8	0.9	0.8	0.9	0.8
4. One-off and other temporary measures ¹⁵¹		0.4	-0.4	-0.1	-0.1	-0.1
5. Potential GDP growth (%) ¹⁵²		3.4	3.5	3.6	3.6	3.5
Contributions:						
- labour						
- capital						
- total factor productivity						
6. Output gap		0.2	0.1	-0.1	0.0	0.3
7. Cyclical budgetary component		0.1	0.0	0.0	0.0	0.1
8. Cyclically-adjusted balance (2-7)		0.8	-0.8	0.0	0.4	0.7
9. Cyclically-adjusted primary balance (8-3)		0.0	-1.6	-0.8	-0.5	-0.1
10. Structural balance (8-4)		0.4	-0.4	0.1	0.5	0.8

Table 6: Divergence from previous programme

	Year 2017	Year 2018	Year 2019	Year 2020	Year 2021
1. GDP growth (% points)					
Previous	3,4	3,4	3,8	3,9	:
Current	3,4	3,3	3,5	3,7	3,8
Difference	0,0	-0,1	-0,3	-0,2	:
2. General government net lending (% of GDP)					
Previous	0,9	1,4	1,7	1,9	:
Current	0,9	-0,7	0,0	0,4	0,8
Difference	0,0	-2,1	-1,7	-1,5	:
3. General government gross debt (% of GDP)					
Previous	36,8	34,7	31,7	28,3	:
Current	33,9	32,9	32,1	31,1	28,9
Difference	-2,9	-1,8	0,4	2,8	:

¹⁵¹

A plus sign means deficit-reducing one-off measures.

¹⁵²

Until an agreement on the Production Function Method is reached, countries can use their own figures (SP).

Table 7: Long-term sustainability of public finances

Percentages of GDP	2007	2010	2020	2030	2040	2050	2060
Total expenditure	:	:	:	:	:	:	:
<i>Of which:</i>	:	:	:	:	:	:	:
- age related expenditures	:	:	:	:	:	:	:
- Pension expenditure	:	:	:	:	:	:	:
- Social security pension	:	:	:	:	:	:	:
- Old-age and early pensions	:	:	:	:	:	:	:
- Other pensions (disability, survivors)	:	:	:	:	:	:	:
- Occupational pensions (if in general government)	:	:	:	:	:	:	:
- Health care	:	:	:	:	:	:	:
- Long-term care (<i>this was earlier included in the health care</i>)	:	:	:	:	:	:	:
Education expenditure	:	:	:	:	:	:	:
Other age-related expenditures	:	:	:	:	:	:	:
Interest expenditure	:	:	:	:	:	:	:
Total revenues	:	:	:	:	:	:	:
<i>of which: property income</i>	:	:	:	:	:	:	:
<i>of which: from pensions contributions (or social contributions, if appropriate)</i>	:	:	:	:	:	:	:
Pension reserve fund assets	:	:	:	:	:	:	:
<i>of which: consolidated public pension fund assets (assets other than government liabilities)</i>	:	:	:	:	:	:	:
Assumptions							
Labour productivity growth	:	:	:	:	:	:	:
Real GDP growth	:	:	:	:	:	:	:
Participation rate males (aged 20-64)	:	:	:	:	:	:	:
Participation rates females (aged 20-64)	:	:	:	:	:	:	:
Total participation rates (20-64)	:	:	:	:	:	:	:
Unemployment rate	:	:	:	:	:	:	:
Population aged 65+ over total population	:	:	:	:	:	:	:

Table 7a: Contingent liabilities

% of GDP	Year X - 1	Year X
Public guarantees	1.5	Opt.
<i>Of which: linked to the financial</i>		Opt.

Table 8: Basic assumptions on the external economic environment underlying the programme framework

	Dimension	2017	2018	2019	2020	2021
Short-term interest rate	Annual average	:	:	:	:	:
Long-term interest rate	Annual average	:	:	:	:	:
USD/EUR exchange	Annual average	:	:	:	:	:
Nominal effective exchange rate	Annual average	102,0 17	103,6 227	:	:	:
Exchange rate vis-à-vis the EUR	Annual average	1,96	1,96	1,96	1,96	1,96
Global GDP growth, excluding EU	Annual average	5,4	5,1	3,5	3,6	3,6
EU GDP growth	Annual average	2,4	2,1	1,9	1,8	:
Growth of relevant foreign markets	Annual average	:	:	:	:	:
World import volumes, excluding EU	Annual average	5,5	4,8	4	3,7	:
Oil prices (Brent, USD/barrel)	Annual average	54,4	71,8	67,5	66,8	65,9

Table 9: Selected employment and social indicators

	Data source	2015	2016	2017	2018	2019
1. Labour market participation rate (%) total (pls indicate age bracket) 15+	LFS	44.1	43.1	42.6	42.1	:
- male	LFS	55.1	54.9	53.3	53.2	:
- female	LFS	33.5	32.1	32.4	31.4	:
2. Employment rate (%) total (pls indicate age bracket) 15+	LFS	31.9	32.2	33.9	34.3	:
- male	LFS	40.9	42.5	43.2	44,1	:
- female	LFS	23.2	22.4	22.4	25.0	:
3. Unemployment rate (%) total (pls indicate age bracket) 15+	LFS	27.7	25.4	20.5	18.4	:
- male	LFS	25.8	22.5	18.9	17.2	:
- female	LFS	30.7	30.0	23.1	20.3	:
4. Long-term unemployment rate (%) total	LFS	22.6	21.5	20.9	22.7	:
- male	LFS	21.1	19.4	21.1	23.3	:
- female	LFS	25.1	24.0	20.6	21.8	:
5. Youth unemployment (15-24) rate (%) total	LFS	62.3	54.3	45.8	38.8	:
- male	LFS	59.5	52.0	43.1	35.4	:
- female	LFS	67.3	58.9	51.4	45.5	:
6. Young people (please indicate the age bracket of the available figures) not in employment, education or training (NEET), in %, (15-24)	WB	27.7	26.4	24.3		
7. Early school leavers, in % (Eurostat definition)	e	5.2	4.9			
8. Participation rate in early childhood education and care						
9. GINI coefficient	HBS	31.2				
10. Inequality of income distribution S80/S20	e	4.9				
11. Social protection expenditure in % of GDP	e					
12. Health expenditure in % of GDP	e					
13. At-risk-of-poverty before social transfers, % of the population	e					
14. Poverty rate (Please indicate which data are available for your country)	HBS	16.9				
15. Poverty gap (Please indicate which data are available for your country)	HBS	24.6				

Source Agency for Statistics of BiH

Table 10***Government of the Federation of BiH*****Table 10a: Costing of structural reform measure: Intensifying the development of entrepreneurial infrastructure (in EUR)**

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
Year X	0	0	895,000	0	895,000
Year X+1	0	0	1,000,000	0	1,000,000
Year X+2	0	0	1,100,000	0	1,100,000

Table 10a: Costing of structural reform measure: Publication and implementation of the Register of fees and taxes in the Federation of BiH

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
Year X	0	0	0	0	0
Year X+1	0	0	0	0	0
Year X+2	0	0	0	0	0

Given that this measure is implemented within the framework of the regular activities covered by the Work Plan, and with the support of the US Agency for International Development (USAID), under of the Fiscal Sector Reform Project (FAR), and based on the Memorandum of Understanding signed between USAID and the Government of the Federation of BiH, it does not require additional costs from the budget.

Table 10a: Costing of structural reform measure: Changing the current system of allocation of public revenues in the Federation of BiH

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
Year X	0	0	0	0	0
Year X+1	0	0	0	0	0
Year X+2	0	0	0	0	0

Given that this measure is implemented within the framework of the regular activities covered by the Work Plan, it does not require additional costs from the budget.

Table 10a: Costing of structural reform measure: Improving the system of fiscalisation in the Federation of BiH

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
Year X	0	0	0	0	0
Year X+1	0	0	0	0	0
Year X+2	0	0	0	0	0

The activities are planned to be carried out within the framework of the regular staff salaries plan of the Federal Ministry of Finance, the Tax Administration of the FBiH and experts of the Technical Section of the FMF Commission.

Also, bearing in mind that the activities regarding the technological, technical and software components of the fiscal system are yet to be established, the costs of implementation of the mentioned activities will be assessed after the proposals of all involved and relevant entities in the field of fiscalization are harmonized, taking into account that the costs of fiscal device users, the FBiH Tax Administration and the manufacturer/agent are minimal.

Table 10a: Costing of structural reform measure: Reducing the tax burden on labour

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
Year X	0	0	0	0	0
Year X+1	0	0	0	0	0
Year X+2	0	0	0	0	0

Table 10a: Costing of structural reform measure: Restructuring of old tax debt

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
Year X	0	0	0	0	0
Year X+1	0	0	0	0	0
Year X+2	0	0	0	0	0

Table 10a: Costing of structural reform measure: Reducing the tax burden on labour

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
Year X	0	0	0	0	0
Year X+1	0	0	0	0	0
Year X+2	0	0	0	0	0

Table 10b: Financing of structural reform measure: Intensifying the development of entrepreneurial infrastructure (in EUR)

Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
Year X	895,000	0	0	0	0	0	0	895,000
Year X+1	1,000,000	0	0	0	0	0	0	1,000,000
Year X+2	1,100,000	0	0	0	0	0	0	1,100,000

Table 10b: Financing of structural reform measure: Publication and implementation of the Register of fees and taxes in the Federation of BiH

Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
Year X	0	0	0	0	0	0	0	0
Year X+1	0	0	0	0	0	0	0	0
Year X+2	0	0	0	0	0	0	0	0

Table 10b: Financing of structural reform measure: Changing the current system of allocation of public revenues in the Federation of BiH

Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
Year X	0	0	0	0	0	0	0	0
Year X+1	0	0	0	0	0	0	0	0
Year X+2	0	0	0	0	0	0	0	0

Table 10b: Financing of structural reform measure: Improving the system of fiscalisation in the Federation of BiH

Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
Year X	0	0	0	0	0	0	0	0
Year X+1	0	0	0	0	0	0	0	0
Year X+2	0	0	0	0	0	0	0	0

Table 10b: Financing of structural reform measure: Reducing the tax burden on labour

Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
Year X	0	0	0	0	0	0	0	0
Year X+1	0	0	0	0	0	0	0	0
Year X+2	0	0	0	0	0	0	0	0

Table 10b: Financing of structural reform measure: Restructuring of old tax debt

Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
Year X	0	0	0	0	0	0	0	0
Year X+1	0	0	0	0	0	0	0	0
Year X+2	0	0	0	0	0	0	0	0

Table 10b: Financing of structural reform measure: Reducing the tax burden on labour

Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
Year X	0	0	0	0	0	0	0	0
Year X+1	0	0	0	0	0	0	0	0
Year X+2	0	0	0	0	0	0	0	0

Government of Republika Srpska

Table 10a: Costing of structural reform measure (in EUR million)

1) The improvement of the legal framework in compliance with the Energy Community Treaty

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	TOTAL
2019	-	-	-	-	-
2020	-	-	-	-	-
2021	-	-	-	-	-

2) Restructuring of Railways - *Željeznice Republike Srpske a. d. Doboj*

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	TOTAL
2019	0,0	0,0	0,0	0,0	0,0
2020	0,0	0,0	0,0	0,0	0,0
2021	0,0	0,0	0,0	0,0	0,0

3) Improving agriculture, forestry and water management

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	TOTAL
2019	0,0	0,0	0,0	0,0	0,0
2020	0,0	0,0	0,0	7,0	7,0
2021	0,0	0,0	0,0	0,0	0,0

4) Health system reform

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	TOTAL
2019	-	-	-	-	-
2020	-	-	-	-	-
2021	-	-	-	-	-

5) Register of incentives for the economy

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	TOTAL
2019	-	-	-	-	-
2020	-	-	-	-	-
2021	-	-	-	-	-

6) Reducing the share of expenditures for current spending in public administration

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	TOTAL
2019	-	-	-	-	-
2020	-	-	-	-	-
2021	-	-	-	-	-

7) Developing the legal and planning framework in the sector of free movement of goods

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	TOTAL
2019	0,0	0,0	0,0	0,0	0,0
2020	0,0	0,2	0,0	0,0	0,2
2021	0,0	0,0	0,0	0,0	0,0

8) Improving the free service delivery sector

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	TOTAL
2019	0,0	0,0	0,0	0,0	0,0
2020	0,0	0,0	0,0	0,0	0,0
2021	0,0	0,0	0,0	0,0	0,0

9) Establishing a more efficient management system of scientific research and innovation potential in Republika Srpska

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	TOTAL
2019	0,0	4,0	0,0	0,0	4,0
2020	0,0	4,0	0,0	0,0	4,0
2021	0,0	4,0	0,0	0,0	4,0

10) Improving links between education and the labour market

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	TOTAL
2019	-	-	-	-	-
2020	-	-	-	-	-
2021	-	-	-	-	-

11) Improving the labour market efficiency and continuing the Employment Institute reforms

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	TOTAL
2019	0,0	0,0	0,0	0,0	0,0
2020	0,0	0,0	0,0	0,0	0,0
2021	0,0	0,0	0,0	0,0	0,0

12) Improving the targeting of social benefits

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	TOTAL
2019	-	-	-	-	-
2020	-	-	-	-	-
2021	-	-	-	-	-

TOTAL

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	TOTAL
2019	0,0	4,0	0,0	0,0	4,0
2020	0,0	4,2	0,0	7,0	11,2
2021	0,0	4,0	0,0	0,0	4,0

Table 10b: Financing of structural reform measure (In EUR million)

1) The improvement of the legal framework in compliance with the Energy Community Treaty

Year	Central budget	Local budgets	Other public finance sources	IPA funds	Other grants	Project loans	To be determined	TOTAL
2019	-	-	-	-	-	-	-	-
2020	-	-	-	-	-	-	-	-
2021	-	-	-	-	-	-	-	-

2) Restructuring of *Željeznice Republike Srpske a. d. Doboj*

Year	Central budget	Local budgets	Other public finance sources	IPA funds	Other grants	Project loans	To be determined	TOTAL
2019	0.0	0.0	0.0	0.0	0.0	51.3	0.0	51.3
2020	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2021	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

3) Improving agriculture, forestry and water management

Year	Central budget	Local budgets	Other public finance sources	IPA funds	Other grants	Project loans	To be determined	TOTAL
2019	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2020	2.0	0.0	3.0	2.0	0.0	0.0	0.0	7.0
2021	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

4) Health system reform

Year	Central budget	Local budgets	Other public finance sources	IPA funds	Other grants	Project loans	To be determined	TOTAL
2019	-	-	-	-	-	-	-	-
2020	-	-	-	-	-	WB	-	-
2021	-	-	-	-	-	WB	-	-

5) Register of incentives for the economy

Year	Central budget	Local budgets	Other public finance sources	IPA funds	Other grants	Project loans	To be determined	TOTAL
2019	-	-	-	-	-	-	-	-
2020	-	-	-	-	-	-	-	-
2021	-	-	-	-	-	-	-	-

6) Reducing the share of expenditures for current spending in public administration

Year	Central budget	Local budgets	Other public finance sources	IPA funds	Other grants	Project loans	To be determined	TOTAL
2019	-	-	-	-	WB	-	-	-
2020	-	-	-	-	-	-	-	-
2021	-	-	-	-	-	-	-	-

7) Developing the legal and planning framework in the sector of free movement of goods

Year	Central budget	Local budgets	Other public finance sources	IPA funds	Other grants	Project loans	To be determined	TOTAL
2019	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2020	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.2
2021	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

8) Improving the free service delivery sector

Year	Central budget	Local budgets	Other public finance sources	IPA funds	Other grants	Project loans	To be determined	TOTAL
2019	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2020	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2021	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

9) Establishing a more efficient management system of scientific research and innovation potential in Republika Srpska

Year	Central budget	Local budgets	Other public finance sources	IPA funds	Other grants	Project loans	To be determined	TOTAL
2019	4.0	0.0	0.0	0.0	0.0	0.0	0.0	4.0
2020	4.0	0.0	0.0	0.0	0.0	0.0	0.0	4.0
2021	4.0	0.0	0.0	0.0	0.0	0.0	0.0	4.0

10) Improving links between education and the labour market

Year	Central budget	Local budgets	Other public finance sources	IPA funds	Other grants	Project loans	To be determined	TOTAL
2019	-	-	-	-	-	-	-	-
2020	-	-	-	-	-	-	-	-
2021	-	-	-	-	-	-	-	-

11) Improving the labour market efficiency and continuing the Employment Institute reforms

Year	Central budget	Local budgets	Other public finance sources	IPA funds	Other grants	Project loans	To be determined	TOTAL
2019	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2020	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2021	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

12) Improving the targeting of social benefits

Year	Central budget	Local budgets	Other public finance sources	IPA funds	Other grants	Project loans	To be determined	TOTAL
2019	-	-	-	-	-	-	-	-
2020	-	-	-	-	-	-	-	-
2021	-	-	-	-	-	-	-	-

TOTAL

Year	Central budget	Local budgets	Other public finance sources	IPA funds	Other grants	Project loans	To be determined	TOTAL
2019	4.0	0.0	0.0	0.0	WB	51.3	0.0	55.3
2020	6.0	0.0	3.0	2.0	0.2	WB	0.0	11.2
2021	4.0	0.0	0.0	0.0	0.0	WB	0.0	4.0

Table 11: Reporting on the implementation of the structural reform measures of the ERP 2018-2020

Government of the Federation of BiH

Energy, transport and telecoms markets

- Increasing energy efficiency and use of renewable energy sources
- Creating a sustainable rail infrastructure financing system
- Increasing energy efficiency and use of renewable energy sources, infrastructure
- Increasing the traffic of passengers and goods at airports, creating better assumptions for construction of the road infrastructure and motorways financing models with emphasis on concessions and public-private partnership

FBiH Ministry of Energy, Mining and Industry

Table 11: Reporting on the implementation of the structural reform measures of the ERP 2018-2020 (Fill in one per reform)

	Name and number of reform measure 4.3.2.1. Increasing energy efficiency and use of renewable energy sources
Activities planned for 2018	<p>2018.</p> <ol style="list-style-type: none"> 1. Development of the Energy Strategy of the Federation of Bosnia and Herzegovina 2015-2035 with projections by 2050 2. Preparation of the Decree on the Implementation of Energy Audits and Issuance of Energy Certificates (in accordance with Article 26 of the Law on Energy Efficiency in the Federation of Bosnia and Herzegovina). 3. Drafting a Decree on conditions for granting and revoking authorizations for the performance of energy audits and energy certification of buildings (in accordance with Article 27 of the Law on Energy Efficiency in the Federation of Bosnia and Herzegovina). 4. Drafting the Rulebook on the Energy Efficiency Information System in the Federation of Bosnia and Herzegovina (in accordance with Article 48 of the Law on Energy Efficiency in the Federation of Bosnia and Herzegovina). 5. Development and adoption of the Methodology for calculating and allocating the indicative targets of the Federation of Bosnia and Herzegovina for achieving savings in energy consumption (in accordance with Article 4 of the Law on Energy Efficiency in the Federation of Bosnia and Herzegovina) 6. Development of the Rulebook on regular energy audits of heating systems and air conditioning systems (in accordance with Article 29 of the Law on Energy Efficiency in the Federation of Bosnia and Herzegovina) 7. Implementation of an internationally open tender for the procurement of consultancy services in the procedure of public bidding for the award of a concession for exploration and exploitation of oil and gas in the territory of the Federation of Bosnia and Herzegovina and the activities that follow after the selection of a consultant. 8. Development of an updated Action Plan for the Use of Renewable Energy Sources in the Federation of Bosnia and Herzegovina. 9. Construction of plants using renewable energy sources. 10. Launching the concession award procedure for:

	<ul style="list-style-type: none"> - CHPP Vrilo, 66 MW, based on the self-tendering offer for awarding the concession of <i>JP Elektroprivreda HZHB</i> d.d. Mostar, - HPP Begov Han – 9,8 MW; HPP Želeće – 9,8 MW; HPP Globalarica – 14,7 MW; HPP Potklečka polja – 9,8 MW; HPP Dolina – 14,7 MW and HPP Komšići – 14,7 MW on the river Bosna, based on the self-tendering offer for awarding the concession of the company <i>Dvorac Energije d.o.o. Kiseljak</i> <ol style="list-style-type: none"> 11. Activation of projects of integrated use of watercourses (water supply; protection against high waters; protection against low waters; electricity generation, etc) on the catchment of the rivers Bosna and Vrbas, through the award of concessions to public companies and private investors or through a public-private partnership 12. SCADA/DMS/OMS with the accompanying communication system – electronic networking of all energy facilities 13. Reconstruction of the existing oil terminals and full establishing of oil stocks, and the creation of prerequisites for the fulfilment of the Directive 2009/119 EC 14. Further restructuring of the concern <i>Elektroprivreda BiH</i>, with emphasis on restructuring of the mines (operational, personnel and financial) through the Programme of Restructuring of the Electricity Sector in FBiH 15. Distribution of electricity – "Smart Meters" KM 23.36 million (loan - KM 19.56 million) 16. The Law on Gas of the Federation of BiH 17. National Energy Efficiency Action Plan (NEAP) in Bosnia and Herzegovina
<p>Description of implementation and explanation if partial or no implementation</p>	<p>2018</p> <ol style="list-style-type: none"> 1. The preparation of the Energy Strategy of the Federation of Bosnia and Herzegovina for the period 2015-2035 with the projection in 2050 is carried over to the next period as the preparation of the Energy Strategy of the Federation of Bosnia and Herzegovina for the period 2015-2035 with the projection in 2050, by the conclusion of the Government of the Federation of Bosnia and Herzegovina, was temporarily suspended until the adoption of the Framework Energy Strategy of the Federation of Bosnia and Herzegovina by 2035 by the Parliament of the Federation of Bosnia and Herzegovina. 2. The Decree on the Implementation of Energy Audits and Issuance of Energy Certificates was submitted to the Government of the Federation of BiH for consideration and adoption. 3. The Decree on conditions for granting and revoking authorizations for the performance of energy audits and energy certification of buildings was submitted to the Government of the Federation of BiH for consideration and adoption. 4. The Rulebook on the Energy Efficiency Information System in the Federation of Bosnia and Herzegovina has been completed and is in the adoption phase. 5. Methodology for calculating and allocating the indicative targets of the Federation of Bosnia and Herzegovina for achieving savings in energy consumption has been adopted and it is expected to be published in the Official Gazette of the Federation of BiH. 6. Rulebook on regular energy audits of heating systems and air conditioning systems is in the final stage of development and adoption. 7. Two international open tender procedures failed regarding the procurement of consultancy services in the procedure of public bidding for the award of a concession for exploration and exploitation of oil and gas in the territory of the Federation of Bosnia and Herzegovina, and the preparation of new international open tender is underway. 8. An updated Action Plan for the Use of Renewable Energy Sources in the Federation of Bosnia and Herzegovina was completed and it is in the process of obtaining opinions by the competent authorities and will then be submitted to the Government of the Federation of Bosnia and Herzegovina for consideration and adoption. 9. As on 30 June 2018, in the Federation of Bosnia and Herzegovina, a total of 371 energy permits were issued for the construction of facilities using renewable energy sources, of which 188 facilities with a total installed capacity of 120 MW were constructed. Out

	<p>of the above, 132 facilities, of the total installed capacity of 47.3 MW, have the status of privileged producers (in the system of incentives).</p> <p>10. Launching is ongoing.</p> <p>11. Activities ongoing</p> <p>12. Project is in the implementation phase</p> <p>13. Project was nominated for PIP</p> <p>14. A new Restructuring Programme of the Electricity Sector in the Federation of Bosnia and Herzegovina was drafted, within which a special overview and priority was given to the establishment of the Distribution System Operator. The activities that follow include obtaining the opinion of the competent FBiH bodies and submitting the Programme to the Government of the Federation of Bosnia and Herzegovina for adoption and to the Parliament of the Federation of Bosnia and Herzegovina for approval.</p> <p>15. Project is in the implementation phase</p> <p>16. The Law on Gas of the Federation of Bosnia and Herzegovina (which is not aligned with the Third Energy Package) was adopted by the House of Representatives of the Parliament of the Federation of Bosnia and Herzegovina. The House of Peoples has not yet considered the Law on Gas of FBiH, and in the following period, it is necessary to prepare the text of the new Law on Gas of FBiH that will be aligned with the Third Energy Package and the State Law on Electricity and Natural Gas Regulator, Transmission and Electricity Market in Bosnia and Herzegovina</p> <p>17. National Energy Efficiency Action Plan (NEAP) in Bosnia and Herzegovina was adopted by the Council of Ministers of Bosnia and Herzegovina in December 2017.</p>
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FBiH Ministry of Transport and Communications

Table 11: Reporting on the implementation of the structural reform measures of the ERP 2018-2020 (Fill in one per reform)

	Name and number of reform measure	Stage of reform implementation (1-5) ⁴⁴
Activities planned for 2018	1. Creating a sustainable rail infrastructure financing system by finding funds for these purposes so as to complete separation, i.e. restructuring of the Public Company <i>Željeznice Federacije BiH</i> , which is also a commitment under EU directives and the Law on Railways of BiH,	1=implementation being prepared
	2. Creating a database on the situation of aviation infrastructure in FBiH to enable the airport infrastructure facilitate the increased number of passengers and goods,	2= initial steps have been taken
	3. Creating better assumptions for construction of road infrastructure and motorway financing models with emphasis on concessions and public-private partnership; adoption of the new Law on Roads in the Federation of BiH	2= initial steps have been taken
Description of implementation and explanation if partial or no implementation	1. No restructuring model has been selected in 2018 because the selection of an organization model has not been harmonized within the railway sector itself, and the position or opinion of the Federal Ministry of Finance is also unknown, which the FMoTC finds crucial to the planning of funds to be allocated to restructuring the companies. The Action Plan of Implementation of the Reform Agenda also stipulates the activity of restructuring of the mines and railways, under authority of the Prime Minister and the Federal Ministry of Energy, Mining and Industry, so the FMoTC participated in the development of the World Bank document, but could not take	

	<p>responsibility for defining the restructuring model without established or in the future approved funds for these purposes. Activities on the adoption of the Law on the Transport of Dangerous Goods have been initiated, according to which oil and petroleum products would be transported by rail to the terminal. The Inter - sectoral Working Group - IWG has been formed for the development of this Law on the Transport of Dangerous Goods.</p>
	<p>2. Collection of data from the International Airports in the Federation of Bosnia and Herzegovina (Sarajevo, Tuzla and Mostar) on the state of the aeronautical infrastructure related to the design of buildings and civil engineering, radio navigation equipment, airport equipment for the reception and shipping of passenger and cargo aircrafts, as well as equipment for cargo traffic and accompanying facilities is partly done because of the fact that the aviation infrastructure is constantly being built and expanded. Continuous efforts are needed to develop the database of the state of the aviation infrastructure in FBiH in order to effectively identify the development needs.</p>
	<p>3. The Government of the Federation of BiH has appointed a Cross-sectoral Working Group at the initiative of the FBiH Ministry Transport and Communications, whose task is to find a model to place original revenues for financing public roads under complete control. During 2018 at the proposal of this Working Group, the Conclusions of the Government of the Federation of Bosnia and Herzegovina were adopted in order to achieve this goal. This primarily refers to revenues for road financing which are collected from motor vehicle registration charges and road financing fees collected from the retail price of petroleum products.</p> <p>Also, at the proposal of FMTC, the Government of FBiH adopted the Decision on the adoption of the Program "Capital transfers to public companies - a transfer for the construction of motorways and express roads" in the amount of KM 107,000,000.00 established in section 18, Economic Code 6154 of the 2018 Budget of the Federation of Bosnia and Herzegovina. This Decision has created prerequisites for the implementation of the approved projects.</p> <p>The work on preparation of documentation, loan securing and creation of assumptions for implementation of projects according to the concession model on Corridor Vc continues.</p> <p>The adjustment of the text of the Decree on Motorways, as well as the Law on Auto-Moto Clubs is underway. The Decision on Amendments to the Decision on road categorization is in preparation. These activities were partially implemented in 2018.</p>

⁴⁴ 0=no implementation; 1=implementation is being prepared; 2=initial steps have been taken; 3=implementation ongoing with some initial results; 4=implementation is advanced; 5=full implementation

Sectoral development

- Agriculture
Enhancing agricultural production
- Environment
Conserving, protecting and improving environmental quality

FBiH Ministry of Agriculture, Water Management and Forestry

Report on implementation in 2018

Table 11: Reporting on the implementation of the structural reform measures of the ERP 2018-2020 (Fill in one per reform)

	Name and number of reform measure	Stage of reform implementation (1-5) ⁴⁴
	4.3.3.2.1.Enhancing agricultural production	
Activities planned for 2018	1. Direct payments per head (dairy cows)	0
	2.	
	3.	
Description of implementation and explanation if partial or no implementation	1. In 2018, this measure was abolished	
	2.	
	3.	

⁴⁴ 0=no implementation; 1=implementation is being prepared; 2=initial steps have been taken; 3=implementation ongoing with some initial results; 4=implementation is advanced; 5=full implementation

Table 11: Reporting on the implementation of the structural reform measures of the ERP 2018-2020 (Fill in one per reform)

	Name and number of reform measure Conserving, protecting and improving environmental quality Improvement of the existing legal framework governing the area of waste management, financial mechanisms, and the system for improving the obtaining of permits from the aspect of the environment	Stage of reform implementation (1-5) ⁴⁴
Activities planned for 2018	1. Adoption of the Law on Environmental Protection and Energy Efficiency Fund	2
	2. Adoption of the Law on the Environmental Protection	2
	3. Establishment of regional waste management centres and environmentally sound closing of unregulated municipal landfills along with the development of infrastructure for selective collection of packaging, electric, electronic and other waste, the establishment of recycling centres using funds from different sources.	2
Description of implementation and explanation if partial or no implementation	<p>1. Following the non-adoption of the Law on Environmental Protection and Energy Efficiency Fund at the session of the House of Representatives of the FBiH Parliament, held on 25 July 2017, development of a new Law on the Environmental Protection and Energy Efficiency Fund was initiated, which was approved at the session of the Government of FBiH, held on 7 June 2018, and then sent to the parliamentary procedure with the aim of being considered and adopted in shortened procedure. To date, it has not been included in the agenda of FBiH Parliament sessions.</p> <p>2. Draft Law on Environmental Protection was completed, its proposal was established at the session of the Government of the FBiH held on 12 April 2018, and submitted to a parliamentary procedure with a view to consideration and adoption in a regular procedure.</p> <p>3. Activities on the work and technical improvement of the existing infrastructure of newly built regional landfills and the creation of preconditions for the establishment of regional municipal waste management centers are carried out, which will be a continuous activity in the following period. Activities on closing unorganized municipal landfills in an environmentally acceptable manner are underway, with the establishment of the infrastructure for selective collection of waste (packaging, electrical, electronic and other types of waste). These activities are co-financed and implemented by the Federal Ministry of Environment and Tourism, in coordination with regional landfills and municipalities in the Federation of BiH.</p> <p>Considering that the full implementation of these activities requires significant funds, the implementation will be carried out with the participation of the Federal Ministry of Environment and Tourism, the FBiH Environmental Protection Fund, the FBiH Government, the cantonal governments and the municipal level of government. It is also planned to include international sources of funding. Activities have been launched for the creation of a database of all illegal dumpsites in the FBiH, and they are implemented by the FBiH Environmental Protection Fund in cooperation with cantons and municipalities in FBiH.</p>	

⁴⁴ 0=no implementation; 1=implementation is being prepared; 2=initial steps have been taken; 3=implementation ongoing with some initial results; 4=implementation is advanced; 5=full implementation

Business environment and reduction of the informal economy

Enhancing the business environment and reduction of the informal economy

Federal Ministry of Development, Entrepreneurship and Crafts

Table 11: Reporting on the implementation of the structural reform measures of the ERP 2018-2020 (Fill in one per reform)

	Name and number of reform measure	Stage of reform implementation (1-5) ⁴⁴
Activities planned for 2018	1. Amendments to the Law on Incentives to Small Businesses.	3
	2. Amendments to the Law on Crafts and Related Activities.	4
	3. Development of the Law on Improving the Entrepreneurial Infrastructure.	1
	4. Register of crafts, with the aim of improving doing business and making better quality policies in the field of SMEs	1
	5. Intensifying the development of entrepreneurial infrastructure (business zones, technological parks, incubators, entrepreneurial centres and clusters) by awarding incentives and improved cooperation with local self-government units	5
	6. Development of an information system with a web-portal of entrepreneurial zones in the Federation of BiH	4
Description of implementation and explanation if partial or no implementation	1. Preliminary draft of the Law was completed and submitted to the Government of the Federation of FBiH for consideration and adoption.	
	2. The proposal of this law was established by the Government of the Federation of BiH and submitted for adoption in both Houses of Parliament of the Federation of BiH.	
	3. An impact assessment has been carried out for the said law and adopted by the Government of the Federation of BiH. Activities are underway to create a preliminary draft of this law.	
	4. Activities on implementation of this measure are conditioned by the adoption of the Law on Crafts and Related Activities in the Federation of BiH.	
	6. The final activities on the implementation of this project are ongoing.	

⁴⁴ 0=no implementation; 1=implementation is being prepared; 2=initial steps have been taken; 3=implementation ongoing with some initial results; 4=implementation is advanced; 5=full implementation

FBiH Ministry of Environment and Tourism – Tourism and Catering Sector

Table 11: Reporting on the implementation of the structural reform measures of the ERP 2018-2020 (Fill in one per reform)

	Name and number of reform measure Enhancing the business environment and reduction of the informal economy Enhancing the existing business climate and competitiveness, employment and the labour market, and professionalization and modernization of public administration, which regulates the field of tourism, tourist communities, tourist fees and catering	Stage of reform implementation (1-5) ⁴⁴
Activities planned for 2018	1. Adoption of the Law on Tourism of the Federation of BiH	2
	2. Adoption of the Law on Tourist Fees of FBiH	2
	3. Adoption of the Law on Catering of the Federation of BiH	2
	4. Development of the Strategy for Development of Tourism in the Federation of BiH	
Description of implementation and explanation if partial or no implementation	1. The Law is in the Parliament of the Federation of BiH in the form of the proposal.	
	2. The Law is in the Parliament of the Federation of BiH in the form of the proposal.	
	3. The Law is in the Parliament of the Federation of BiH in the form of the Draft.	
	4. Information on Tourism Development Strategy in the Federation of Bosnia and Herzegovina was prepared. Conclusion of the Government of the Federation of BiH No:1319/2017 of 28 September 2017. Conclusion that a new Strategic Document for the period 2008-2028 should be developed. In order to define the strategic goals of the Federation of Bosnia and Herzegovina, the priority of the Tourism and Catering Sector is to draw up a Project Task (ToR), as well as the realization of cooperation with the representatives of the cantonal ministries in charge of tourism. Working Group for development of the Project Task was formed. Project Task was developed. Questionnaire distributed to all cantonal ministries in charge of tourism in order to continue activities on the development of a strategic document.	

⁴⁴ 0=no implementation; 1=implementation is being prepared; 2=initial steps have been taken; 3=implementation ongoing with some initial results; 4=implementation is advanced; 5=full implementation

Education and skills

Improving links between education and labour market

FBiH Ministry of Education and Culture

Table 11: Reporting on the implementation of the structural reform measures of the ERP 2018-2020 (Fill in one per reform)

	Name and number of reform measure	Stage of reform implementation (1-5) ⁴⁴
Activities planned for 2018	1. By the end of 2018, the Foundation for the Mobility of Students and Teachers should be registered	4
Description of implementation and explanation if partial or no implementation	<p>1. In 2018, the Government of the Federation of BiH issued a</p> <ul style="list-style-type: none"> - Decision on temporary appointment of the Managing Board of the Foundation No: 531/2018 of 26 April 2018 (Official Gazette of FBiH, 35/18) and - Decision on approval of the Statute of the Foundation No: 532/2018 of 26 April 2018 (Official Gazette of the FBiH, 35/18) - Decision on appointing a person authorized to represent the Foundation No: 533/2018 of 26 April 2018 (Official Gazette of the FBiH, number 35/18) - The process of registration of the Foundation with the Federal Ministry of Justice is underway, and - The Public Competition for the selection of the chairperson and members of the Managing Board of the Foundation is in preparation in accordance with the above Decision on the conditions and criteria for appointment. <p>By the decision on the adoption of a program of expenditure with the criteria for allocation of funds for current transfers established by the Budget of the Federation of Bosnia and Herzegovina for 2018, funds have been planned for the implementation of the program of international academic and student mobility and exchanges and funds for co-financing the work of the Foundation for Mobility of Students and Teachers of the Federation of Bosnia and Herzegovina. Given that the registration of the Foundation is under way and not yet completed, the funds have been allocated under the Bologna Process Implementation Transfer, which should be realised by the end of 2018.</p> <p>In the financial request of FMES for budget funds - the period from 2019 to 2021- The Ministry has foreseen Transfer for the Foundation for Mobility of Students and Teachers of the Federation of Bosnia and Herzegovina in the amount of KM 200.000,00 annually.</p>	

⁴⁴ 0=no implementation; 1=implementation is being prepared; 2=initial steps have been taken; 3=implementation ongoing with some initial results; 4=implementation is advanced; 5=full implementation

Employment and labour markets

Table 11: Reporting on the implementation of the structural reform measures of the ERP 2018-2020 (Fill in one per reform)

Social inclusion, poverty reduction and equal opportunities

- Establishing an efficient, financially sound and sustainable system of pension and disability insurance in FBiH
- Improving the functioning of the social protection system in FBiH
- Establishing an efficient system of protection, rehabilitation and social inclusion of persons with disabilities in FBiH in line with EU legislation

FBiH Ministry of Labour and Social Policy

Table 11: Reporting on the implementation of the structural reform measures of the ERP 2018-2020 (Fill in one per reform)

	Name and number of reform measure Improving the functioning of the social protection system in FBiH - 4.3.9.3.	Stage of reform implementation (1-5) ⁴⁴
Activities planned for 2018	1. Law on Protection of Families with Children in the Federation of BiH	3
	2. Law on the Public Institution - Institute for the Admission and Education of Children and Minors	2
	3. Law on Social Services in the Federation of BiH	2
	4. Law on Social Work Activities in the Federation of BiH	2
Description of implementation and explanation if partial or no implementation	1. The Public Policy on Protection of Families with Children in the Federation of Bosnia and Herzegovina and the preliminary draft of the Law on Protection of Families with Children in the Federation of Bosnia and Herzegovina have been developed. The Government of the Federation of Bosnia and Herzegovina has established the draft of this Law, and has submitted it into parliamentary procedure. This law regulates the basis of material support for families with children, defines the material rights to support families with children (child allowance and financial assistance to unemployed mothers), the procedure for exercising rights, conditions and manner of exercising rights, financing of material support to families with children, supervision and other issues of importance for providing support to families with children in the Federation of Bosnia and Herzegovina.	
	2. The initial steps were taken on the development of preliminary draft of the Law on Public Institution - the Institute for Admission and Education of Children and Minors.	
	3. The mapping of social services at the level of the Federation of Bosnia and Herzegovina has been finalized and the impact assessment of the Law on Social Services in the Federation of Bosnia and Herzegovina has been started in cooperation with the relevant cantonal ministries and with the support of non-governmental organizations.	
	4. An impact assessment of the Law on Social Work Activities in the Federation of Bosnia and Herzegovina has begun. As a fundamental problem, it was noted that "it is difficult to perform activities of social work in the Federation of BiH in terms of meeting the needs and exercising the rights of social protection beneficiaries".	

⁴⁴ 0=no implementation; 1=implementation is being prepared; 2=initial steps have been taken; 3=implementation ongoing with some initial results; 4=implementation is advanced; 5=full implementation

Table 11: Reporting on the implementation of the structural reform measures of the ERP 2018-2020 (Fill in one per reform)

	Name and number of reform measure Establishing an efficient system of protection, rehabilitation and social incusion of persons with disabilities in FBiH in line with EU legislation	Stage of reform implementation (1-5) ⁴⁴
Activities planned for 2018	1. Law on Associations of Persons with Disabilities and Representative Associations of Persons with Disabilities and Civilian Victims of War;	3
	2. Law on Uniform Principles and the Framework of Financial Support to Persons with Disabilities;	2
	3. Implementation of the Strategy for Enhancement of the Rights and Status of Persons with Disabilities in the Federation of BiH 2016-2021;	3
Description of implementation and explanation if partial or no implementation	At the 151st session of the Government of the FBiH held on 19 July 2018, the Draft Law has been established and submitted to the regular parliamentary procedure for adoption;	
	Draft text of the Law prepared.	
	Regular flow of established activities on the implementation of the Strategy for Enhancement of the Rights and Status of Persons with Disabilities in FBiH 2016-2021	

0=no implementation; 1=implementation is being prepared; 2=initial steps have been taken; 3=implementation ongoing with some initial results; 4=implementation is advanced; 5=full implementation

Table 11: Reporting on the implementation of the structural reform measures of the ERP 2018-2020.

1. Improving the tax framework		Stage of reform implementation (1-5)
Activities planned for 2018	Reform of direct taxes to reduce the burden on labour	4
	Analysis and reduction of non-tax charges	3
	Reform of value added tax	0
Description of implementation and explanation if partial or no implementation	Non-taxable part of the income increased and employers disburdened for the maternity leave by the amount of 20.	
	Register established and by-laws developed so as to enable the preparation of the analysis.	
	It was not implemented due to the inability to reach agreement at all levels of government in BiH.	
2. Health sector reform, with reforms of child protection financing and sickness-related refunds		Stage of reform implementation (1-5)
Activities planned for 2018	Analysis of arrears of the health care institutions	4
	Measures to prevent the growth of arrears	0
	Pilot project of introduction into the treasury system of operations	2
	Adoption of legislation	0
Description of implementation and explanation if partial or no implementation	The analysis carried out, but arrears are further increasing	
	Proposal of measures was not adopted; the World Bank's assistance is expected in their defining.	
	Of 10 institutions from the pilot project, only two were introduced.	
	New legislation was not prepared.	

3. Reducing the fiscal needs of the public sector		Stage of reform implementation (1-5)
Activities planned for 2018	Creating a Register of employees in the public sector	3
	Ensuring the efficiency of local self-government work	4
	Increasing the efficiency of public investment	0
	Inspection reform	2
Description of implementation and explanation if partial or no implementation	The Law was adopted, and the creation of the register is conditioned by the financial support of the World Bank	
	By mid-2019, LSGUs have the obligation to adjust the number of employees.	
	The implementation was renounced.	
	Analysis was completed, drafting legislation is underway.	

4. Restructuring of the Railways of Republika Srpska		Stage of reform implementation (1-5)
Activities planned for 2018	Ownership restructuring of the company through conversion of debt into shares, and buy out of the shares from minority shareholders	3
	Financial restructuring of the company	4
	Downsizing the number of employees by 100	5
Description of implementation and explanation if partial or no implementation	Implementation is ongoing with some initial results.	
	Implementation in the final stage.	

5. Improving agriculture, forestry and water management		Stage of reform implementation (1-5)
Activities planned for 2018	Improving the agrarian sector financing	5
	Improving the foreign trade operations and protection of domestic agricultural production	3
	Ensuring distribution of forest wood assortments according to the adopted criteria	3
	Developing a new forestry information system	0
Description of implementation and explanation if partial or no implementation	Ongoing activity that will be continued in 2019 too.	
	Partially complied with.	
	No funding was secured so the activity was moved to 2019.	

6. Introducing tighter prudential requirements of the banking operations and regulating the bank restructuring procedure		Stage of reform implementation (1-5)
Activities planned for 2018	Development and submission of the resolution plans for bank and recovery plans for banking group of the Banking Agency of Republika Srpska	5
	Review of the resolution plans for bank and recovery plans for banking group	5
	Development of the resolution plan for banks having licences on the date of entry into force of the Law on Banks of Republika Srpska	5
Description of implementation and explanation if partial or no implementation		

7. Establishing a more efficient management system of scientific research and innovation potential in the Republika Srpska		Stage of reform implementation (1-5)
Activities planned for 2018	Development of a Study on Justification of Establishment of the Science and Innovation Fund of Republika Srpska	5
	Analysis of the existing legislative framework and identification of necessary amendments to the legislative framework in accordance with reform goals	5
	Creating conditions for the establishment of the Scientometrics and Science Promotion Centre, selection of the adequate model and pilot project	5
Description of implementation and explanation if partial or no implementation		

8. Improving links between education and labour market		Stage of reform implementation (1-5)
Activities planned for 2018	Adoption of the Law on Secondary Education	5
	The enrolment policy for secondary schools will be developed in accordance with the real needs of employers	4
	Adoption of the Rulebook on classification of occupations and Rulebook on methodology of education through traineeships with employers	4
Description of implementation and explanation if partial or no implementation	Ongoing process that will be continued in 2019 too.	
	Rulebooks prepared; their adoption is expected in 2019.	

9. Improving the labour market efficiency and Employment Institute reform		Stage of reform implementation (1-5)
Activities planned for 2018	Adoption of the Law on the Amendments to the Law on Strike	3
	Adoption of the Law on Amendments to the Law on Mediation in Employment and Rights during Unemployment (and other regulations related to management of unemployment records)	3
Description of implementation and explanation if partial or no implementation	Draft Law prepared.	
	Draft Law prepared, but its adoption is conditioned by the prior adoption of the Law on Health Insurance of Republika Srpska.	

ANNEX 2.

External contributions to the ERP 2019-2021

Public consultation of the Council of Ministers of BiH

On 23 January 2019, the Directorate for Economic Planning of the BiH Council of Ministers published the Draft BiH Economic Reform Programme 2019-2021 on its website. Invitations were sent for any possible suggestions, comments and proposals to non-governmental organisations, the academic community, chambers of commerce as well as business and professional organisations. Given an extremely short deadline for submission of comments, at the time of completion of the document and submission of the BiH Economic Reform Programme 2019-2021, the Directorate for Economic Planning of the BiH Council of Ministers has not received any comments on the proposed text of the document.

Public consultation of the Government of the Federation of BiH

The consultation process on the issue of measures contained in the FBiH Economic Reform Programme was primarily organised within line ministries for each individual measure. In making and adopting any specific measure there is an obligation of the responsible ministry to carry out a consultation process with the stakeholders. In addition, prior to its adoption, the FBiH Economic Reform Programme was published on the website of the Federal Institute for Development Programming with the invitation for submission of comments to all the stakeholders. Unfortunately, there were no comments on the document, which indicates to the need of making further efforts in public presentation of the document before its adoption by the Government.

Public consultation of the Government of Republika Srpska

Comments from the public debate

Based on the written proposals of the Confederation of Trade Unions of Republika Srpska, the Chamber of Commerce of Republika Srpska and the Union of Employers' Associations of Republika Srpska, received by the Government of Republika Srpska, below we give a brief overview of the key demands.

Key demands of the Confederation of Trade Unions of Republika Srpska are:

1. Increasing the minimum wage – accepted;
2. Adopting a new Law on Labour in Republika Srpska or adoption of amendments to the existing Law on Labour and conclusion of collective agreements – accepted conclusion of collective agreements, analysis of implementation of the Law on Labour currently underway;
3. Disburdening the economy in favour of increasing the employees' wages and better business environment – accepted;
4. Combating the gray economy and translating informal labour into formal labour – accepted;
5. Adopting amendments to the Law on Associations and Foundations – not part of ERP, but part of the Government Programme;
6. Full implementation of the Programme for Social Care of Workers – partially accepted;
7. Adopting the Law on the obligation of Republika Srpska to pay contributions to all workers whose employers failed to pay them, regardless of the ownership structure of capital – will be improved through combating the gray economy;
8. Adopting the Law on Mediation in Employment and Rights during Unemployment – accepted;
9. Adopting the Law on prevention of mobbing at work – not part of ERP, but part of the Government Programme;
10. Adopting the new Law on Health Protection and the Law on Health Insurance – accepted;
11. of the Strategy for Occupational Safety, Protection and Health - not part of ERP, but part of the Government Programme;
12. Control and analysis of implementation of legislation – accepted.

Key demands of the Chamber of Commerce of Republika Srpska are:

1. Reducing the burden on economy: Amending the laws on taxes and contributions in order to restore the tax burden level of 51% on the net salary; Increasing the non-tax income to the level of the lowest salary; and Systemic resolution of the issue of maternity leave – accepted;
2. Measures to reduce public spending: Public administration reform; Restrictive public expenditure policy; Restructuring of public companies; and Maximal involvement of domestic economic capacities – accepted;
3. Monitoring activities in relation to the analysis of the implementation of the Law on Labour and current situation in the labour market: Analysis of the implementation of the Law on Labour; Adopting the Decree on Employment Incentives; and Lack and brain drain of qualified labour force – accepted;
4. Improving the liquidity of the economy and extra budgetary funds: Introduction of the institute of extra-judicial restructuring; Higher level of financial discipline in payment of liabilities; and Innovate the Law on Liquidation Procedure – accepted;
5. Support measures and incentives to economy: Include in the 2018 Budget incentive funds for projects aimed at enhancing production and increasing competitiveness; Streamlining funds from concession fees; Adopting the Law on Incentives; and Timely distribution of incentive funds in the economy and creation of the Register of incentives in the economy – partially accepted;
6. Improving control procedures, the work of the judiciary, systemic reforms and other measures: Single inspection; and Re-evaluate the measure for closure of companies in cases when inspection control identifies undeclared workers – accepted;
7. Reform of education system – accepted.

Key demands of the Union of Employers' Associations of Republika Srpska:

1. Reducing fiscal and para-fiscal charges – accepted;
2. Redirect excess employment incentives funds from the Employment Institute of Republika Srpska to the Public Child Protection Fund with the goal of increasing natality – accepted;
3. Adopt Decree on Employment Incentives – accepted;
4. Settlement of liabilities by the Health Protection Fund – accepted;
5. Introduce benefits for unemployed new mothers – accepted;
6. Reforming the labour market through relocation of health insurance administration and establishment of health services packages in proportion to contribution payments – accepted;
7. Increase transparency and control of the work of inspection bodies, and form single inspection – accepted;
8. Increase level of control of declaration of workers, working hours, prevention of payment of salaries “under the table”, and declaration of minimum wage, and redirect the increased revenues to reducing the tax burden on labour – accepted;
9. Adapting the education system to the needs of the labour market – accepted.
10. Introduce benefits for unemployed new mothers – accepted;
11. Reforming the labour market through relocation of health insurance administration and establishment of health services packages in proportion to contribution payments – accepted;
12. Increase transparency and control of the work of inspection bodies, and form single inspection – accepted;
13. Increase level of control of declaration of workers, working hours, prevention of payment of salaries “under the table”, and declaration of minimum wage, and redirect the increased revenues to reducing the tax burden on labour – accepted;
14. Adapting the education system to the needs of the labour market – accepted.