



BOSNIA AND HERZEGOVINA

ECONOMIC REFORM PROGRAM OF
BOSNIA AND HERZEGOVINA 2020 – 2022
(ERP BiH 2020-2022)

Sarajevo, January 2020

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1. OVERALL POLICY FRAMEWORK AND OBJECTIVES

The authorities of Bosnia and Herzegovina have maintained the macroeconomic and fiscal stability during 2019, and the economy has set a trend for economic growth. Due to the delay in the implementation of the results of the 2018 General Elections, during the first 11 months of 2019 the Budget of the BiH Institution was not completed. However, the stability of the financial security was ensured and therefore the Council of Ministers in its capacity was able to make timely decisions on modern financing.

At the same time, the fiscal stability of Bosnia and Herzegovina in the previous year was supported by the timely adoption of the Federation of BiH budget for 2019 (adopted in January 2019) and the Republika Srpska Budget for 2019 (adopted in December 2018).

The deadlock in the budgeting process of the Institutions of Bosnia and Herzegovina for 2019 was eliminated after the new Council of Ministers of BiH was established on December 23, 2019. During the Fiscal Council session held on December 27, 2019, the new Global fiscal Framework for 2020-2022 was adopted, which is a precondition for the adoption of the BiH Institutions Budget for 2020. This is expected to take place in the first quarter of this year. Bosnia and Herzegovina's fiscal objective remains to achieve a primary surplus with control of public spending so that consolidated public spending at the level of Bosnia and Herzegovina does not exceed 40% of GDP. However, the BiH Fiscal Council, after several years, has decided to increase the BiH Institutional Budget by 30 million KM.

The Adoption of the Global Fiscal Balance Framework and Policies in BiH ensures the consistency of the underlying macroeconomic and fiscal assumptions used in drawing up the framework budget documents at all levels of government. The fiscal goals defined in this way are the basic prerequisite for the budget planning of all fiscal policy makers in BiH, which is important for achieving fiscal coordination in BiH.

According to currently available data from the national accounts of the Agency for Statistics of Bosnia and Herzegovina, in the first half of 2019, Bosnia and Herzegovina achieved economic growth of about 2.3% compared to the same period last year. This rate of economic growth is a continuation of the trend from the previous year and is in line with the regional average, but the impact of slowing economic growth in the external environment, i.e. the weakening of economic activity in EU countries, is noticeable.

The Republika Srpska Budget was prepared by the RS Government and adopted by the RS National Assembly on 18 December 2019.

The Federation of BiH budget for 2020 was adopted by the FBiH Parliament on 19/20 December 2019.

Following the "Guidelines for Economic Reform Programs", the competent institutions in Bosnia and Herzegovina have prepared the Economic Reform Program for 2020-2020 (ERP). This year's program is the sixth to be submitted to the European Commission. The Economic Reform Program contains a medium-term macroeconomic and fiscal policy framework, including fiscal measures and a comprehensive structural reform program to improve the country's growth and competitiveness.

The Economic Reform Program 2020-2022 has been drawn up in accordance with the Guidelines for the Development of the Economic Reform Program issued by the European Commission.

The Directorate for Economic Planning sought to strengthen the role of the coordination in terms of broadening the scope of coordination in drafting the Economic Reform Program. The Directorate for Economic Planning coordinated the drafting of the ERP in collaboration with the coordinators for the drafting of the Economic Reform Program appointed by the entity governments.

The framework that more precisely defines the cooperation of all levels of government in drafting the ERP is the "Activity Plan for the Development of the Economic Reform Program". The Economic Reform Program Activity Plan is the basic document that regulates the process of drafting the Economic Reform Program and cooperation between different levels of government, the Council of Ministers of BiH, the Government of the Federation of BiH and the Government of Republika Srpska. The Economic Reform Program 2020-2022. was prepared on the basis of the submissions submitted by the competent institutions according to the approved Activity Plan with deadlines and responsible parties.

The Entity Coordinators have submitted to the Directorate for Economic Planning the contributions to the ERP Economic Reform Programs for 2020-2022 that have been adopted by the entity governments.

The Directorate for Economic Planning coordinated the process throughout the preparation of the document and before its adoption at the lower levels of government so that the contributions during the first drafting phase were aligned with the European Commission Guidelines. Finally, the BiH Economic Reform Program for 2020-2022 was adopted by the BiH Council of Ministers at the 3rd session held on 30th January 2020.

2. IMPLEMENTATION OF THE POLICY GUIDANCE

The medium-term macro-fiscal planning framework of PER, with the aim of presenting a consistent and consolidated analysis and policy at country level, remains at the same level and no activities are planned to improve them. Recording employment in the public sector and addressing arrears are still ongoing. There is a need for additional activities to provide timely, comprehensive and especially country-wide statistics on government finances, national accounts and labor market statistics. The Labor Force Survey is published annually in Bosnia and Herzegovina.

FIPA, in cooperation with the representatives of IFC / WBG, drafted the BiH Framework Strategy for Attracting and Promoting Foreign Investment, which will serve as a starting point for drafting the Strategy. In order to improve the targeting of social transfers in Bosnia and Herzegovina, it is necessary to implement social sector reform at the entity levels

Maintaining the integrity of the currency board arrangement and central bank independence to maintain monetary stability are priorities that are constantly monitored. One wave of forecasting has been conducted at the Central Bank of Bosnia and Herzegovina and it is planned to continue work on the analytical and forecasting capacities of the Central Bank. The survey on inflation expectations has begun and a second cycle is underway. Preparations for the bank survey began. Activities to develop a macroprudential framework have not begun. The remaining obstacles that make it difficult to deal with bad loans have not been completely eliminated. Amendments to the Law on Deposit Insurance of BiH have been harmonized and prepared in the draft.

No publicly available registers of public companies have been established. A countrywide Strategic Framework for Financial Management has not been adopted. Restructuring of certain public companies, in particular ERONET and BHTelecom, is ongoing.

The procedures for registering business, licensing and permits between entities in order to create a single economic space need to be established in a simplified and harmonized manner. Activities are underway to ensure the full implementation of the Law on Electronic Signature. Quality assurance of education and integration with the labour market is implemented through the development and implementation of a qualification framework in BiH. Activities are carried out to relieve public employment service from administrative obligations related to health insurance for registered unemployed.

3. MACROECONOMIC FRAMEWORK

Note: In this section, the recent economic developments and the medium-term macroeconomic scenario are presented sectorally for better clarification.

Macroeconomic indicators 2017-2022

Indicator	Official data*		Projections			
	2017	2018	2019	2020	2021	2022
Nominal GDP in Million KM	32,326	34,016	35,346	36,893	38,720	40,699
Nominal growth in %	4.1	5.2	3.9	4.4	5.0	5.1
GDP deflator (previous year = 100)	101.1	101.6	100.9	100.8	101.3	101.3
Real GDP in million KM (previous year = 100)	31,986	33,490	35,041	36,590	38,226	40,185
Real growth in %	3.0	3.6	3.0	3.5	3.6	3.8
Inflation measured by Consumer Price Index in %	1.3	1.4	1.0	1.2	1.4	1.5
Consumption in million KM	30,852	32,106	32,992	33,982	35,027	36,268
Real growth in %	1.0	2.2	1.6	1.6	1.7	1.8
Government consumption in million KM	6,369	6,611	6,776	6,918	7,056	7,268
Real growth in %	1.5	0.9	1.0	0.6	0.5	0.5
Private consumption in million KM	24,482	25,496	26,216	27,064	27,971	28,999
Real growth in %	0.8	2.5	1.8	1.9	2.0	2.1
Investment (Gross) fixed capital formation in million KM	5,653	6,310	6,857	7,556	8,240	9,095
Real growth in %	5.8	9.2	8.3	9.7	8.9	8.8
Government investments in million KM	728	859	954	1,240	1,450	1,653
Real growth in %	1.4	15.4	9.4	28.1	15.3	11.2
Private investments in million KM	4,924	5,451	5,903	6,316	6,790	7,442
Real growth in %	6.4	8.3	8.1	6.7	7.6	8.3
Imports in million KM	17,701	18,635	19,476	20,799	22,420	24,344
Nominal growth in %	13.2	5.3	4.5	6.8	7.8	8.6
Real growth in %	7.7	3.2	2.5	4.2	5.6	5.0
Exports in million KM	12,574	13,559	14,291	15,466	17,084	18,845
Nominal growth in %	18.0	7.8	5.4	8.2	10.5	10.3
Real growth in %	11.8	5.9	3.4	6.0	7.5	7.1
National Gross savings in % of GDP	15.9	16.5	17.2	18.0	19.2	20.1
Current account balance in million KM	-1,473	-1,376	-1,470	-1,609	-1,605	-1,763
Growth in %	6.2	-6.6	6.9	9.5	-0.3	9.8
Current account balance in % of GDP	-4.6	-4.0	-4.2	-4.4	-4.1	-4.3

*Latest revised available data.

Real sector

Economic growth in 2019

According to official BHAS (National Accounts Statistics) data, in 2018, Bosnia and Herzegovina achieved a real GDP growth of 3.6% in 2018 (hereinafter referred to as GDP) (measured by expenditure approach), which is a continuation of the economic growth trend from previous years. This economic growth has been driven by stronger domestic and export demand due to extremely favourable economic conditions in the external environment. Given the structure of the economy in Bosnia and Herzegovina in which final consumption and investment are key components of economic growth, they were expected to make the largest contribution to economic growth in 2018. Thus, final consumption during 2018 recorded a growth of 2.2% and a contribution to economic growth of 2.1 percentage points (hereinafter referred to as pps.), while investments recorded a growth of 9.2% and a contribution to the overall economic growth of 1 pp. On the other hand, favourable economic conditions in the international economic environment in 2018 resulted in rise of total exports in Bosnia and Herzegovina of about 6%, while imports recorded a growth of 3.2%, leading to a decrease in the trade deficit of 3.6 % and a positive contribution to economic growth of about 0.5 pps.¹

According to preliminary data from the Agency for Statistics of Bosnia and Herzegovina (hereinafter BHAS), statistics of national accounts expenditure approach, it is estimated that Bosnia and Herzegovina achieved economic growth of 2.3% in Q1 2019 compared to the same period of the previous year, while the seasonally adjusted rate relative to Q4 in 2018 was 0.6%.² This represents a continuation of the previous year's upward economic trend, with the registered growth rate slightly lower than the previous year. The slowdown in the economic growth trend in Bosnia and Herzegovina compared to the previous year is largely due to the weakening economic trends in the international economic environment in the first half of 2019, which was manifested by a slowdown in the growth of gross domestic product, primarily in EU countries (hereinafter EU). Specifically, according to preliminary EUROSTAT data for the first half of 2019, economic growth in EU28 countries was 1.5% compared to the same period of the previous year, which is a significantly lower growth rate than the previous year. Viewed by country, the most significant economic downturns in Q1 2019 were recorded in Germany and Italy, where registered growth rates were 0.7% and -0.1%, respectively, compared to the same period of the previous year.³

On the other hand, if economic growth in Bosnia and Herzegovina is observed on the basis of available data (national accounts for Q1 2019 and short-term economic indicators for Q1 2019), the first signs of a slowdown in GDP growth may be noticed compared to the previous year. Namely, the 2.3% rate of achieved economic growth in Q1 of 2019 is significantly lower than in Q1 of 2018 when registered growth stood at 3.1%. Bearing in mind that during the previous period, the external environment was one of the key determinants of economic growth in Bosnia and Herzegovina, it is not difficult to conclude that the slowdown in 2019 is a direct consequence of the weakening of economic activity in EU countries. Available short-term data on economic developments in Bosnia and Herzegovina in Q1 2019, such as a fall in the industrial production index of 4.5%, a stagnation in merchandise exports of -0.1%, and a slower growth in the number of employed persons compared to the previous year, and low levels of construction work point to a slowdown in economic growth by the end of 2019. It is also worth pointing out that the negative

¹ BHAS, Release, Gross Domestic Product for Bosnia and Herzegovina, expenditure approach, preliminary results, 23/07/2019

² BHAS, Saopštenje, Release, Gross Domestic Product, quarterly data, 28/06/2019

³ EUROSTAT, News release, "GDP main aggregates and employment estimates for second quarter 2019", 13/7/2019, 6 September 2019.

consequences of the weakening of economic activity in the external environment are much more visible within the export-oriented branches of the manufacturing industry and the very export of goods from Bosnia and Herzegovina. Therefore, according to DEP projections, by the end of 2019, a much lower growth rate of total exports of 3.4% is expected compared to the previous year. Despite the weakening of export demand, the expected growth of commodity exports is set at 2.5% (twice lower growth rate compared to the previous year), while at the same time a slightly more significant growth of services exports is expected to stand at around 6%. On the other hand, given the rather inflexible structure of private consumption in Bosnia and Herzegovina, the growth trend of total exports is expected to persist to 2.5% at the end of 2019. This convergence of export and import growth rates given a much higher import base would lead to a slight increase in the foreign trade deficit, while the contribution of foreign trade to economic growth would be neutral.

However, despite weakening of the indicators from the manufacturing-export sector, it is expected that Bosnia and Herzegovina, through components of domestic demand (consumption and investment), will achieve economic growth of around 3% at the end of 2019 compared to the previous year.⁴ Namely, given that private consumption accounts for about 75% of GDP in Bosnia and Herzegovina, it is not difficult to conclude that movements within this component essentially determine the trends of economic growth in the country. Thus, based on indicators such as a 1.6% increase in private consumption in Q1 2019, an increase in the number of employees and pensioners as well as their incomes (which are still very modest), and current inflows from abroad, private consumption is expected to reach growth of 1.8% by the end of 2019. In addition to this increase in private consumption, public consumption is expected to grow by 1%, which should result in an increase in total final consumption of 1.6% at the end of the year. In addition to increased consumption, in 2019 Bosnia and Herzegovina is expected to see an increase in investment of 8.3% through private and public sector investments that should make a significant contribution to expected economic growth during 2019.

The expected growth of private investment, as well as the growth of public investment of about 9.0%, as a result of the increased implementation of projects in the electricity sector and transport infrastructure, will certainly have a positive impact on GDP growth. Of course, it should be noted here that the share of public investment in total investment but also in GDP is rather modest and that the rate of public investment growth is susceptible to frequent fluctuations. These fluctuations should certainly be linked to their sources of financing. Foreign sources of financing (loans and grants) account for the largest share in financing investment projects. In terms of domestic sources of funding, they relate to budgetary resources and, to a lesser extent, to participants' own resources in project implementation.

Economic growth projections 2020-2022

Relevant international institutions dealing with global economic growth projections such as: International Monetary Fund, World Bank and European Commission in the period 2020-2022 announce overcoming global economic challenges such as trade disputes and BREXIT issues that limit strengthening of economic growth. Thus, according to the latest available IMF projections in this period the global economy is expected to record an average annual economic growth of over 3%, while the forecast of economic growth in the EU countries is set at around 2%. This more favourable external environment with better business environment in the country should represent the basic assumptions of economic growth projections in Bosnia and Herzegovina for the period

⁴ DEP projections, September 2019

2020-2022. In this regard, Bosnia and Herzegovina is projected to see economic growth of 3.5% in 2020, while growth rates in 2021 and 2022 should be 3.6% and 3.8%, respectively. It is assumed that the key pillar of economic growth during this period should be domestic demand. Namely, an increase in the overall economic activity in the country with the expected expansion of industrial production and construction works, followed by a rise in the number of employees and export revenues, as well as an increase in foreign cash inflows should result in an increase in the disposable income of citizens and, consequently, a rise in private consumption, which will, the same as in previous years, represent the key pillar of economic growth. Thus, in the period 2020-2022, an average growth rate of private consumption is set to 2% (2020: 1.9%, 2021: 2.0%, 2022: 2.1%). On the other hand, given the high level of public consumption within the GDP of Bosnia and Herzegovina and the activities undertaken through the fiscal consolidation process, during this period gradual stabilization of public finances is expected by cutting public expenditures down and at the same time increasing public revenues in order to restrain growth of public consumption. Thus, in the period 2020-2022, public consumption is expected to see only a slight rise of 0.5% on an annual level (2020: 0.6%, 2021: 0.5% and 2020: 0.5%). Given that the projected economic growth rate would be higher than the growth in public spending during this period, its share of GDP would decrease from the current level of around 19.4% to 17.9% at the end of 2022.

During this period, unlike in previous years, investments could have significant growth and thus give a greater contribution to the expected GDP growth. In the period 2020-2022, overall investment in Bosnia and Herzegovina is expected to increase at an average annual growth rate of about 9% (2020: 9.7%, 2021: 8.9%, 2022: 8.8%). Although this rate of investment growth may seem optimistic, it is worth noting that investment still take a fairly modest share of only 18% in the GDP structure in Bosnia and Herzegovina. Within this timeframe, private investment is set to expand, accounting for the majority of total investment (around 80% of total investment), as well as a much more significant contribution from public investment. It is believed that the expected acquisition of EU candidate status with a continuous process of improving the business environment through reform processes could increase the interest of both domestic and foreign investors for investment in BiH. On the other hand, given the structure and position of the BiH economy, public investment is considered to be an important lever for stimulating economic growth in the medium term. Road infrastructure projects and energy projects, as well as the availability of funds from international financial institutions, with adequate and timely implementation, could result in an annual increase in public investment of over 15% annually. Thus, in the medium term, the level of public investment within the GDP of Bosnia and Herzegovina should be increased.

A favourable external environment, along with improving the industrial base and raising competitiveness in Bosnia and Herzegovina, are key assumptions for the projections of foreign trade exchange with the world. With the enviable level of realization of the above assumptions in the period 2020-2022, the foreign trade exchange with the world is expected to increase. During this period, average annual export growth is set at about 7%, with projected growth in goods and services being fairly uniform. Thus, during this period, due to this export growth, the share of exports in GDP would increase from 40% in 2020 to 46% at the end of 2022. On the other hand, imports are expected to move at a slightly slower annual growth rate of 4.9% over this time period. During this period, a somewhat stronger growth of goods imports is expected (average annual growth of goods imports 4.9%) compared to imports of services (average annual growth 2.6%), given the expected growth of private consumption and especially investments that are mostly supplied through imports of goods. As a result of this import growth, the share of imports would

increase from 55% of GDP in 2020 to about 60% at the end of 2022. A slightly stronger growth of exports compared to the growth of imports in the medium term would result in a gradual reduction of the foreign trade deficit, i.e. its gradual stabilization as a share of GDP to about 14%. Assuming the realization of the baseline scenario of economic trends in the region and Bosnia and Herzegovina during the observed period, it is expected that the coverage of imports by exports will partially increase to about 77%.

Risks

The risks to the realization of these projections can be classified into two groups, external and internal ones. Currently available surveys of international institutions that are not conclusive indicate to a weakening of economic activity and business confidence, i.e. economic expectations in 2019. The materialization of these risks, as well as the possibility of them continuing in the medium term, represents the greatest risk to the baseline scenario presented in this report. On the other hand, a greater threat is posed by internal challenges and internal risks in Bosnia and Herzegovina. Internal risks are a complex decision-making system in BiH and a slow pace of economic reforms. Possible delays in the process of government formation and implementation of reforms could have a negative impact on the planned dynamics of public investment execution, which would certainly have an impact on overall economic growth.

Regarding medium-term risks for the period 2020-2022, they relate to the migration of the population from BiH, especially young, educated and qualified personnel, which could result in lower productivity and slower GDP growth than projected.

Industrial production in Bosnia and Herzegovina in 2019-2022

Industrial production developments in 2019

According to BHAS preliminary data for 2018, Bosnia and Herzegovina recorded a 1.6% increase in the physical volume of industrial production compared to the previous year, which was accompanied by an increase in the number of employed persons within it.⁵ However, if we look more closely at physical volume of industrial output, it is not difficult to see that this growth rate was twice lower than the previous year's growth of 3.1%. This is a consequence of gradual weakening of economic activity in the external environment in the second half of the year, which mostly reflected in the manufacturing industry in Bosnia and Herzegovina which has stagnated. This downward trend in industrial production continued into the first half of 2019. Namely, according to currently available BHAS data for H1 2019, Bosnia and Herzegovina registered a decrease in the physical volume of industrial production by 4.5% compared to the same period of the previous year. In this way, the very unfavourable trend of weakening of the physical volume of industrial production in Bosnia and Herzegovina persisted during each month in the first half of 2019.⁶ Although this decrease at the period level is partly due to the rather high base from the previous year, it seems that the key reason was the evident slowdown in economic activity in major trading partners such as Germany and Italy. The most significant fall in production was recorded in the electricity generation sector by 12.4%, while the reductions in the mining and manufacturing sector were 2.9% and 1.8%, respectively. Such developments in the manufacturing sector are a consequence of the unfavourable structure within the manufacturing industry, which is characterized by low levels of production, mainly of low technological intensity products, which

⁵ Agency for Statistics of Bosnia and Herzegovina, Release, Index of Industrial Production Volume in Bosnia and Herzegovina, 25/01/2019

⁶ Agency for Statistics of Bosnia and Herzegovina, Release, Index of Industrial Production Volume in Bosnia and Herzegovina for June 2019, preliminary data, 25/07/2019

mainly depend on market developments in the main trading partners. Therefore, developments in industrial production by the end of 2019 will depend on developments within these trading partners and the possible improvement of production within the electricity generation sector in Bosnia and Herzegovina.

Projection of developments in BiH industrial production for the period 2020-2022

According to available forecasts of relevant international institutions, the period 2020 – 2022 in the immediate and broader international economic environment is expected to see stabilisation of economic conditions. Thus, it is expected that these developments in the international environment should have positive implications for the region and ultimately for Bosnia and Herzegovina too. 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 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 the above circumstances during this period, Bosnia and Herzegovina is expected to see slightly higher growth rates of physical volume of industrial output and thus its more significant contribution to the overall economic growth in the country.

Risks

In addition to general risks to the overall BiH economy, due to the rather high share of electricity generation sector within the industrial structure, adverse weather conditions and the obsolescence of existing generation capacities may represent a source of risk for the developments in industrial production in BiH.

Labour market in Bosnia and Herzegovina

Labour market in 2019

Based on available data on basic labor market indicators, the average number of employed persons in Bosnia and Herzegovina in H1 of 2019 continued to increase (2.3%) compared to the same period in 2018, amounting to 815.700.⁷ Although the number of employed persons increased in all areas of activity, the most significant contribution to the growth of the total number of employed persons in Bosnia and Herzegovina is in the trade sector. In the area of wholesale and retail trade, repair of motor vehicles and motorcycles, the number of persons employed rose by 2.4% y-o-y.⁸ In manufacturing industry, which employs the largest number of persons in Bosnia and Herzegovina, the number of employed persons grew slowly (0.9% y-o-y) in H1 2019. This growth rate is much slower compared to the same period last year, which is a consequence of developments in the manufacturing industry (see chapter on industrial production).⁹ With the increase in the number of employed persons, the number of unemployed persons in Bosnia and Herzegovina decreased. In H1 2019, the average number of registered unemployed persons in Bosnia and Herzegovina stood at approximately 418.8 thousand, down 9.3% from the same period

⁷ Provisional data. Source: BHAS, employed persons by activity.

⁸ This activity employs 18.5% of the total number of employed persons in Bosnia and Herzegovina.

⁹ In the period June 2019/June 2018 the number of employed persons in manufacturing industry went down by 0.4%.

in 2018. The intense decrease in the number of registered unemployed persons had an impact on a lower unemployment rate. The survey unemployment rate in 2019 is 15.7%. The average net salary in Bosnia and Herzegovina in H1 2019 was KM 911 and was nominally higher by 5.1% compared to the same period in 2018. Due to the increase in the overall price level, the real growth of the average net wage was slightly slower and amounted to 4.2%. Taking into account the developments in the labor market in the first half of 2019, it can be assumed that by the end of the year the number of employed persons could be higher by about 2.2%, with a nominal increase in the average net wage of about 5%.

Labour market – projections 2020-2022

Developments in the labour market in 2020 will significantly determine the business environment in both Bosnia and Herzegovina, the region and the EU. According to the projections of the European Central Bank (June 2019) and the projections of the European Commission (spring 2019), the unemployment rate in the EU and the euro area should be lower in 2020 with an increase in the number of employed persons. Given that the area of manufacturing industry and trade in Bosnia and Herzegovina employs the largest number of people (about 39%), assumptions about developments in manufacturing industry and trade were taken into account in making projections of the number of employees. Furthermore, the level of investment also affects the intensity of growth in the number of employed persons. According to the projections of the DEP, an expansion in the volume of investments, trade and a gradual increase in the volume of industrial production are expected in 2020. All of the above could be reflected in a 2.4% y-o-y increase in the number of employed persons in Bosnia and Herzegovina, with a continued gradual decrease in the unemployment rate. The average net wage could go up by 3.3% y-o-y in 2020.¹⁰

The development of the medium-term scenario 2021-2020 in the area of the labour market is based on the expected economic growth in the observed period, i.e. the level of demand, trade and investment. In its projections, the European Central Bank forecasts a reduction in the unemployment rate in the euro area to 7.3% in 2021, with an increase in the number of employed persons by 0.6%. The assumed growth of investment and trade in Bosnia and Herzegovina should have a positive impact on the number of employed persons, especially in the sectors that employed the most persons in Bosnia and Herzegovina in the past years. Positive developments in the field of industry, trade and certain service industries, would create real conditions for the growth of the number of persons employed in the observed activities. Like in the previous year, the contribution to the growth of the number of employed persons is expected to be more modest in the public¹¹ sector compared to other areas of activity. In general terms, with positive business climate, both in Bosnia and Herzegovina, the region and the EU countries, the number of employed persons is expected to go up by about 2.5% y-o-y, as well as continuation of the trend of gradual growth of net wages by 3.4%-3.5% y-o-y.

Risks

Labour market developments are determined by economic growth, i.e. the business environment and the demand for labour in both Bosnia and Herzegovina, the region and the EU. Therefore, in the event of negative deviations in the projections in the field of industrial production, trade and investment, this would affect the dynamics of growth in the number of employed persons and

¹⁰ The level of the average net wage in the period 2020-2022 could be higher depending on the demand for labour (retaining quality and scarce labour force).

¹¹ The analysis refers to the activities of public administration, health and education.

wages. In addition, implementation of the planned structural reforms in Bosnia and Herzegovina could have an impact on job creation and wage growth, i.e. improvement/deterioration of purchasing power and standard of living. All of these changes also present major risks to the projections of the labour market in the baseline scenario.

Prices

Prices in 2019

Price growth in Bosnia and Herzegovina continued in 2019 but at a slightly slower rate than in the previous year. In the period January - July 2019/ January - July 2018 registered inflation stood at 0.8%. Viewed through sections by purpose of consumption, the most significant growth rates were in the sections of alcoholic beverages and tobacco (4.4%), housing, water, electricity, gas and other energy products (2.9%), transport (2.5%) and food and non-alcoholic beverages (1.2%). From January 1, 2019, the increase in excise duties¹² on tobacco and cigarettes continued, i.e. harmonization of excise duties on tobacco and cigarettes with the EU legislation, which led to an increase in prices in the section of alcoholic beverages and tobacco. Price increases in the transport section were slower compared to the same period of the previous year and were largely driven by oil and petrol prices. The rise in prices in the section of housing, water, electricity, gas and other energy products was driven by the growth of liquid and solid fuels, gas and rents for housing. Although the section of food and non-alcoholic beverages recorded a slower rise in prices (compared with the previously mentioned sections), their contribution to total inflation was not negligible due to their large share in the CPI index. Based on this, it can be assumed that inflation in Bosnia and Herzegovina in 2019 could be slightly lower than in the previous year and amount to about 1%.

Prices – projections 2020-2022

Observing the historical price increase in Bosnia and Herzegovina, it can be concluded that it is largely determined by changes in global prices of oil, food, excise duties on certain products, utility prices, etc. This is why the projected inflation in 2020 is based on the assumptions of price movements of these products. Projections by the World Bank¹³, IMF¹⁴ as well as the European Commission's (EC) Summer Forecast point to a decrease in crude oil prices in 2020. According to the EC, crude oil prices in 2020 should be around 4.9% lower than 2019 and be \$ 61.5/barrel while inflation in the EU could be 1.6%. In addition, according to IMF projections, food prices could go up by 2.1% y-o-y in the observed year. The inflation projections in Bosnia and Herzegovina in 2020 have taken into account the possible continuation of the excise policy on cigarettes and tobacco. With the assumptions of stable prices of utilities and food in Bosnia and Herzegovina, inflation can be expected to stand at 1.2%.

In the period 2020-2021, based on the available data on world prices, Bosnia and Herzegovina can be expected to see moderate inflation growth. According to the projections of the European Central Bank in 2021, inflation in the euro area can be expected at 1.6%, with the price of crude oil (Brent) \$ 62.7/barrel, down by 4.7% from the price of crude oil in 2020. At the same time, according to the World Bank's spring projections, in 2021 and 2022 the food price index could grow (about

¹² Increase in excise duties on cigarettes and tobacco from 01/01/2019. The minimum excise duty for a pack of cigarettes containing 20 pcs is KM 2.86 while a special excise duty for the same package is KM 1.65. 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 amounts KM 114.40 KM per kilogram. Source: Decision on establishing special and the minimum excise duty on cigarettes and the amount of excise duty on smoking tobacco for 2019.

¹³ Projection of April 2019.

¹⁴ WEO, July 2019.

1.7% -1.8% y-o-y). Based on this and taking into account the stable prices of utilities, inflation in Bosnia and Herzegovina in the observed years can be expected to stand at 1.4%-1.5%.

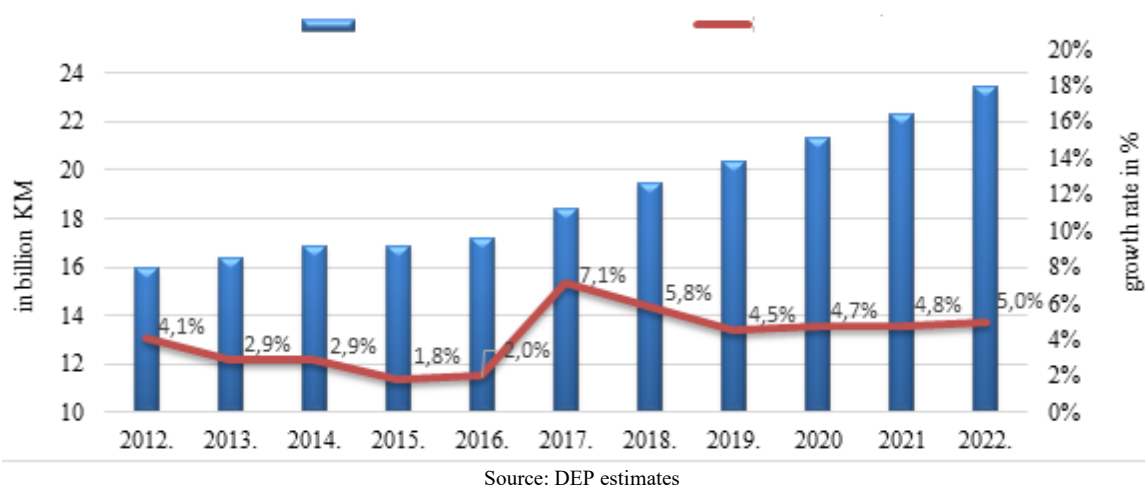
Risks

As in previous years, inflation projections in the baseline scenario rely on the movement of crude oil prices as an external factor that significantly determines price developments in Bosnia and Herzegovina. In addition, domestic factors that determine inflation, such as excise duties on individual products, utility prices, etc., should also be taken into account. Therefore, if crude oil prices in the period 2020-2022 were different from those assumed in the baseline scenario, this would reflect in the level of inflation. At the same time, unannounced price increases of certain products and utilities could have an effect on rising inflation. Continued implementation of excise duties on cigarettes and tobacco will also determine the rise in prices in Bosnia and Herzegovina.

Forecast of growth trends in bank loans and deposits in 2019-2022

By the end of 2018, there was an increase in lending activity at the rate of 5.8% y-o-y with the reached amount of KM 19.5 billion. At the end of July 2019, the growth rate was 5.3% y-o-y and the total loan amount was KM 20.2 billion. All sectors contributed to the growth, but the largest in value at the end of July were loans to households with KM 9.7 billion and growth rate 7.6% y-o-y, followed by loans to non-financial companies reaching KM 9.4 billion with growth rate of 4.3% y-o-y. The expected global slowdown in economic growth followed by a slowdown in economic growth in Bosnia and Herzegovina also leads to the assumption of further slowdown in credit growth, so that by the end of 2019, total loans would grow at a lower rate of 4.5% y-o-y (compared to the end of the previous year). 2020 is expected to see stabilization, with a slightly higher growth in lending activity with a projected rate of 4.7% y-o-y. In 2021, growth would again accelerate at a rate of 4.8% y-o-y as well as in 2022 at a rate of 5.0% y-o-y.

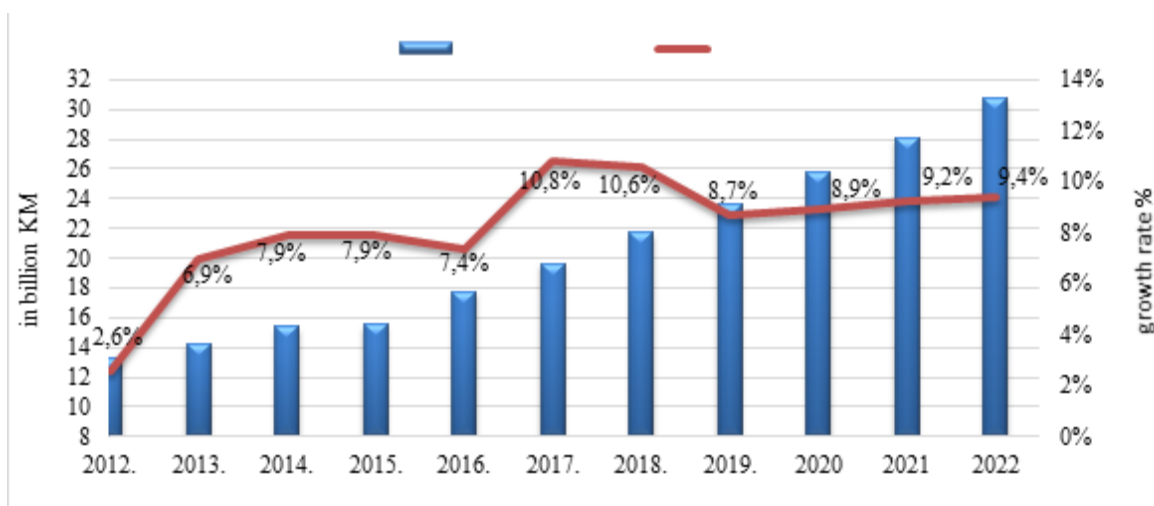
Graph 1 - Total loans (in KM billion, end of period) and annual change rate



At the end of 2018, the growth rate of total deposits was 10.6% y-o-y. Since the beginning of the year, there has been a gradual slowdown in the growth rate so at the end of July 2019 the growth rate was 8.9% y-o-y with KM 22.8 billion reached. Within this, the largest were deposits to households, which reached KM 12.7 billion with a growth rate of 8.9% y-o-y, while deposits to non-financial companies reached KM 5.3 billion with a growth rate of 5.3% y-o-y.

Slightly lower rates of economic growth in the world and in Bosnia and Herzegovina create a realistic assumption for the projection of slower growth in deposits in 2019 with an expected rate of 8.7% y-o-y. Faster economic growth could be expected in the coming years, which would also be reflected in better performance in the banking sector (improvement of financial indicators CAR¹⁵, NPL¹⁶). This would create realistic assumptions for higher rates of growth in the total amount of deposits, and it is expected that growth rates in 2020 will be 8.9% y-o-y, in 2021 9.2% y-o-y and in 2022 9.4% y-o-y.

Graph 2 - Total deposits (in KM billion, end of period) and annual change rate



Source: DEP estimates

Risks

Further deterioration of geopolitical conditions and the consequent crisis in the energy market, a sharpening in the US-China trade war, and a slowdown and decline in economic activity in the European Union, caused by the prolonged Brexit crisis, would certainly also affect the banking market. The unstable and aggravated operation of the banking system would be manifested by a contraction in overall lending activity and a decrease in the supply and growth rate of deposits.

External sector

Balance of payments of Bosnia and Herzegovina

According to the official data from the balance of payments of Bosnia and Herzegovina for the first quarter of 2019¹⁷ and the DEP projections for the remaining three quarters of 2019, the current account deficit under the balance of payments of Bosnia and Herzegovina would amount to KM 1.5 billion, which would represent an increase of 7% (y-o-y). This increase in the current account deficit would mainly result from the slowdown in economic activities in the EU and thus its adverse impact on foreign trade of goods and services of Bosnia and Herzegovina.

In H1 2019, the current account deficit amounted to around KM 477 million, which is a 13.2% increase compared to the same period of the previous year. This increase in the current account deficit is largely determined by the deficit in foreign trade in goods and services, i.e. an increase

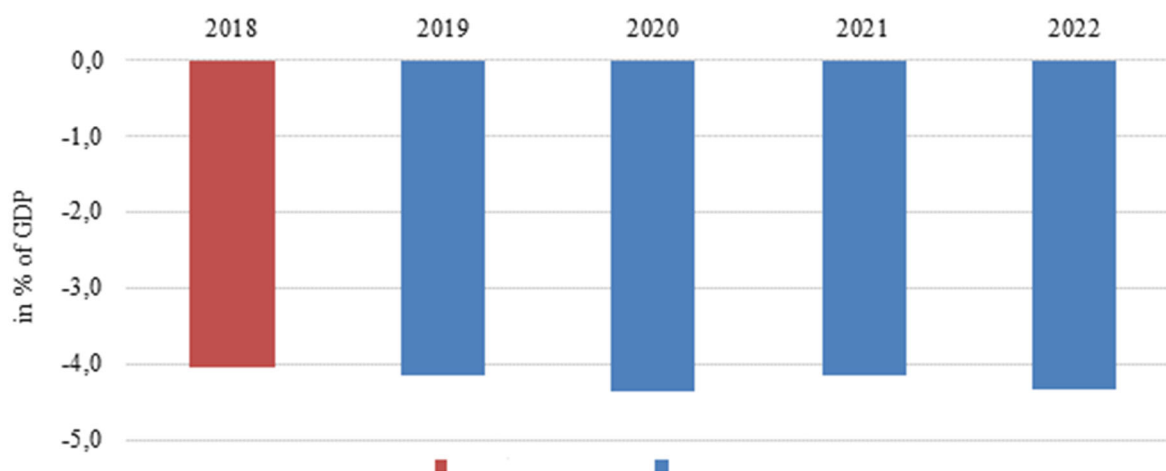
¹⁵ CAR- Capital Adequacy ratio

¹⁶ NPL-Non performing loans

¹⁷ At the time of writing these projections, there were available data only for Q1

in imports by 4.6% and an increase in exports by 2% (y-o-y)¹⁸. Current net cash inflows from abroad in Q1 recorded a growth of 9.7%, as a result of expansion of current cash inflows by 6.4% (increase based on remittances from citizens living abroad and compensations to residents of Bosnia and Herzegovina employed abroad) and contraction of cash outflows by 1.6% (largely due to declining dividends from direct and portfolio investments).

Graph 3 - Projections of the current account deficit of Bosnia and Herzegovina



Source: DEP projections

Assumptions for the balance of payments 2019-2022

Based on the DEP projections, the volume of foreign trade in the period 2020-2022 would increase, so that in this time interval, the foreign trade deficit would record a nominal growth of 0.1-3.1%, as a result of an increase in the import rate (6, 8-8.6%) and export growth rate (8.2-10.5%).

As a share of GDP, the current account deficit would be around -4% in 2019, according to DEP projections, while it could be expected to remain at the same level in 2020-2022 (deficit in this period could range from -4.1% to -4.4% of GDP). Current cash inflows from abroad in the period 2020-2022 are set to range from 9.2% to 10.1% of GDP.

As in previous years, financing of the current account deficit would be facilitated by inflows of funds from abroad (through social benefits and remittances from citizens living abroad, foreign direct investment, trade credits and through possible new borrowings on the international financial market).

Risks

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.

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.

¹⁸ Source of data: CBBH

Foreign Trade in Goods for the Period 2019-2022

Foreign trade developments in 2019

Increasing economic activity in Bosnia and Herzegovina and favourable economic developments in its main trading partners in 2018 have led to an intensification of foreign trade in goods with the rest of the world. The key determinants of the increase in foreign trade in BiH in 2018 were: stronger export demand due to improved economic conditions in its major trading partners and increased world prices of certain products such as metals (5.5%) and energy products (27.7%). Thus, in 2018, Bosnia and Herzegovina recorded an increase in the total volume of trade, an increase in exports of 6%, and a slightly lower growth of imports of 3.2%, which led to a decrease in the foreign trade deficit of 3.6% and a positive contribution to economic growth of over 0.5 pps. However, just as was the case with the physical volume of industrial production, the growth rates of foreign trade indicators in 2018 were twice lower than the year before¹⁹. This is most likely a consequence of weakening of export demand, which was caused by a slowdown in economic activity in EU countries in the second half of the previous year. This trend of weakening economic activity in relation to export demand from the previous year persisted in 2019 too, which is clearly evident through the value of foreign trade indicators. Namely, according to preliminary data of BHAS for the first 6 months of 2019, Bosnia and Herzegovina recorded a stagnation in export of goods -01% and an increase in imports of goods by 4.5%, which resulted in a significant widening of the trade deficit of over 10%, while the coverage of imports by exports decreased by 3 percentage points. If we have in mind that Bosnia and Herzegovina's foreign trade is quite concentrated in the markets of the countries in the way that almost 3/4 of the goods are exported to the markets of EU countries, while about 60% of the imports come from the EU it is not difficult to conclude that the economic trends in these countries would determine the foreign trade developments in Bosnia and Herzegovina by the end of 2019. Thus, based on currently available projections for the EU, Bosnia and Herzegovina is also expected to see a somewhat slower growth of foreign trade in goods compared to the previous year. Therefore, according to DEP projections, in 2019, the export of goods is expected to grow by 2.5%, while the expected growth of goods imports is almost identical and amounts to 2.6%. Given a higher import base, this equalisation of exports and imports of goods would result in a slight increase in the foreign trade deficit while its contribution to economic growth would be neutral.

Projection of developments in foreign trade in goods for the period 2020-2022

Despite the increasingly frequent debates on currency, trade wars and the strengthening of protectionism in global terms, the assumptions made by international institutions such as the IMF, WB and EC are that the upward trend in global trade should continue in the period 2020-2022. Forecasts of favourable external developments, along with contribution of internal dynamics reflected in the improvement of business environment in Bosnia and Herzegovina represent the main stronghold of the projected developments in its foreign trade in goods with the world. Thus, over this period, average economic growth is expected to exceed 3.6% in real terms, investment is set at nearly 9% at an annual level, which should bring about the expansion of the volume of foreign trade with the rest of 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 2020-2022 BiH could

¹⁹ The reference growth rates of foreign trade indicators for 2017 were: export growth 11.8%, import growth 7.7%.

expect to see the expansion of overall exports at annual growth rates of 6.1%, 7.8% and 7.4% 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 too. Import growth rates are expected to be somewhat lower than the export rates and range from 3.9% in 2020, 5.5% in 2021, and 5.0% in 2022. Considering these developments in exports and imports (a higher rate of export growth relative to imports), this period is expected to see a gradual stabilization of the foreign trade balance at 14% of GDP. Faster growth of exports and rise in its share in GDP relative to imports, in addition to stabilisation of the foreign trade balance will also bring an improvement in the overall coverage of imports by exports on the long run. Thus, by the end of 2022, the share of exports in GDP should amount to 46%, while the share of imports would remain at around 59% which will result in the overall coverage of imports by exports rising up to 78%.

Risks

All the above mentioned developments can be expected unless some of the following events occur: turbulence in the functioning of the economies of BiH's main trading partners, a sharp increase in the export and import prices of major commodity categories of exports and imports, a decrease in industrial production, investment, consumption, and new natural disasters, or anything else that would affect the deterioration of foreign trade.

Another very important risk for BiH's foreign trade in goods with the rest of the world is the currency and trade wars of the world's leading economies, as well as the strengthening of protectionism, primarily in the EU market.

Foreign direct investments for the period 2019-2022

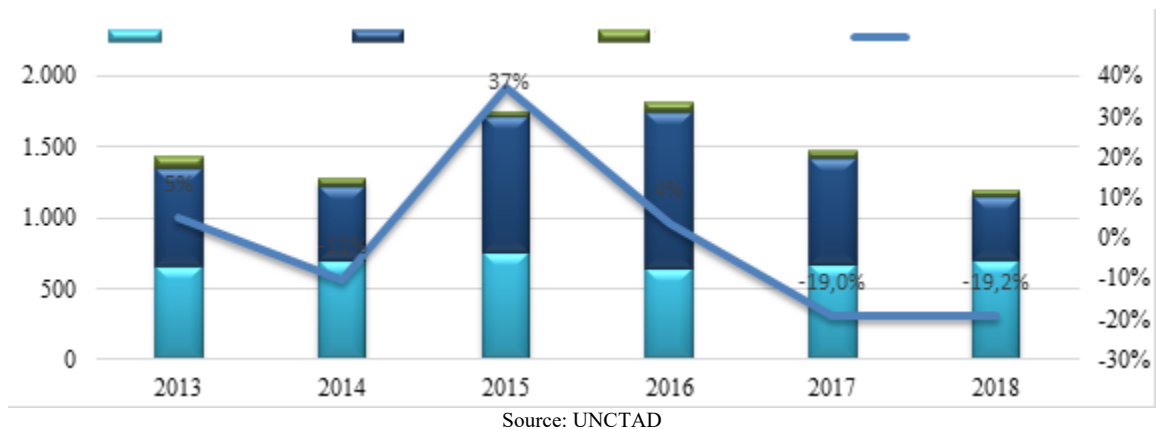
Looking at the current global economic trends in 2019, there is a noticeable slowdown in economic growth compared to the previous year²⁰. Mutual tariff increases between the United States and China (whose further escalation was halted after the G20 summit), with uncertainty surrounding Brexit as well as rising geopolitical tensions (with persisting threat of sanctions in the oil market), have caused uncertainty and a negative impact on growth of economic flows.²¹ According to the latest available data from UNCTAD (The United Nations Conference on Trade and Development), global investment in 2018 went down by 19.2% y-o-y, so this trend is likely to continue in 2019 as well. According to data in the balance of payments²² published by the Central Bank of Bosnia and Herzegovina, foreign direct investments (hereinafter referred to as FDI-s) in the first quarter of 2019 amounted to KM 231.2 (net financial liabilities) and decreased by 12.4% y-o-y.

²⁰ <https://www.worldbank.org/en/publication/global-economic-prospects>

²¹ <https://www.ecb.europa.projections>

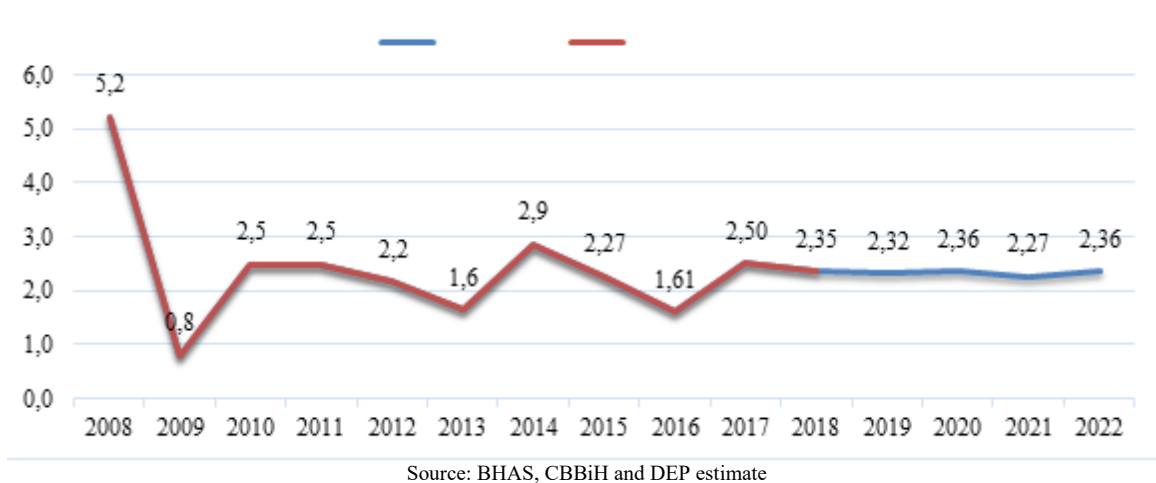
²² CBBiH, BOP6_for users_Q3_2018.

Graph 4 - Total FDI in the world in billion USD



According to these data, FDIs in 2019 could be expected to slightly lower down or remain at the level of the previous year, which would amount to about 2.3% of GDP. As a consequence of the downward trend in economic developments from the previous year in the world and in Europe, in 2020 the FDIs to Bosnia and Herzegovina would not deviate significantly and would move around 2.4% of GDP. Given the numerous announcements of investments in sectors of energy, infrastructure, services and tourism, there is a realistic basis for a gradual increase in FDI in the coming period. In this way, FDI would reach 2.3% of GDP in 2021, and eventually 2.4% of GDP in 2022.

Graph 5 - FDI projection per year in KM million and FDI as a percentage of the GDP



FDI in 2019 would be about 2.3% of GDP. Although there have been delays in the implementation of the announced large infrastructure and energy projects, in the meantime investments in the field of telecommunications have been recorded, so that the investments in this year can still be expected to reach the previous year's one. Significant funds (according to the announcement of about EUR 150 million) in the coming period should be brought by the purchase of the company "Elta Kabel" by the telecommunications company from Serbia "M-Tel"²³. Also, a protocol has been signed regarding the construction of the Dobož-Vukosavlje-Brčko highway on

²³ <https://mtel.ba/Press-centar/a14258-Mtel-postao-stopostotni-vlasnik-Elta-kabela.html>

the basis of a concession agreement with the Chinese company Sinochem Capital,²⁴ and the beginning of realization of the Banja Luka-Prijedor highway worth KM 700 million is pending.²⁵ According to the available data, the realization of the project for the construction of the solar power plant SVPP “Bančić” Ljubinje has not yet started.²⁶ There has also been a delay in construction of WP “Trusina”²⁷ while the investments were announced in WP “Debelo Brdo”, WP “Gradina”, and WP “Kupres”²⁸. Construction of residential complex “Buroj Ozone” in the municipality of Trnovo²⁹ and “Green Valley City”³⁰, in the outskirts of Sarajevo also promise an expansion of FDIs.

A gradual stabilization of conditions in Europe and the world could be expected in the coming period, so in 2020 FDIs would move around 2.4% of GDP. The construction of TPP “Gacko 2” with an installed capacity of 350 MWh worth EUR 500 million has been announced. A contract was signed with the companies “China Machinery Engineering Corporation” and “Emerging Market Power Fund”³¹ under which the Chinese partners would have a majority stake.

The start of realization of the announced infrastructure facilities should start contributing to the growth of FDI so that in 2021 this share would be about 2.3% of GDP and in 2022 about 2.4% of GDP.

Risks

Re-initiating the trade war, accompanied by global political tensions (tightening sanctions on Russia and Iran), would inevitably spill over to the FDIs to Bosnia and Herzegovina. The resulting slowdown of economic growth in China and the UK's exit from the European Union without agreement would further aggravate economic conditions in the EU. Worsening of economic conditions, especially of Bosnia and Herzegovina's main trading partners, would inevitably reflect in poor economic performance, a deterioration in the balance of payments and, ultimately, additional borrowing, which would of course be linked to a further deterioration of the country's credit rating.

²⁴ <http://privrednastampa.ba/tag/autoputevi-republike-srpske/>

²⁵ <http://www.autoputevirs.com/aprs/Doc.aspx?cat=5&subcat=24&id=24&lang=cir&txt=295>, a concession agreement signed with the Chinese company China Shadong Int. Economic & technical cooperation Group Ltd.

²⁶ <http://fipa.gov.ba/novosti/aktivnosti/default.aspx?id=8180&langTag=en-US>

²⁷ <https://crp.org.ba/project/raskinut-koncesioni-ugovor-za-vjetropark-trusina/>

²⁸ Gradina d.o.o. about EUR 150 million ii Kamen dent d.o.o., estimate around EUR 70 million

²⁹ „Buroj Property Development“ iz UAE.

³⁰ <http://greenvalleyuae.com/projects.php?id=13&stat=gallery&lang=en>

³¹ <http://www.vladars.net/sr-SP-Cyrl/Vlada/Ministarstva/mper/media/vijesti/Pages/Potpisan-sporazum-o-izgradnji-TE-Gacko-2.aspx>

4. FISCAL FRAMEWORK

4.1. Policy strategy and medium-term objectives

Bosnia and Herzegovina is a fiscally decentralized country where each level of government autonomously adopts fiscal policy and manages public finances. Indirect taxation policies make the exception as the most significant tax revenues, which are common for the whole of Bosnia and Herzegovina, because all levels of government take part in setting the proposal of the indirect taxation policy through the Governing Board of the Indirect Taxation Authority.

According to the submitted inputs, it can be summarized that the main objective of fiscal policy in Bosnia and Herzegovina, in the period 2020-2022, is to strengthen fiscal stability and its sustainability as a major factor in overall macroeconomic stability, while strengthening economic activity and competitiveness of the economy.

Indirect Taxation Policies

VAT obligations and payment system are regulated by the Law on Value Added Tax.³² Excise policy is regulated by the Law on Excise Duties in Bosnia and Herzegovina.³³ The tobacco excise policy in 2020 is set out in the Law on Excise Duties and the ITA Governing Board' Decision.³⁴ As the legal ceiling for total excise duty of KM 176/1000 cigarettes has been reached for all price categories of cigarettes in 2019, the alignment with EU standards in the field of cigarette taxation³⁵ has been completed, while the policy of amendments to the 2014 Law³⁶ is applied to the taxation of cut tobacco. The Law³⁷ on Customs Policy in Bosnia and Herzegovina regulates the basic elements of customs policy, as well as the general rules and procedures applicable to goods brought in and out of the customs territory of 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 predominant source of financing of BiH institutions comes from the allocation of indirect taxes and that it is fixed nominally for the entire period, the biggest adjustment is on the expenditure side (current spending restrictions).

The main characteristic of the fiscal policy of the Federation of Bosnia and Herzegovina for the period 2020-2022 is primarily reflected in the implementation of measures aimed at combating the so-called "grey economy", creating a more favourable and stable business environment, attractive for increased inflow of domestic and foreign investments, with the aim of stimulating economic growth, increasing fiscal space and ultimately supporting the long-term macroeconomic stability

³² Official Gazette BiH, 9/05, 35/05, 100/08 and 33/17.

³³ Official Gazette BiH, 49/09, 49/14, 60/14 and 91/17.

³⁴ Decision on establishing specific and the minimum excise duty on cigarettes and the amount of excise duty on smoking tobacco for 2020 (Official Gazette BiH, 80/19).

³⁵ It should be noted that the Amendments to the Law on Excise Duties adopted by the ITA Governing Board in 2018 are in the parliamentary procedure, which imply the introduction of a three-year moratorium on the increase of specific excise duty on cigarettes, starting in 2019. In the meantime, the Decisions establishing specific and the minimum excise duty on cigarettes and the amount of excise duty on smoking tobacco for 2019 and 2020 are adopted under the current Law. Given that the EU standards for cigarette taxation have been reached in 2019, the aforementioned amendments to the Law on Excise Duties are no longer current and certain legal steps are expected accordingly.

³⁶ The new policy has been in force since 01/08/2014 (Amendments to the Law on Excise Duties BiH, (Official Gazette BiH, 49/14)

³⁷ The new Law on Customs Policy (Official Gazette BiH, 58/15) will be applied from 31/01/2020 (Official Gazette BiH, 54/19), while by that date the old Law on Customs Policy will be applied (Official Gazette BiH, 57/04, 51/06, 93/08, 54/10 and 76/11). The exception is Article 207 of the new Law, which is applicable as from 25 April 2018.

of the country. As in previous years, all reform processes in this area are primarily focused on approximation to European Union standards.

In the area of direct taxation policies, the focus is on changes in income taxation and the calculation of mandatory contributions, with a view to reducing the tax burden, as well as seeking to reduce the overall fiscal burden of labour, measured by the OECD methodology, as the sum of taxes and contributions relative to the total employer's cost of labour. The proposed legislation, by reducing the cumulative contribution rate from 41.5% to 32.5%, while expanding the tax base, reduces the overall fiscal burden of labour from the current 36.42% to 35.22%.

In the coming period, in order to propose better legal solutions at the level of the Federation of BiH, it is planned to consider the situation in the field of property taxation, which is currently regulated by a total of 20 cantonal pieces of legislation. In order to adequately monitor the effects of planned fiscal policy measures on the fiscal system, continuous activities are planned to establish the highest quality reporting according to the OECD methodology and further, to prepare comparable analyses.

Interactive Register of Fees and Taxes in the Federation of BiH, which provides transparency and accessibility to all relevant information in the area of fees and taxes in the Federation of BiH, both for payers (existing businesses, potential investors and individuals), as well as processors, proponents and donors of public policies in this field, at each level of government in the Federation of BiH. A web application format will be received in the coming period and in order to provide the legal basis, as well as to support its sustainability and regular updating, it will be proposed to adopt the Law on Single Register of Taxes and Fees in the Federation of Bosnia and Herzegovina, the preparation of which has already been undertaken.

In order to improve the business environment, the focus will be on continuing activities aimed at establishing a one-stop shop system of operations. The gray economy has been identified as a leading factor in the negative impact on fiscal policy and the overall economic picture. As its main role and cause of action is tax evasion, this phenomenon implies keeping a certain level of income hidden outside official statistics, which in turn affects the very presentation of the amount of gross domestic product, that is, creates a distorted picture of the actual economic situation. Furthermore, as a consequence of the wrong indicators, there is a risk of making the wrong decisions, proposing the wrong policies, and in order to provide additional sources of insufficient public revenue, there may be an increase in the tax burden for those taxpayers who fully comply with the law. Therefore, a special focus will be placed on measures to curb the informal economy in the coming period. The challenges of preventing the informal economy and tax evasion, and the establishment of greater tax discipline by taxpayers, impose an obligation to strengthen inspections and enhance their mutual coordination and communication, especially in view of the greater coverage of relevant information to be exchanged between the competent authorities.

In the coming period, the focus of tax policy will also be focused on adjusting legislation and processes, as Bosnia and Herzegovina became a member of the Global Forum on Transparency and Exchange of Information for Tax Purposes in 2018, and in 2019 became a member of the Inclusive Framework to implement and monitor measures developed under the OECD/G20 Project to prevent tax base erosion and profit shifting (Inclusive BEPS Framework), and has signed the Multilateral Convention on Mutual Administrative Assistance in Tax Matters (MAC) and the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (MLI).

Implementation of the amended provisions of the Law on Fiscal Systems in the Federation of Bosnia and Herzegovina, which is planned to be adopted in early 2020, after the completion of the open public debate, creates a prerequisite for stronger tax discipline, reduction of unfair competition and better regulation of the market in the Federation of BiH.

Furthermore, under the influence of the global economy, due to the development and expansion of new, primarily digital ways of doing business, additional space is being opened up for the development of the gray economy. In the direction of preventive action, it is planned to clearly define measures, activities, deadlines and dynamics plan for the technical and technological improvement of the system of fiscalisation, whose implementation will be actively worked on in the future. The implementation of all the above measures will contribute to securing an additional and stable source of tax revenue, thereby opening up space to reduce para-fiscal pressure for legal entities already operating within the formal economy.

Continuous activities of analysing the effects of existing legal solutions and analysing revenue users' initiatives for changes in them are being carried out in the area of affiliation and distribution of public revenues, with the aim of making proposals for improving the vertical and horizontal distribution of indirect tax revenues and equalization systems, which will provide a basis for preparation of the new Law on Allocation of Public Revenues in the Federation of Bosnia and Herzegovina. Considering that the said Law has a direct financial impact on over 80 users, at different levels of government in the Federation of BiH, ranging from the federal level to local self-government units, its adoption will depend primarily on the willingness of all stakeholders to agree to a compromise and a common understanding. Ultimately, the implementation of all the measures presented will depend first and foremost on political stability and institutional readiness of the implementors, as well as other unforeseen events that could possibly slow down and/or delay these processes.

This section of the document provides a consolidated budget framework of the general government sector³⁸ of Republika Srpska, for the period 2020–2022. 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 deficit of the general government of Republika Srpska relative to GDP of Republika Srpska in 2018 amounted to -0.5% of GDP. According to projections, a budget deficit of 1.1% of GDP is expected in 2019, with a surplus of 0.1% of GDP in the next year 2020, which would, in the period from 2021 to 2022 range between 1.0% and 1.6% of BDP. According to projections, consumption of observed levels of government is expected to have the highest share of 40.4% in projected GDP in 2019, when the budget deficit is planned. Over the next period from 2020 to 2022, projected share of consumption in GDP decreases from 39.7% to 36.5%.

³⁸ The terms "general government sector" and "general government subsectors" in this document refer to the institutions of Republika Srpska and their budget frameworks

Table 1 - Fiscal framework 2018–2022 in accordance with the baseline scenario³⁹

Fiscal indicators	2018	2019	2020	2021	2022
(% of GDP)	Performance	Rev. plan	Plan	Plan	Plan
Total income	40.0	39.3	39.9	38.9	38.2
Total spending	40.5	40.4	39.7	37.9	36.5
Net borrowing/crediting	-0.5	-1.1	0.1	1.0	1.6
Interest expenditures	1.2	1.2	1.1	1.1	1.0
Primary balance	0.7	0.1	1.3	2.1	2.6
GDP of RS	10,679.6	11,099.5	11,582.6	12,115.0	12,708.1

Source: Ministry of Finance of Republika Srpska

Looking at the general government sector, in the period 2019 to 2022, most of the total revenues are tax revenues, that is, indirect taxes (from 41.4% to 42.3%) and direct taxes (from 10.7% to 11.5 %). A significant part of the income is made up of social security contributions (from 35.9% to 36.4%), while the rest relates to non-tax revenues (from 10.7% to 10.8%) and grants (from 0.3% to 0.7%).

Within the planned spending, in the period from 2019 to 2022, there are significant allocations for social security remittances (47.3% to 48.6%) and payments for personal income of employees (22.2% to 23.6%) that are defined by the legal framework. The allocation to expenditure on the use of goods and services (6.4% to 6.9%) is somewhat contingent on available funds, while 5.9% to 9.1% of total consumption is planned to be allocated to net expenditures for non-financial assets. In the structure of planned spending the allocation for interest expenses and other financing expenses (2.7% to 2.9%) is also not negligible.

4.2. Budget implementation in 2019

At the time of preparation of revised projections of indirect tax revenues for the period 2019-2022, preliminary data on revenue collection per type for nine months 2019 (ITA) were available. According to the ITA's preliminary report, at the level of nine months of 2019, **gross collection of indirect tax revenues** was higher by KM 309.1 million or 5.5% compared to the same period in 2018. At the same time, payments of refunds were higher by KM 65.8 million or 6.4%. Ultimately, in the first nine months, KM 243.4 million was collected in net income more than in the same period of 2018, which represents an increase of 5.3%.

The analysis of collection by types of revenue was made on the basis of the structure of revenues, which includes adjusted revenues from indirect taxes that were collected in cash in the period January - September 2019. **Gross VAT** collection increased by 5% between January and September 2019, while **net VAT** collection grew at a rate of 4.7%⁴⁰ It should be emphasized that the application of the concept of net cash reporting in 2018⁴¹ increased the collection of VAT by

³⁹ Fiscal indicators are based on realized GDP of Republika Srpska and projections

⁴⁰ Given that, according to the preliminary report, KM 21 million of revenue remained uncorrected after adjusting, it is realistic to expect a slight increase in the cumulative rate.

⁴¹ The ITA uses the net cash concept when reporting, according to which only net cash payments are shown as income by individual types of indirect taxes. Due to the significant offsetting of the liabilities for excise duties on petroleum products and the obligation to road tax claims based on VAT (tax credit) during 2018 there were significant deviations in the structure of collected revenues compared to the one presented in the ITA report for that year. Excise tax collection was unjustifiably reduced, while, on the other hand, VAT collection was unjustifiably increased by the amount of revenue that was offset. The same problem, but with the opposite sign when it comes to the impact of the amount of compensated revenue on the payment structure, was manifested in 2019 as the basis for comparison from 2018 is unjustifiably higher when it comes to VAT, i.e. unjustifiably lower when it comes to excise duties and tolls.

the amount of VAT credits used to pay excise duties on petroleum products. After the correction of the 2018 base, the cumulative growth rate of net VAT in the period I-IX 2019 is 5.8% or 1.1 percentage points more than the cash report by types of income. The growth rate of **customs revenue** in the period I-IX was 5.5%. The rate of **excise tax revenue** growth in the period I-IX 2019 was 6.7%. It should be borne in mind that a significant part of excise tax revenue growth is due to accounting factor, i.e. cash reporting by types of income. The correction brings an increase in the base for comparison and a decrease in the growth rate in I-IX 2019 to 4.4%. Collection of total excise tax revenue is determined by the **excise tax payment on tobacco products**, which account for 80% of the excise tax revenue surplus in the period I-IX 2019.⁴² At the nine-month level in 2019, **excise tax on petroleum products** grew at 8.9%. However, as much as $\frac{3}{4}$ of the net effects of collection of excise duties on petroleum products were due to the ITA's cash reporting in 2018, which reduced the basis for the 2018 comparison. The amount of the correction is significant, as much as 6.6 percentage points, reducing the cumulative growth for the nine months of 2019 to just 2.3%. Collection of **excise duties on coffee** was 0.7% higher in the period I-IX 2019 compared to the same period in 2018. The growth rate of **excise duty on alcohol and alcoholic beverages** in the said period was 2.2%, while the **excise tax on non-alcoholic beverages** in the same period recorded growth of as much as 12.3% and **beer excise tax** as little as 0.6%. The **excise tax on wine** was introduced with the latest amendments to the Law on Excise Duties. As excise duties on wine have been levied since February 2018, the comparison of collection in the first quarter of 2019 is not relevant to the analysis, while in the second quarter of 2019 a decrease of 15.6% and in the third quarter an increase of 14.4% was recorded. Following the exhaustion of the effects of the increase in **road taxes** from 1 February 2018, since February 2019, the growth of road tax revenues has stabilized, and the cumulative growth rate for nine months was 6.1%. In order to perceive the real trends in road tax collection, it is necessary to decompose the road tax growth rate on the factors that generated it. The lower statistical basis for comparison in 2018 which resulted from the amount of road taxes collected through offsetting by VAT credits brought 1.3 percentage point of the growth of road tax revenue, while the effects of implementation of the changes in Law on Excise Duties, which were manifested in January 2019⁴³, brought 3.7 percentage points of the growth. The correction factor with an opposite direction was a one-off payment of the road tax on the existing stocks on 31 January 2018, prior to the increase of the road toll rate, which increased base for comparison and thereby reduced the 2019 growth rate by 1.9 percentage points. Confronting negative and positive factors, comparing with the growth rate according to net cash report the growth rate of collection in the period January - September 2019 has been reduced to 2.9%.

The projected amount of net collection of indirect taxes for 2019 is KM 6,512.6 million, which is 4.7% more than in 2018.⁴⁴

⁴² The calculation was made against the adjusted base of 2018.

⁴³ The amendments to the Law on Excise Duties which increased the earmarked road tax apply from 1 February 2018, and the effects are spread over the period from 1 February 2018 to 31 January 2019.

⁴⁴ Macroeconomic Analysis Unit of the ITA Governing Board, Revised projections of revenues from indirect taxes 2019-2022, Bulletin No. 172-173, http://www.oma.uino.gov.ba/bilteni/Oma_Bilten_eng_172_173.pdf

Table 2 - Revised projections of indirect taxes for 2019 (MAU GB ITA⁴⁵, October 2019)

In KM million	VAT	Excises	Customs	Road tax	Other	Total	Earmarked road tax	Funds for distribution
2018	3,839.0	1,444.7	286.6	620.7	29.7	6,220.8	-385.9	5,834.9
2019 proj.	4,002.7	1,521.2	301.5	657.2	29.9	6,512.6	-410.8	6,101.8
2019/2018	4.3%	5.3%	5.2%	5.9%	0.7%	4.7%	6.4%	4.6%

Note: The earmarked road tax amounted to 0,10 KM/l of petroleum products until 1 February 2018, aimed entirely for the construction of highways, and as of 1 February to 0,25 KM /l of petroleum products, for the construction of highways (0,20 KM/l) and construction and reconstruction of other roads (0,05 KM/l).

The Law on the Budget of the Institutions of BiH and the International Obligations of BiH for 2019 has not been considered and adopted by the BiH Parliamentary Assembly, so the temporary financing of the institutions of BiH is in progress during 2019.

The Proposal for the Law on the Budget of the Institutions of BiH was adopted by the Presidency of Bosnia and Herzegovina and submitted to the BiH Parliamentary Assembly, to be discussed at the House of Representatives of the BiH Parliamentary Assembly on 18 December 2019. The starting point for drafting the Budget of the Institutions of Bosnia and Herzegovina for 2019 is made of:

- Provisions of the Law on Financing of the Institutions of Bosnia and Herzegovina relating to the preparation, content and adoption of the Budget;
- The austerity measures of the institutions of Bosnia and Herzegovina agreed by the Fiscal Council of Bosnia and Herzegovina under the Extended Arrangement Letter with the International Monetary Fund;
- Priorities and activities according to the 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 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, with the allocation of funds for financing from the single account of the Indirect Taxation Authority in the amount of KM 750 million;
- Upper ceilings of expenditures derived from the draft of the Framework Budget Document adopted by the Council of Ministers of Bosnia and Herzegovina at the 151st session held on 1 August 2018;
- 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, that the Ministry of Finance and Treasury sent to all Institutions of Bosnia and Herzegovina at the beginning of July 2018;
- Planned number of employees on 31 December 2019, which includes the 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 in the Office for Foreigners of Bosnia and Herzegovina - 14 persons and in the Constitutional Court Bosnia and Herzegovina - 4 persons, and employment of 5 persons in 2019 by the Intelligence and Security Agency of Bosnia and Herzegovina in accordance with the decision of the Council of Ministers of Bosnia and Herzegovina, as well as planned

⁴⁵ Macroeconomic Analysis Unit of the ITA Governing Board, www.oma.uino.gov.ba

employment with the Audit Office of the Institutions of Bosnia and Herzegovina - 3 persons (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.

Considering that the Proposal of the Law on the Budget of the Institutions of BiH and the International Obligations of BiH for 2019 was not adopted throughout 2019, this significantly influenced the implementation of the Budget of the Institutions of BiH in 2019.

It is estimated that, by the end of 2019, 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 145 million of non-tax revenues (noting that for the first time the income from the profit of the Central Bank of BiH was not included because it was not collected in 2019, and which in the previous year amounted to KM 7.4 million),
- About KM 6 million of donation (earmarked), which represent a decrease by about KM 10 million relative to the previous year,
- About KM 0.8 million of earmarked transfers from other levels of government,
- About KM 0.3 million proceeds based on sales of fixed assets,
- About KM 5.4 million of receipts based on succession, from the sale of the buildings in the DCN.

The estimate of the execution of budget expenditures by the institutions of BiH by the end of 2019, based on the execution of expenditures in the first three quarters of 2019, may be the following:

- 668 million KM for salaries and remunerations of employees, which is about 15 million KM more than in 2018, since during the year 2019, the recruitment of new police officers is evident because the Law on Amendments to the Law on Salaries and Remuneration in the institutions of BiH was passed, which increased the coefficients of police officers, then increased the number of military personnel admitted at the end of 2018, which increased the average number of salaries paid, as well as increased the number of internal promotions of employees in other institutions. We emphasise that the number of employees as on 30 September 2019 was 22,105, which is 279 less than the number of employees as on 31 December 2018 due to the outflow of staff, while compared to the projected number of employees in the Budget for 2018 (23,181 employees) there were 1,076 less employees. Planned, but vacant positions are with the Ministry of Justice of BiH, because a new institution of the Institute for the Execution of Criminal Sanctions, Detention and Other Measures of BiH has not been established, and then with the Ministry of Defence of BiH due to the dynamics of the release of military personnel due to the age limit according to the Law on Service in the Armed Forces of BiH, which will be partially employed by the end of 2018 at the Ministry of Foreign Affairs of BiH, then with the police agencies of the Border Police, the State Investigation and Protection Agency, the Directorate for Coordination of Police Bodies in BiH due to the inability to hire persons with special expertise, and long procedures for recruiting cadets, retirement of professional staff, leaving to the entity police structures due to higher income or leaving abroad,
- KM 160 million for material expenses,

- KM 3.5 million on transfers for the Return Fund for financing the rights under Annex VII of the Dayton Peace Agreement,
- KM 5.5 million of transfers to other levels of government,
- KM 0.8 million for foreign interest based on credit for micro-financial assistance of the European Commission and the CEB loan for construction of the state prison and the Saudi Fund loan,
- KM 25.1 million of other expenses for direct transfers and reserve,
- KM 25.3 million KM of net expenses for non-financial assets, i.e. capital expenditure of KM 31 million net of the realised receipts from assets in the amount of KM 5.7 million, represent a net increase in non-financial assets in the amount of KM 25.3 million.

In accordance with the above, institutions at the level of Bosnia and Herzegovina could reach a surplus of KM 13.8 million at the end of 2019, which is a result of temporary financing of BiH institutions, where procedures for regular procurement of capital expenditures could not be initiated until the Law on Budget of the Institutions and International Obligations of BiH for 2019 was adopted, but only multi-year capital projects could be executed for which unspent earmarked funds were carried over from the previous year, resulting in significantly lower capital investment. Due to lower execution of expenditures caused by temporary financing of BiH institutions in 2019, the unallocated surplus from previous years in the amount of KM 80.9 million (planned as financing of BiH institutions in the BiH Institutions Budget for 2019) will be used as a source of financing in the next fiscal year.

In addition to this, it is important to note the fact that this kind of execution of BiH institutions in 2019 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 2019 is exclusively of dedicated character (earmarked funds from donations, and funds for dedicated projects), 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, and savings are evident in 2019 too. It should be noted that there were no one-off measures in 2019. Given the temporary financing of the institutions of BiH throughout 2019, there were significantly less capital expenditures executed for the institutions of BiH in 2019, which may result in increased demand for them in 2020.

The Budget of the Federation of BiH for 2019⁴⁶, together with the Law on Execution of the FBiH Budget for 2019⁴⁷ was adopted in February of the current year, in the amount of KM

⁴⁶ Official Gazette of FBiH, 11/19

⁴⁷ Ibid.

2,653,843,356, which is KM 335.8 million or 11.0% less relative to the 2018 Budget of the Federation of BiH.

Establishing of the proposal of the Law on Rights of Demobilized Soldiers and Their Family Members⁴⁸, as well as its sending to parliamentary procedure, with implementation planned as from 1 July 2019, was the main reason for drafting the Amendments to the FBiH Budget for 2019 (hereinafter in the text: Amendments to the Budget). Namely, for the implementation of the said Law in 2019, it was necessary to secure funds in the total amount of KM 25.0 million, which were not planned for the 2019 FBiH Budget.

Amendments to the FBiH Budget for 2019⁴⁹ amount to KM 2,701,845,731.00 KM⁵⁰, which is by KM 48.0 million or 1.8 % more relative to the Budget of the Federation of Bosnia and Herzegovina for 2019. Amendments to the FBiH Budget were drafted in accordance with the Law on Budgets in the Federation of BiH⁵¹, the Law on Execution of the FBiH Budget for 2019⁵² and revised revenue projections. The reason for the revised revenue projections is the expected increase in indirect tax revenues by KM 37.0 million, of which net revenues from indirect taxes belonging to the Federation of BiH are higher by KM 28.5 million, which represents an increase of 3.0% compared to planned revenues. Also, an additional KM 5.5 million of profit tax is projected, which is higher by 7.0%. Non-tax revenues are planned in the amount of additional KM 97.7 million and amount to KM 590.5 million in total.

The budget of the Federation of BiH in the period from 1 January to 30 September 2019 was implemented according to the Law on Execution of the FBiH Budget for 2019. Execution of Amendments to the Budget on the Revenue side, for the first three quarters of 2019 with respect to the plan and with respect to the same period of the previous year, looks as shown in the following table:

Table 3 - COMPARATIVE REVIEW: Amendments to the Budget for 2019 (plan), execution for the period 1 January-30 September 2019 and execution for the period 1 January-30 September 2018- MAIN CATEGORIES OF REVENUES

DESCRIPTION	1.	2.	3.	Execution percentage (Index 2/1)	Execution percentage (Index 2/3)
	Amendments to the Budget of FBiH for 2019	Revenues 1/1 – 30/9/2019	Revenues 1/1 – 30/9/2018		
Revenues, receipts and financing (1+2+3)	2,701,845,731	1,738,735,981	1,571,071,063	64	111
1. Total revenues (a+b+c+d)	2,264,735,731	1,634,143,434	1,473,541,102	72	111
a) Revenues from taxes	1,674,023,720	1,234,469,962	1,217,818,020	74	101
b) Non-tax revenues	590,551,931	399,574,565	255,637,511	68	156
c) Current transfers from other levels of government and funds	160,000	98,907	85,531	62	116
d) Current transfers and donations	80	0	40	-	-
2. Financing	330,110,000	104,592,547	97,529,961	32	107
3. Unallocated surplus of revenues over expenditures	107,000,000	0	0	-	-

Source: FBiH Ministry of Finance

⁴⁸ Law was adopted in 2019 and published in the Official Gazette of FBiH, 54/19

⁴⁹ Official Gazette of FBiH, 53/19, together with the Law on Amendments to the Law on Execution of the FBiH Budget for 2019

⁵⁰ The Budget of the Federation of BiH refers to the Central Government of the Federation of BiH. The Consolidated Budget of the Federation of BiH can be found in the tables in the Annex (tables 2A, 2B and 3).

⁵¹ Official Gazette of FBiH, 102/13, 9/14, 13/14, 8/15, 91/15, 102/15, 104/16, 5/18 and 11/19

⁵² Official Gazette of FBiH, 11/19

The most significant divergence from the revenue plan relates to the financing item, specifically, the reduced receipts from domestic borrowing (long-term bonds) relative to the Budget plan, due to the cancellation of their planned emissions, given the improved liquidity of the FBiH Budget.

Compared to the same period of the previous year, total realised revenues, receipts and financing for the first nine months of 2019 increased by 11.0% or by KM 167.6 million. In the structure of all categories of revenues, the largest increase in the amount of KM 143.9 million was recorded by non-tax revenues, primarily fees and taxes, and revenues from the provision of public services - returns from previous years, which relate to the amount of refunds to the Treasury Single Account (TSA) from a special project account of the Federal Ministry of Transport and Communications opened outside the TSA, which will greatly increase the control, management and surveillance over the management of these funds and ensure a smooth system of timely and adequate reporting on the balance and use of funds⁵³.

Tax revenues also increased compared to the same period of the previous year, in the amount of KM 16.6 million, which is primarily and for the most part related to the growth of income from corporate income tax and indirect taxes belonging to the Federation of BiH. In the part of the receipts from financing, there was an increase in the amount of KM 7.0 million. The total amount of financing receipts almost in the entire amount relates to receipts from domestic borrowing in the amount of KM 89.8 million, while the smaller part refers to long-term loans received through the state - IBRD loan in the amount of KM 13.7 million. Execution of Amendments to the Budget on the Expenditure side, for the first three quarters of 2019 with respect to the plan and with respect to the same period of the previous year, looks as shown in the following table:

Table 4 - COMPARATIVE REVIEW: Amendments to the Budget for 2019 (plan), execution for the period 1 January-30 September 2019 and execution for the period 1 January-30 September 2018- MAIN CATEGORIES OF EXPENDITURES

DESCRIPTION	1.	2.	3.	Execution percentage (Index 2/1)	Execution percentage (Index 2/3)
	Amendments to the Budget of FBiH for 2019	Expenditures 1/1 – 30/9/2019	Expenditures 1/1 – 30/9/2018		
Total current expenditures and capital expenditures (1+2+3+4+5)	2,701,845,731	1,462,453,206	1,541,738,829	54	95
1. Total current expenditures (a+b+c+d+e)	1,558,760,852	997,672,938	994,192,947	64	100.3
a) Salaries and compensation of employees	231,283,826	158,627,367	149,348,599	69	106
b) Employers' and other contributions	25,511,123	17,116,356	16,033,893	67	107
c) Expenditures for materials, SI and services	103,086,001	46,199,446	43,399,071	45	106
d) Current transfers and other current expenditures	1,081,390,710	707,863,946	719,805,158	65	98
e) Expenditures for interest rates and other fees	117,489,192	67,865,823	65,606,226	58	103
2. Total capital expenditures	404,747,010	42,136,733	16,869,263	10	249
3. Expenditures for financial assets	23,220,000	16,224,140	12,869,140	70	126
4. Expenditures for repayment of debts	709,962,869	406,419,395	517,807,479	57	78
5. Current reserve	5,155,000	1,927,402	1,027,105	37	187

Source: FBiH Ministry of Finance

⁵³ Return of funds in the amount of KM 151.5 million in accordance with the FBiH Government Decision no. 718/2019 of 20/06/2019

The most significant deviations from the plan relate to expenditures for materials, small inventory and services, where their execution in relation to the plan is 45%, and to the Total capital expenditures with execution of 10% in relation to the plan of the Budget. Within the structure of outlays for reconstruction and investment maintenance, KM 14.6 million are planned, which have not been spent in this period, which relate to the reconstruction of the FBiH Government building. In addition, low execution in relation to the plan is also recorded in procurement of materials and small inventories (35% of the planned). On the other hand, capital expenditures in relation to the plan achieved an execution of only 10%, with the most significant item on the economic code of capital grants-transfers to public companies (out of the planned KM 299.0 million in the first 9 months only KM 16.4 million is executed). The reason for this is the position of the FBiH Government, according to which funds are allocated to public companies (Autoceste and Ceste FBiH) in a phased manner, based on temporary situations that companies deliver to them.

Total current expenditures and capital expenditures for the first nine months of 2019 decreased by 5% or by KM 79.0 million compared to the same period of the previous year. Debt repayment expenditures accounted for the largest decrease of 22% due to the reduced issue of treasury bills and bonds. On the other hand, there is a significant increase in the economic code Total capital expenditures, the bulk of which relates to the purchase of a building for the purpose of solving the issue of the permanent accommodation of the Government of the FBiH, and capital transfers to public companies. Also, expenditures for financial assets are significantly higher than in the same period of the previous year, and relate to the co-financing of the FBiH Government in international projects and domestic lending.

At its Seventh Regular Session, which was held on 24 October of the current year, the RS National Assembly adopted the Revised Budget of the Republika Srpska for 2019. Also, a number of local government units have adopted budget rebalances. Budget rebalances for 2019 of institutions at all levels of government under consolidation were included in this program as the revised budget of the Government of Republika Srpska for 2019.

Compared to the general government budget of the Republika Srpska for 2019 (from last year's Programme), the revised general government budget for 2019 sets total revenues up by 1.4% and expenditures by 0.7%. Within revenues, the largest increase relates to taxes and social contributions. The revision of the Republika Srpska budget for 2019 increased the income from pension and disability insurance contributions by KM 19 million, or 2.2% compared to the funds planned by the Republika Srpska Budget for 2019. Within tax revenues, the largest part of the difference is related to the growth of revenues from corporate income tax and personal income tax, since these revenues have been increased by KM 17 million by the Revised Budget of Republika Srpska for 2019 compared to the Budget of Republika Srpska for 2019. Adjustments to tax revenues and social contributions in the Rebalance of the Republika Srpska Budget for 2019 were made to achieve better collection of these revenues compared to the revenues planned by the Republika Srpska Budget for 2019.

Within the expenditures, the revised budget envisages more allocations for the use of goods and services and compensation of employees, while, on the other hand, it is planned to reduce expenditures in the categories of social benefits and other expenditures. The increase in compensation of employees is the result of the adoption and implementation of the Law on Amendments to the Law on Salaries of Employees in the Ministry of Internal Affairs of Republika Srpska, as well as the Law on Amendments to the Law on Salaries of Employees in the Institutions of the Judiciary of Republika Srpska. Also, funds were provided for the salaries of judges and

prosecutors working on war crimes cases, whose salaries and wages and salaries, until October 2019, were funded by IPA 2013, and since October 2019 they have been transferred to budget funding. In addition, there has been an increase of remittances based on pension insurance that represent an extraordinary increase by 2% during 2019. The revised budgets of local self-government units envisage additional funds for compensation of employees, which is the result of harmonization of the remuneration of employees with the Special Collective Agreement for employees of local self-government units and the introduction of new consumer units in individual local communities.

According to preliminary budget execution data, the total revenue generated in the first three quarters of 2019 amounts to KM 3,246.6 million, which is 74.4% of the revised budget amount of the general government of Republika Srpska for 2019. Taxes were generated in the amount of KM 1,807.5 million, or 74.6% of the total planned budget for 2019, and social contributions in the amount of KM 1,171.8 million, or 74.9%.

During the same period, total expenditures were executed in the amount of KM 3,119.3 million, or 69.5% of the amount of the revised budget of the General Government of Republika Srpska for 2019. Current expenditures were executed in the amount of KM 2,893.1 million, or 71.9% of the amount of the revised budget. Employee compensation was executed in the amount of KM 737.0 million, which is 74.0% of the revised budget, which is expected because this compensation is paid in equal monthly remittances to employees. Expenditures for social benefits, which were executed in the amount of KM 1,543.5 million or 72.7% of the plan, are also implemented in the same manner. Interest expenses were executed in the amount of KM 87.4 million or 66.6% of the plan. Expenditures for subsidies were executed in the amount of KM 93.5 million or 56.0% of the plan, while other expenditures were realized in the amount of KM 227.3 million or 75.2% of the planned. Net investments in non-financial assets in the first three quarters were executed in the amount of KM 226.3 million, or 55.1% compared to the revised budget for 2019.

Looking at the aforementioned, we can conclude that within the revenue there were no significant deviations of the revenue generation compared to the plan for 2019, looking retroactively for the period of realization. Within expenditures, a significant deviation can be observed in subsidies and interest whose execution is in accordance with the agreed dynamics, which is not equal to the proportional monthly amounts. Also, net investments in non-financial assets had a significant deviation from the plan, but the realization of such investments, after the implementation of public procurement procedures, will be in line with the plan by the end of 2019.

Budget plans for the ERP submission year

Indirect tax revenue projections for 2020 (Table 2) are based on projected relevant macroeconomic indicators, historical seasonal collection scheme, and projections of individual revenue categories for 2019. As in the case of 2019, the projections were made on a cash basis.

Table 5 - Revised projections of indirect taxes for 2020 (MAU GB ITA, October 2019)

In KM million	VAT	Excise duties	Customs	Road tax	Other	Total	Earmarked road tax	Funds for distribution
2018	3,839.0	1,444.7	286.6	620.7	29.7	6,220.8	-385.9	5,834.9
2019 proj.	4,002.7	1,521.2	301.5	657.2	29.9	6,512.6	-410.8	6,101.8
2020 proj	4,132.2	1,554.4	322.0	669.7	30.3	6,708.7	-418.6	6,290.1
2020/2019	3.2%	2.2%	6.8%	1.9%	1.3%	3.0%	1.9%	3.1%

The largest generator of surplus income from indirect taxes in 2020 is VAT, given its significant share in revenues and planned stable growth rates in line with projections of consumption trends. Road tax revenues do not contribute significantly to the projected absolute revenue growth, due to the exhaustion of the effects of increase in tax rates.

The Draft Law on the Budget of BiH Institutions and International Obligations of BiH for 2020 is prepared by the Ministry of Finance and Treasury in accordance with the Global Framework of Fiscal Balance and Policies in Bosnia and Herzegovina and the Framework Budget Document for the next medium term.

Due to the fact that the Fiscal Council of BiH adopted the GFF for the period 2020-2022 on 27 December 2019, and that the finalization of the ERP is under way, the Ministry of Finance and Treasury submits data on the basis of the structure of revenues and expenditures from this document, in the amount of KM 996 million for each year.

The baseline for drawing up the draft Budget of the Institutions of Bosnia and Herzegovina for 2020 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;
- Framework for financing the institutions of BiH for the period 2020-2022 in the amount of KM 996 million with the allocation of funds for financing from the single account of the Indirect Taxation Authority in the amount of KM 780 million;
- 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 2020, sent by the Ministry of Finance and Treasury to all institutions of Bosnia and Herzegovina in early July 2019;
- Planned number of employees on 31 December 2020, which includes the approved number of employees in the Budget for 2019, and the planned dynamics of hiring in the Institute for the Execution of Criminal Sanctions, Detention and Other Measures of BiH as well as employees in accordance with the adopted decisions of the Council of Ministers of Bosnia and Herzegovina.

Revenues, proceeds and financing for 2020 include the following:

- KM 780 million from indirect taxes, which is by KM 30 million more than in 2019
- KM 143.9 million of other revenues, of which:
 - KM 143.2 million of non-tax revenues, i.e. KM 13.8 million or 11% more compared to 2019, mainly as the result of an increase in revenue generated by the Communications Regulatory Agency (fees for the use of the radio frequency spectrum) within its jurisdiction and in revenues from penalties.
 - KM 0.2 million from current support in cash form (with the Indirect Taxation Authority), which is less by KM 0.1 million compared to 2019.
 - KM 0.5 million transfer of other levels of government to finance institutions of Bosnia and Herzegovina related to the Brčko District transfer 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 work of the State Aid Council in the respective amount of KM 0,155 million;

- Financing in the total amount of KM 72.1 million, of which:
 - KM 68.2 million of transferred funds from the previous period according to the Report on Budget Execution of BiH Institutions and International Obligations of BiH for 2017, which is by KM 21.3 million more relative to 2018
 - KM 3.2 million of receipts based on succession and
 - KM 0.7 million of proceeds based on sales of fixed assets.

In the Draft Budget for 2020 the total expenditures of the institutions of Bosnia and Herzegovina in 2020 amounted to KM 996 million and in comparison with 2019 they increased by KM 30 million or 3%, while servicing the external debt of Bosnia and Herzegovina amounted to KM 807.6 million and decreased by KM 18,2 million or 2% compared to 2019.

The structure of expenditures of BiH institutions according to the GFS 2001 methodology relates to:

- Gross wages and compensation of employees are planned in the total amount of KM 731.5 million, which represents an increase of KM 44.1 million or KM 3.4 million or 6% compared to the Budget of 2019. The increase in the total amount of this category of expenditures is the result of adjusting the salaries of the employed in the institutions of BiH, the increase of the food allowance during work, as well as the commencement of work of the Institute for Execution of Criminal Sanctions, Detention and Other Measures of BiH, approved employment in accordance with the decisions of the Council of Ministers of BiH etc.
- Total expenditures for materials and services amounted to KM 181.5 million and, compared to the budget for 2019, decreased by KM 0.10 million due to the planning of a smaller amount of this category of expenditures by the Ministry of Defence and other budget users. On the other hand, the increase is present with the Central Election Commission for the implementation of municipal elections, and the beginning of work of the Institute for Execution of Criminal Sanctions, Detention and Other Measures of BiH in full capacity.
- Social Security Remittances (planned under current grants and transfers item) are projected at KM 2 million, down KM 0.1 million or 5% from 2019.
- Expenditures for non-financial assets are planned in the amount of KM 43.7 million, (including funds for multi-year projects in the amount of KM 4.8 million) and compared to 2019 they are lower by KM 10.9 million.
- Interest expenditures on foreign loans are planned on Direct transfers within the economic category "Other current transfers" in the amount of KM 1 million of interest on the loan for construction of the Institute for Execution of Criminal Sanctions, Detention and Other Measures of BiH, interest on the loan of Macro-financial assistance of the European Commission, and interest on a loan from the Saudi Fund for the project "Reconstruction of Housing Units for Displaced Persons in Bosnia and Herzegovina"
- Other expenditures are projected in the amount of KM 31.7 million (planned under current and capital grants and transfers, and reserves).

Please note that the difference to the total framework for financing the institutions of BiH relates to the repayment of principal on loans from CEB Bank, the European Commission and the Saudi Fund, totalling KM 4.6 million for all years.

The proposal of the Budget of the Federation of BiH for 2020⁵⁴ has been prepared in accordance with the budget calendar⁵⁵ and amounts to KM 4,954.4 million KM. The reason for the almost double increase in the amount of the Budget lies in the integration of the Federal Institute for Pension and Disability Insurance into the budget, with the status of a budget user. Specifically, the 2018 FBiH Law on Pension and Disability Insurance⁵⁶ provides for this institution to be included in the Budget in 2020⁵⁷, with the aim of facilitating payments of pensions through the Single Treasury Account, and achieving greater transparency in spending of public funds and stability of pension payments. In this regard, in 2019, in accordance with the Conclusions of the FBiH Government⁵⁸, activities were undertaken on the implementation of the provision of the Law relating to the implementation of all preparatory activities for the Institute's fulfilment of the requirements with a view to introducing into the treasury business system, including the preparation of changes of relevant regulations and staff training. Consequently, the Federal Ministry of Finance, on 15 October 2019, by signing the form of the Register of Budget Users, gave its consent for enrolment of this user in the Register, and by assigning a number from the Register, determined the status of budget user for the Federal Institute of PDI.

Proposal of the Budget of the Federation of BiH for 2020, with total revenues and receipts, expenditures and outlays, increased by KM 2,252.5 million, or 83.0% compared to the Federation of BiH Budget for 2019. Total revenues and receipts in the Budget amount to KM 4,954.4 million KM and increased by KM 2,252.5 million or 83.0% compared to the Federation of BiH Budget for 2019. Total projected tax revenues amount to KM 3,773.6 million and are KM 2,099.6 million or 125.4% higher than in the previous year. Tax revenues include personal and corporate income tax revenue, pension and disability insurance contributions, indirect tax revenues from the single account of the BiH Indirect Taxation Authority and other revenues. Revenue from personal and corporate income tax are set to the amount of KM 90.8 million, which is by KM 3.2 million or 3.7% more relative to the amount in the Federation of BiH Budget for 2019. Contributions for pension and disability insurance were planned in the amount of KM 2,074.3 million and were not planned in the Federation of BiH Budget for 2019.

In the Federation BiH Budget for 2020, gross revenues from indirect taxes are set to the amount of KM 1,608.4 million, which is by KM 22.0 million more relative to the Federation of BiH Budget for 2019. Net revenues from indirect taxes are planned in the amount of KM 1.07 billion and are higher by KM 51.3 million or 5.0% compared to the previous year, while revenues from indirect taxes for servicing the relevant debt are planned in the amount of 538.71 million KM, which is KM 29.3 million or 5.0% less than the amount planned in the Federation of BiH Budget for 2019.

Other taxes are planned in the amount of KM 55 thousand. Non-tax revenues are planned in the amount of KM 480.8 million, which is KM 109.8 million or 19.0% less than in the FBiH Budget for 2019, due to the fact that in 2019 a significant inflow of funds was realized that were collected

⁵⁴ The Government of the Federation of BiH, at its 201st Session on 28 November, 2019, adopted the Budget Proposal for 2020, together with the Law on Budget Execution and forwarded them to the parliamentary emergency procedure

⁵⁵ Official Gazette of the Federation of BiH, 102/13, 9/14, 13/14, 8/15, 91/15, 102/15, 104/16, 5/18 and 11/19

⁵⁶ Article 130. Introduction of the treasury operations of the insurance bearer, Official Gazette FBiH, 13/18

⁵⁷ Until inclusion in the FBiH Budget, the Federal Institute for PDI had the status of an "extra-budgetary fund"

⁵⁸ FBiH Government Conclusion V. No 908/19 of 31/7/2019, Conclusion on Amendment to Conclusion V. No 908/2019-1056719 of 19/09/2019 and Conclusion V. No 1126719 of 3/10/2019

from public companies on the basis of dividends aimed at building highways and expressways. Non-tax revenues include income from entrepreneurial activities and assets and income from foreign exchange gains, fees and charges and revenues from the provision of public services, and fines.

In the Federation of BiH Budget for 2020, revenues from entrepreneurial activities and assets and income from foreign exchange gains are planned in the amount of KM 338.7 million, which is KM 34.9 million or 11.5% more than the amount in the Federation Budget BiH for 2019. Fees and charges and revenues from the provision of public services are planned in the amount of KM 128.0 million, which is by KM 145.1 million or 53.1% less than in the previous year. In the Federation of BiH Budget for 2020, fines are planned in the amount of KM 14.0 million, which is KM 0.3 million or 2.4% more than in the Federation of BiH Budget for 2019.

Receipts are planned in the amount of KM 585.03 million and include:

- Capital receipts from the sale of fixed assets in the amount of KM 0.03 million;
- Long-term credits and loans in the amount of KM 175.0 million;
- Short-term credits and loans in the amount of KM 410.0 million.

Under the Loan Agreement between BiH and IBRD, the Federation of Bosnia and Herzegovina will borrow EUR 28.3 million based on a project to strengthen the banking sector. The funds are intended to support the strengthening of the banking sector, improving regulation and supervision of banks, addressing the weaknesses of the banking sector, establishing a new framework for restructuring banks and strengthening the governance and operations of the Development Bank of the Federation of BiH and will be paid into the FBiH Budget.

Short-term accruals are planned in the amount of KM 115.0 million. These are funds that will remain unspent in 2019 and are allocated to the Special Account for Development Assets Management under the STR to implement funds earmarked for financing capital infrastructure projects.

The total expenditures and outlays in the Budget of the Federation of BiH for 2020 amount to KM 4,954.4 million KM which represents an increase of KM 2,252.5 million or 83.4% compared to the Federation of BiH Budget for 2019. The following table shows structure of expenditures and outlays in the Budget of the Federation of BiH for 2020, and their change in relation to the Budget of the Federation of BiH for 2019.

Table 6 - COMPARATIVE REVIEW: Proposal of the FBiH Budget for 2020 relative to the FBiH Budget for 2019- MAIN CATEGORIES OF EXPENDITURES

DESCRIPTION	1.	2.	Increase/ decrease	Execution percentage (Index 2/1)
	Amendments to the Budget of FBiH for 2019	Budget of FBiH for 2020		
Total current expenditures and capital expenditures (1+2+3+4+5)	2,701,845,731	4,954,392,401	2,252,546,670	183.4%
1. Total current expenditures (a+b+c+d+e)	1,558,760,852	3,768,278,666	2,209,517,814	
a) Salaries and compensation of employees	231,283,826	257,807,091	26,523,265	111.5%
b) Employers' and other contributions	25,511,123	27,334,407	1,823,284	107.1%
c) Expenditures for materials, SI and services	103,086,001	115,617,286	12,531,285	112.2%

d) Current transfers and other current expenditures	1,081,390,710	3,254,103,592	2,172,712,882	300.9%
e) Expenditures for interest rates and other fees	117,489,192	116,356,290	-1,132,902	99.0%
2. Total capital expenditures	404,747,010	197,695,799	-207,051,211	
3. Expenditures for financial assets	23,220,000	23,040,000	-180,000	99.2%
4. Expenditures for repayment of debts	709,962,869	957,282,936	247,320,067	134.8%
5. Current reserve	5,155,000	5,155,000	0	

Source: FBiH Ministry of Finance

On the expenditure side, current transfers and other current expenditures are the most represented with KM 3,251.0 million, of which the largest amount relates to the payment of pensions for 2020, which is the responsibility of the Federal Institute for Pension and Disability Insurance. In addition, the 2020 budget includes:

- For the implementation of the Law on the Rights of Demobilized Soldiers and Their Family Members – cash livelihood benefits in the amount of KM 50.0 million.
- For the implementation of the Law on Protection of Families with Children, KM 20.0 million is planned. Given the fact that the said Law is in parliamentary procedure, the funds will be implemented after the adoption of the Law.
- To continue co-financing the credit line through the Union Bank for Housing of the younger population, another KM 15.0 million is planned. The Government of the Federation of Bosnia and Herzegovina, after multiple positive effects of this line of credit, continues to assist young people housing in the Federation of BiH.
- The incentive for farmers is planned in the amount of KM 87.0 million, i.e. it is increased by KM 18.3 million. Recognizing the difficult position of farmers in the Federation of BiH and their need to increase competitiveness, the FBiH Government has significantly increased the overall resources allocated to these categories.
- Transfers for displaced categories and refugees increased by KM 7.0 million in total. Assistance in the sustainable return of displaced persons and refugees in both entities will be a priority of the line ministry, where through implementation of projects financed from the Budget of the Federation of BiH, and also by pooling resources with other levels of government (entities, cantons and local communities), implementation of the Annex 7 of the Dayton Peace Agreement will continue.
- Transfers for rehabilitation of health care facilities are planned in the amount of 30.0 million and increased by KM 24.0 million. By planning these funds, the Government of the Federation of BiH reaffirms its commitment to the implementation of reforms in the health sector, which certainly entails measures for the financial consolidation of health care institutions.
- Transfer to lower levels of government is planned in the amount of KM 21.0 million and represents continuation of co-financing of budgets and projects of local self-government units in the Federation of BiH.
- KM 5.0 million is planned for capital investment for construction and modernization of railway infrastructure.
- On the section of the Federal Ministry of Transport and Communications, it is planned to continue construction of road infrastructure with funds in the total amount of KM 115.0 million. Namely, by allocating funds to a separate subaccount within the STA, which were collected on the basis of payment of the so-called clearing debt of the Russian Federation and payment of dividends of public enterprises owned by the Federation of BiH, the

Government of FBiH continues successive financing of the construction of individual sections of motorways and express roads in the FBiH.

- A total of KM 15.0 million is planned on the section of the FBiH Government for the costs of reconstruction and investment maintenance for the purpose of permanent accommodation of the FBiH Government in Sarajevo and Mostar. The purchase of space for the accommodation of institutions and bodies of the Government of the Federation of BiH in Sarajevo and Mostar has highlighted the need to plan funds in order to bring these facilities fully into use and to ensure their functionality.

Observing the general government sector in Republika Srpska in 2020, total revenues are planned in the amount of KM 4,619.4 million, which is KM 255.8 million or 5.8% more than the revised general government budget for 2019. Considering the structure of the mentioned revenues, tax revenues (55%) and social contributions (36.3%) account for the largest share.

Tax revenues in 2020 are planned in the amount of KM 2,543.3 million, which is by 120.7 million or 5% more than the revised general government budget for 2019. The most significant increases in tax revenues in 2020 over the revised general government budget for 2019 relate to indirect tax revenues of KM 104 million and income tax and profit tax revenues of KM 14.6 million.

Within tax revenues, the Production and Import Tax is planned in the amount of KM 2,060.3 million in 2020, with the largest part of this amount being indirect tax revenues in the amount of KM 1,911.3 million, or KM 104 million or 5, 8% more than the amount planned by the revised general government budget for 2019. Significant increase in indirect tax revenues is expected in 2020 due to a one-off settlement of liabilities from the previous period based on the allocation of indirect revenues.

Within tax revenues, Current taxes on income and wealth are planned in the amount of KM 478.5 million in 2020, with the largest part of this amount being revenue from income tax and profit tax. Taking into account the trends of income tax and profit tax in the previous period, the number of employees, the movement of salaries, as well as the expected economic growth in the coming period, the projection of income tax and profit tax amounts to KM 447.9 million in 2020, up 10.4 million from 2019.

Social contributions in 2020 are planned at KM 1,676.3 million, which is KM 111.9 million or 7.1% more than the revised general government budget for 2019.

Pursuant to the Law on the Budget System of the Republika Srpska, income from contributions for pension and disability insurance belongs to the budget of the Republika Srpska. The PDI Fund's revenue projection for 2020 is KM 931.6 million, up KM 48.1 million or 5.4% from the 2019 general government's revised budget. The above projection was made on the basis of the movement of income from this contribution in the previous period and the expected increase in gross wages and the number of insured persons in the coming period.

The projection of revenues from social security contributions for the other three social security funds (Republika Srpska Health Insurance Fund, Republika Srpska Child Welfare Fund and Employment Service of Republika Srpska), as well as the Solidarity Fund for Diagnosis and Treatment of Illnesses, Conditions and Injuries of Children Abroad amount to KM 744.7 million, up KM 63.8 million or 9.3% from the 2019 general government revised budget. Of this amount, revenues from health insurance contributions for 2020 are planned in the amount of KM 621.5 million (of which the projected income from foreign insurance amounts to KM 23.8 million),

revenues from child care contributions are planned in the amount of KM 79 million, revenues from the unemployment insurance contribution are planned in the amount of KM 38.7 million, while revenues from the special solidarity contribution are planned in the amount of KM 5.5 million.

Compared to the revised budget of the general government of Republika Srpska for 2019, the budget for 2020 totals KM 4,602.9 million, which is an increase of 2.5%, while current expenditures are increased by 4.6%. Within the expenditures, the budget is set to increase social benefits, expenditures for personal benefits to employees, as well as subsidies. The increase in personal remuneration of employees is the result of a 5% to 20% increase in salaries to budget beneficiaries, depending on the pay coefficient, which will apply from January 2020, and the planning of funds for the payment of a voluntary pension insurance contribution for employees who are in permanent employment and whose salaries are financed from the budget of the Republika Srpska, in accordance with the regulations governing the field of voluntary pension funds and pension plans, the amount of which is determined by the Government with a special decision. The budget proposal for 2020 also provided funds for the salaries of judges and prosecutors working on war crimes cases, whose salaries and wages were until October 2019 funded by IPA 2013, and from October 2019 transferred to budgetary resources. In addition, there are increases in appropriations in subsidy positions due to the implementation of the Law on Incentives in the Economy of Republika Srpska. The 2020 budget also plans regular pension adjustments, i.e. an increase in pensions by about 3%.

In 2020, a general government level is expected to see a surplus of KM 16.5 million.

4.3. Medium-term budgetary outlook

The projected growth rates of revenues from indirect taxes for 2021 and 2022 amount to 3.2% and 3.6% respectively (Table 3). Table 4 shows revenue projections in % of GDP. The declining trend of indirect taxes in GDP is explained by the projected fall in the share of GDP (DEP).⁵⁹ The projected share of indirect taxes in total consumption over the next period is stable, amounting to 19.7% in 2019 and 2020 (an increase of 0.4 p.p. relative to 2018), and 19.8% in 2021 and 2022. In this period too, VAT is the largest generator of indirect tax revenue growth. Revenues from excise duties and road taxes together account for almost one quarter of projected absolute growth in indirect tax revenues. Projections of excise duties (with the exception of part of excise duty on tobacco that is charged ad valorem) and road taxes are based on the projections of real growth rates of the corresponding macroeconomic indicators, which is another reason, in addition to the falling share of consumption in GDP, of the decrease in the projected revenue shares in GDP (Table 4). After completion of the process of harmonization of excise duties on cigarettes with EU standards in 2019, in the next three years stabilization in the tobacco market and then recovery can be expected. The realization of these forecasts depends on the growth of income, which could stimulate the smokers, who switched to cut tobacco earlier due to high cigarette prices, to return again to cigarette consumption. It is expected that the value of the cigarette market will follow a rise in consumption, which, in the conditions of maintaining retail prices at their level or even reducing them, could result in a rise in cigarette consumption after a decade of sharp decline. In addition to macroeconomic trends and income growth, the effectiveness of measures to combat the black market remains an important factor in achieving projected growth in excise tax revenue collection.

⁵⁹ According to the September 2019 DEP projections, the share of total consumption in GDP will fall from 94.4% in 2018 to 89.1% in 2022.

Table 7 - Revised projections of indirect taxes for 2020 (MAU GB ITA, October 2019)

In KM million	VAT	Excise duties	Customs	Road tax	Other	Total	Earmarked road tax	Funds for distribution
2020 proj	4,132.2	1,554.4	322.0	669.7	30.3	6,708.7	-418.6	6,290.1
2021 proj.	4,270.7	1,594.5	347.2	683.1	30.7	6,926.2	-427.0	6,499.2
2022 proj	4,427.6	1,639.8	377.0	697.5	31.1	7,173.0	-435.9	6,737.1
2021/2020	3.4%	2.6%	7.8%	2.0%	1.3%	3.2%	2.0%	3.3%
2022/2021	3.7%	2.8%	8.6%	2.1%	1.3%	3.6%	2.1%	3.7%

Table 8 - Revised projections of revenues from indirect taxes in % of GDP for 2019-2022, MAU GB ITA, October 2019

Type of revenue (net)	in % of GDP				
	Realization	Projection			
	2018	2019	2020	2021	2022
VAT	11.3%	11.3%	11.2%	11.0%	10.9%
Excise duties	4.2%	4.3%	4.2%	4.1%	4.0%
Customs	0.8%	0.9%	0.9%	0.9%	0.9%
Road tax	1.8%	1.9%	1.8%	1.8%	1.7%
Other	0.1%	0.1%	0.1%	0.1%	0.1%
Total	18.3%	18.4%	18.2%	17.9%	17.6%
Earmarked road tax	-1.1%	-1.2%	-1.1%	-1.1%	-1.1%
Funds for distribution	17.2%	17.3%	17.0%	16.8%	16.6%

Data sources for GDP: BHAS (2018) and DEP Projections (Macroeconomic projections 2020-2022, September 2019)

In the institutions of BiH, the basic assumptions/expenditure policies for 2021 and 2022 are given in accordance with the framework for financing of the institutions of BiH in the amount of KM 996 million for all years, with the respective allocation from indirect taxes of KM 780 million.

The revenues and proceeds of the BiH institutions are planned as follows:

- Tax revenues in 2021 and 2022 are projected at KM 780 million for each year,
- Other revenues in 2021 are projected at KM 149.8 million (Non-tax revenues KM 149.2 million, transfers from other levels of government KM 0.5 million and current cash support of KM 0.1 million). In 2022, other revenues are projected at KM 146.5 million (non-tax revenues KM 146 million, transfers from other levels of government KM 0.5 million)
- Financing and proceeds in 2021 are projected in the amount of KM 61.6 million and in 2022 in the amount of KM 64.9 million.

The expenditure structure of the institutions of BiH in 2021 and 2022 is as follows:

- Gross wages and compensation of employees in 2021 are projected at KM 735.4 million, and in 2022 at KM 740.3 million, i.e. an increase of 0.5% annually.
- Expenditures for materials and services are projected to amount to KM 182.6 million for 2021, and KM 194.9 million for 2022 (an increase mainly due to the planning of funds for the general elections).
- Social security remittances are planned under the current grants and transfers item in 2021 in the amount of KM 2.2 million and in 2022 in the amount of KM 2 million.

- Expenditures for non-financial assets are planned in 2021 in the amount of KM 40.7 million, and in 2022 in the amount of KM 23.5 million.
- Interest expenditures for foreign loans are planned in the amount of KM 1 million in 2021 (interest on the loan for construction of the Institute for the Execution of Criminal Sanctions, Detention and Other Measures of BiH, interest on the loan of the European Commission Macro-Financial Assistance and interest on the loan of the Saudi Fund for project "Reconstruction of Housing Units for Displaced Persons in Bosnia and Herzegovina"), and in the amount of KM 0.9 million in 2022.
- Other expenditures are planned in the amount of KM 29.5 million in 2021, and in the amount of KM 29.8 million in 2022 (planned under the item of current and capital grants and transfers, and reserves).

Please note that we do not have the National Development Strategy of Bosnia and Herzegovina, as well as most sectoral strategies, which could be linked to the programmes in the programme budget of institutions at the level of Bosnia and Herzegovina and monitor the implementation of them, and therefore we are not able to provide the required data for particular areas and targets according to the SEE 2020 Strategy.

The fiscal policy of the Federation of BiH will continue to focus on strengthening fiscal sustainability and economic growth in the coming period. Key activities primarily involve working towards a favourable and stable business environment, attractive for increased domestic and foreign investment, as the main generator of projected medium-term macroeconomic growth. The implementation of the planned activities is still accompanied by continued reforms in order to create a stable tax system and bring it closer to EU standards. In this regard, the focus of the revenue side of the budget will be on creating a more favourable business environment by reducing the cost of labour, unburdening the economy through restructuring the tax system, reducing tax debt, and increasing the discipline of taxpayers, which will ultimately have an effect on increasing the collection of indirect and direct taxes.

A sound fiscal policy, through a reduction of public consumption, is a starting point for action of the Government of the Federation of BiH regarding the implementation of the public expenditure management policy. Thus, in order to maintain a stable financial system and budget balance, the implementation of restrictive public spending continues, with a particular focus on controlling budget spending, i.e. limiting the growth of current spending and current transfers. The goal is to use any surplus revenue over planned to divert to the realization of capital projects and public investments, the increase of which is an absolute priority for the Federation of BiH in the next medium-term period.

Also, the measures defined in the document "Joint Socio-Economic Reforms for the Period 2019-2022" are intended to be implemented⁶⁰, which was adopted by both entity governments in BiH, and include achieving:

- Sustainable and accelerated economic growth, increased competitiveness of the economy and improvement of the business environment
- Depoliticization, increased sustainability and efficiency of public enterprises
- Comprehensive reforms and improvements of the health system quality
- Implementation of policies that provide opportunities for young people, women and vulnerable categories

⁶⁰ FBiH Government, 194th Session of 10 October 2019

Following the medium-term macroeconomic assumptions for Bosnia and Herzegovina, given by the BiH Directorate for Economic Planning in September 2019, and forecasts of real growth of the Federation of BiH gross domestic product prepared by the Federal Ministry of Finance in October 2019, projections of public revenues were also made in Federation of BiH for the period 2020-2022. The projection of real GDP growth of the Federation of BiH has taken into account the slight slowdown in the trend of economic growth in the Federation of BiH in 2019, which is largely due to the weakening of economic developments in the international economic environment. In anticipation of the gradual overcoming of global economic challenges in the EU and the world⁶¹, which would provide a strong basis for the continued growth of the domestic economy, with the assumption of an increase in domestic demand, as the main pillar of growth, that should ultimately result in an increase in household income and an increase in private consumption, in the period 2020-2022 in the Federation of BiH real GDP growth is set at the rates of 3.5%, 3.9% and 4.1% respectively.

The medium-term projection of consolidated public revenues in the Federation of Bosnia and Herzegovina for 2020 amounts to KM 9,469 million, which is at the level of 39.6% of the estimated real GDP of the Federation of BiH, or 25.9% of the estimated GDP of Bosnia and Herzegovina, and with the planned annual increase of 3.66%. Following the foreseen macroeconomic trends in the Federation of Bosnia and Herzegovina, in 2021 it is projected that the consolidated public revenue will grow by 4%, while in 2022 it will be 3.8%, and compared to the previous year it will be slightly lower, solely because of the lower revenue collection plan for repayment of external debt of those end users that are not included in consolidation.

Thus, in 2021 the consolidated revenues of the Federation of BiH will account for 39.29% of the estimated GDP of the Federation of BiH, or 25.8% of the GDP of Bosnia and Herzegovina, while in 2022 they will be at the level of 38.8% of GDP of the Federation of BiH, that is, in relation to the GDP of Bosnia and Herzegovina, at the level of 25.5%. Consolidated revenues in the Federation of BiH include revenues of the Budget of the Federation of BiH, sub-entity budgets (cantonal and local government units), tax revenues - contributions to extrabudgetary funds, and public revenues of other users (road authorities, environmental funds, etc.). However, it should be emphasized that the consolidation does not reflect the overall fiscal framework, since it does not include revenues of public enterprises in the Federation of BiH, total debt and receipts.

Consolidated public revenues in the Federation of BiH ▪ execution 2018/2017 ▪ projections for 2019 and period 2020-2022

TYPE OF REVENUE	EXECUTION				PROJECTIONS			
	2017	2018	Index	Difference	2019	2020	2021	2022
I Tax revenues	3,972	4,359	110	387	4,525	4,634	4,832	5,028
1. Revenues from indirect taxes	3,176	3,481	110	305	3,637	3,714	3,877	4,033
1.1. Revenues from indirect taxes from the distribution of the Single Account	3,095	3,292	106	197	3,419	3,492	3,651	3,802
1.2. Revenues from earmarked road tax for financing motorways and roads	81	188	232	107	218	222	227	231
2. Revenues from direct taxes	796	878	110	82	888	919	955	995
2.1. Corporate income tax	356	395	111	39	373	385	398	413
2.2. Income tax	341	384	113	43	411	427	445	466
2.3. Property tax	98	99	101	1	104	108	112	116
2.4. Other taxes	1	1	80	0	0	0	0	0
II Non-tax revenues	1,171	1,159	99	-12	1,010	1,110	1,143	1,148
1. Charges and fees	323	302	93	-21	313	321	329	338

⁶¹ EUROSTAT, News release, "GDP main aggregates and employment estimates for second quarter 2019", 137/2019, 6 September 2019

1.1. Administrative fees	47	47	101	1	53	55	56	58
1.2. Court fees	26	26	101	0	27	27	28	29
1.3. Utility fees	44	42	95	-2	43	44	45	47
1.4. Other charges and fees	207	187	90	-20	190	195	199	204
2. Special charges	240	256	106	16	245	252	261	269
2.1. Charges for organizing games of chance	32	31	98	-1	31	32	32	32
2.2. Water charges	46	49	106	3	51	53	55	57
2.3. Road charges	68	71	105	3	72	75	77	79
2.4. Special charges for protection against natural and other disasters	24	24	101	0	27	28	29	30
2.5. Forest charges	21	23	113	3	24	25	26	27
2.6. Environmental protection charges	24	25	105	1	26	27	28	29
2.7. Charges for membership in tourist communities	2	4	200	2	6	6	6	6
2.8. Tourist tax	2	4	226	2	4	4	4	4
2.9. Other special charges	22	24	109	2	5	5	5	5
3. Fines	45	44	98	-1	45	46	47	48
4. Other non-tax revenues	562	557	99	-5	406	490	507	492
4.1. Revenues from financial and intangible assets	434	440	101	6	286	368	381	364
4.2. Revenues from providing public services and own revenues	74	75	101	1	76	78	80	82
4.3. Unplanned revenue payments	55	42	77	-13	44	44	45	46
4.4. Current transfers and grants of other levels of government	134	151	113	18	0	0	0	0
TOTAL (I + II):	5,142	5,518	107	375	5,535	5,743	5,976	6,176
III Contributions to non- budgetary funds	3,182	3,431	108	248	3,600	3,726	3,881	4,056
1. Contributions for pension and disability insurance	1,765	1,910	108	145	2,004	2,074	2,161	2,258
2. Contributions for health insurance	1,273	1,366	107	93	1,433	1,483	1,545	1,615
3. Contributions for unemployment insurance	145	155	107	10	163	169	176	184
TOTAL (I + II + III):	8,325	8,948	107	623	9,135	9,469	9,857	10,232
GDP of the Federation of Bosnia and Herzegovina								
Real GDP in KM mill.	20,170	21,310			22,630	23,900	25,090	26,400
Real growth in %	3.2	3.8			3.1	3.5	3.9	4.1
% of public revenues in the GDP	41.3	42.0			40.37	39.62	39.29	38.76
GDP of Bosnia and Herzegovina								
Real GDP in KM mill.	31,986	33,490			35,041	36,590	38,226	40,185
Real growth in %	3.0	3.6			3.0	3.5	3.6	3.8
% of public revenues in the GDP	26.0	26.7			26.07	25.88	25.79	25.46

Source: FBiH Ministry of Finance (data on GDP of Bosnia and Herzegovina taken from the Directorate for Economic Planning in September 2019)

Notes: * In the 2017 figures, compared to the review presented in the Economic Reform Program 2019-2021, according to more detailed analytics, the following adjustments were made as a result of the new reporting system:

a. Non-tax revenues refer only to payments made in that year, amounts collected in previous years, those unspent and transferred from earmarked accounts are excluded from execution.

b. For the sake of comparability with 2018, the implementation has been supplemented with reports on the realization of public revenues of users that were not previously included in the consolidation (Federation of BiH Environmental Protection Fund and Fund for Professional Rehabilitation and Employment of Persons with Disabilities)

c. A more detailed analysis of transfers made between different levels of government in the FBiH has been carried out, and accordingly correction / reallocation between the items "Unplanned Payment of Revenues" and "Transfers and Grants of Other Levels of Government"

** Amounts shown in "Transfers and grants from other levels of government" are shown only as evidence and are not included in the total amount of revenue.

The most significant category in the total budget revenues of all levels of government, and thus at the level of the consolidated review too, are revenues from indirect taxes, made up of indirect taxes from the allocation from the Single Account and revenues from earmarked road taxes for construction of motorways and construction and reconstruction of other roads. The projections of this revenue for the Federation of BiH are based on a medium-term plan of total revenues based on the above categories, which, in accordance with competencies, is prepared by the

Macroeconomic Analysis Unit of the Governing Board of the Indirect Taxation Authority (MAU)⁶².

Furthermore, indirect tax revenues from the distribution from the Single Account received by the Federation of BiH in the inter-entity distribution match the participation of this entity in the declared final consumption, on the basis of which the coefficient of distribution is calculated/estimated. Based on all assumptions of the total revenue plan in the Single Account, as well as the macroeconomic assumption about the expected increase in private consumption in a given medium-term period, as a key pillar of economic growth, the projections of the part of indirect taxes that the Federation of BiH receives from the Single Account reflect an average of 14, 5% of the GDP of the Federation of Bosnia and Herzegovina, or 9.5% of the GDP of Bosnia and Herzegovina, and an average medium-term growth of 3.6%. In the medium-term growth structure, projected growth of this category of revenue in 2020 is much lower than in 2021 and 2022, amounting to just over 2%, since, in estimating the coefficient of revenue distribution for the Federation of BiH in the given year, there is a reserve for execution of open and unrealized settlements between entities for distributions from earlier years. For this reason, there is a noticeable projected decline in the share of these revenues in GDP relative to the projected level in 2019 and the level of execution in the previous two years, which averaged over 15% of the GDP of the Federation of BiH, or 9.7 % of GDP of Bosnia and Herzegovina.

Since, pursuant to Article 21 of the Law on Indirect Taxation System⁶³ 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. Thus the projected portion intended for repayment of external debt in 2020, 2021 and 2022, in the amounts of KM 538.7 million, KM 590.6 million and KM 562.4 million, respectively, takes an average share of 15% in projected amount of total indirect tax revenues from the distribution from the Single Account for the Federation of BiH, while the remaining 85% makes up the available part for the budgets of the users. The part of the revenue intended for repayment of external debt in the medium-term period will average 2.2% of the projected GDP of the Federation of BiH, or 1.5% of the projected GDP of Bosnia and Herzegovina. The planned changes to the policies in the area of affiliation and allocation of public revenues in the Federation of BiH will not have an impact on the consolidated fiscal capacity of the Federation of BiH, changes may occur at the level of individual users of public revenues.

As for the revenues from the earmarked road tax for the construction of motorways and the construction and reconstruction of other roads, as previously stated, the projected amounts for the Federation of BiH are based on the overall MAU plan, with the apportioned allocation between the Entities and the Brčko District, in accordance with the Decision on the provisional allocation of road tax revenue for the construction of motorways and the construction and reconstruction of other roads.⁶⁴ The available part of this revenue for the Federation of BiH in 2020 is projected at the level of 0.9% of the GDP of the Federation of BiH, or 0.6% of the GDP of Bosnia and Herzegovina, with an increase of 1.9%. The declining trend in the share of this category of income in GDP, as well as projected average growth rates in 2021 and 2022 of 2%, well below the projected growth of real GDP, are the result, as stated by MAU, of the exhaustion of growth effects

⁶² Revised plan taken by MAU in October 2019

⁶³ Official Gazette of BiH, 44/03

⁶⁴ Official Gazette of BiH, 50/18

tax rates from 2018, when the provisions of the Law on Amendments to the Excise Duty Law in Bosnia and Herzegovina⁶⁵ began to apply to the revenue generation in the coming years.

In order of importance, the second category in the consolidated revenues of the Federation of BiH consists of mandatory contributions to extra-budgetary funds. In 2020, they are projected to total KM 3,726 million, at the level of 15.5% of the projected GDP of the Federation of BiH, and compared to the GDP of Bosnia and Herzegovina at the level of 10.2%. Although in the past few years these revenues have recorded a steady 7% growth in each year, a lower rate of growth than the stated historical trend was applied in projecting. Considering that execution in 2018, which forms part of the projection base, involves an increase in collection as a result of applying the write-off of default interest based on public revenue debt, the effects of which have so far been largely exhausted, already in the revision of the 2019 projection, partial reduction and more conservative projection were made. A more carefully projected growth rate is one of the reasons for the decline in the projection for 2020 in GDP relative to the share of execution in 2018 and the projected level in 2019, by an average of 0.4 percentage points.

With regard to the planned changes in the field of contribution calculation policy, the implementation of which is expected, after confirmation by the Parliament of the Federation of BiH, according to the performed micro-simulation estimates, the proposed reduction of the total contribution rate will be offset by the extension of the contribution calculation base and will not negatively reflect the level of their collection. In the longer term, the effects of the measure taken to relieve employers, in the form of an expected increase in the remuneration of existing employees or an expected increase in the number of employees, should result in an increase in the level of revenues collected on this basis.

However, in the first period of application of the new regulations, it is necessary to maintain a certain level of reserve, which is another factor of more careful planning. Following all these assumptions, revenues based on mandatory contributions to extra-budgetary funds, with an expected growth of 4.3% on average in 2021 and 2022, will maintain a stable share in GDP at the 2020 level.

In the structure of mandatory contributions, in the period 2020-2022, revenues from contributions for pension and disability insurance will be at the level of 8.6% of the GDP of the Federation of BiH, or 5.6% of the GDP of Bosnia and Herzegovina; health insurance contributions at 6.2% of the GDP of the Federation of BiH, or 4% of the GDP of Bosnia and Herzegovina, while unemployment insurance contributions will reflect the level of 0.7% of the GDP of the Federation of BiH, or 0.5% GDP of Bosnia and Herzegovina.

Although stated in the consolidated review as a category of contributions to extra-budgetary funds, in accordance with the provisions of the new Law on Pension and Disability Insurance⁶⁶, as of 1 January 2020, the transition of financial operations of the Pension and Disability Insurance Institute to the single treasury account of the Federation of BiH is expected, and consequently, observed individually, the revenues from the pension and disability insurance contributions are planned as an integral part of the Budget of the Federation of BiH.

Another significant category is income tax revenue, which has seen a high growth trend in the past three years, averaging 10%, continued into 2019. However, guided by the same factors of influence taken into account in the planning of revenues from mandatory contributions to extra-budgetary

⁶⁵ Official Gazette of BiH, 91/17

⁶⁶ Official Gazette of the Federation of BiH, 13/18

funds, income tax revenue projections have also been made conservatively with great caution. Thus, in 2020 it is expected to collect KM 427 million of these revenues, which implies a growth of 3.7% and is at the level of 1.8% of the GDP of the Federation of BiH, or 1.2% of the GDP of Bosnia and Herzegovina. Growth in 2021 and 2022 is set at an average of 4.5%, with stable retention of share in GDP at the 2020 level.

Caused by unexpected, significant underperformance in the first three quarters of 2019, projection of income tax revenues for this year has been revised, assuming a 5.5% fall in collection compared to the amount recorded in 2018. The level of this category of revenues to GDP in 2019 was lowered by 0.2 percentage points.

Medium-term corporate income tax projections have been made with extreme caution, applying lower average growth than expected positive real GDP developments. Thus, in 2020, 2021 and 2022, it is planned to achieve KM 385 million, KM 398 million and KM 413 million respectively, with an average medium-term growth rate of 3.5% and stable share of 1.6 % in the GDP of the Federation of BiH, or 1% in the GDP of Bosnia and Herzegovina.

Property tax revenues are projected at a stable level of about 0.5% of the GDP of the Federation of BiH, or 0.3% of the GDP of Bosnia and Herzegovina, with an expected average medium-term growth of 3.6%. In order to secure significant budget revenues, without imposing a tax burden on the more vulnerable categories of taxpayers, a reform measure was proposed to regulate this area and adopt a uniform law at the level of the Federation of BiH. Given that a number of necessary preliminary actions, planned in a given medium-term period, need to be carried out before implementation, it is still too early to assess the fiscal impact of this measure.

Total non-tax revenues in 2020 are planned in the amount of KM 1,110 million, at the level of 4.6% of the GDP of the Federation of BiH, or 3% of the GDP of Bosnia and Herzegovina. Following their movements in the coming years, large fluctuations are visible, conditioned by the structure of non-tax revenues, which largely include unpredictable categories.

Thus, projected amounts of fees and charges and special fees assume a steady growth in the range of 2.5% to 3%, with a stable share in GDP. The oscillations are recorded in the end-users' revenues for repayment of external debt in the revenues of the FBiH Budget, whose level of collection is determined by the maturity of the repaid credit obligations.

Furthermore, the planning of funds based on dividends paid by majority state-owned enterprises for 2020 was carried out conservatively, and due to the utmost unpredictability in the medium-term developments regarding the financial performance of public enterprises, the projections for 2021 and 2022 were completely omitted. The remaining portion of non-tax revenues is largely comprised of unplanned payments, which are projected with extreme caution.

Looking at the sector of the general government of Republika Srpska, total revenues are planned in the amount of KM 4,718.0 million in 2021, while in 2022 they are planned in the amount of KM 4,849.3 million. Tax revenues are planned in the amount of KM 2,618.0 million in 2021, while in 2022 they are planned in the amount of KM 2,711.5 million. Revenues from indirect taxes and revenues from income tax and corporate income tax have the highest share in tax revenues.

Within the tax revenues, the Production and Import Tax in 2021 is planned in the amount of KM 2.120,3 million, and the largest part of this amount consists of revenues from indirect taxes, which are planned in the amount of KM 1,968.3 million. Production and import tax in 2022 are planned in the amount of KM 2,198.0 million, of which revenues from indirect taxes are planned in the

amount of KM 2,040.5 million. A significant increase in indirect tax revenues is planned in 2020 due to a one-off settlement of liabilities from the previous period based on the allocation of indirect revenues, which is why the growth rate of these revenues is lower for 2021 and 2022.

Within tax revenues, Current taxes on income and wealth are planned in the amount of KM 493.0 million in 2021, and in the amount of KM 508.7 million in 2022. The largest part of this category of revenues consists of revenues from personal income tax and corporate income tax. Taking into account the trends of personal income tax and corporate income tax in the previous period, the number of employees, the movement of salaries, as well as the expected economic growth in the next period, the projection of revenues from personal income tax and corporate income tax amounts to KM 414.5 million in 2021, while an amount of KM 428.1 million is planned for 2022. Social contributions are planned in the amount of KM 1,706.5 million in 2021, while in 2022 they are planned in the amount of KM 1,734.8 million.

The PDI Fund's revenue projection for 2021 is KM 945.6 million, while the amount planned for 2022 is KM 962.3 million and the revenue on this basis belongs to the budget of Republika Srpska. The projection of revenues from social security contributions for the other three social security funds (Republika Srpska Health Insurance Fund, Republika Srpska Child Welfare Fund and Employment Service of Republika Srpska), as well as the Solidarity Fund for Diagnosis and Treatment of Illnesses, Conditions and Injuries of Children Abroad is KM 760.9 million for 2021, while an amount of KM 772.5 million is planned for 2022. Of this amount, revenues based on health insurance contributions for 2021 are planned in the amount of KM 635.2 million and KM 644.5 million for 2022 (of which the projected revenue from foreign insurance amounts to KM 25.8 million in 2021 and KM 28.1 million in 2022). Revenue from child protection contributions is planned in the amount of KM 80.6 million for 2021 and KM 82.1 million for 2022, while revenue from unemployment insurance contributions is planned in the amount of KM 39.4 million for 2021 and KM 40.1 million for 2022. Revenues from the special solidarity contribution are planned in the amount of KM 5.7 million for 2021, while the amount planned for 2022 is KM 5.8 million.

Medium-term projections of total expenditures of the general government of the Republika Srpska in the period 2021-2022 amount to KM 4,593.4 million and KM 4,640.7 million, while current expenditures amount to KM 4,263.0 million and KM 4,278.7 million, respectively. Compensation of employees ranges from KM 1,085.5 million in 2021 to KM 1,091.5 million in 2022. Interest is planned in the amount of KM 130.2 million in 2021, while the amount of KM 126.1 million is planned for 2022. Subsidies in 2021 amount to 181.6 million KM, and in 2022 to 162.6 million KM. Social benefits are planned at the level of KM 2,234.2 million and KM 2,254.1 million respectively. Other expenditures range from KM 387.5 million in 2021 to KM 407.6 million in 2022. Net investments in non-financial assets are planned at KM 272.7 million and KM 288.9 million, respectively. In 2021, a general government surplus is set at KM 124.6 million and at KM 208.6 million in 2022.

In the period 2020–2022, total financing⁶⁷(new borrowing) is planned in the amount of KM 1.3 billion, of which KM 0.5 billion in 2020, the same amount in 2021, and KM 0.3 billion in 2022.

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 2020

⁶⁷ Financing for the period 2020–2022 includes the plan of withdrawal of foreign loans on investment projects in implementation approved by the National Assembly of the Republic of Srpska as of 30.06.2019, the plan of receipts on the basis of new loans and securities issues for the purpose of financing budgetary spending in the period 2020-2022. and what the NARS will decide in the context of annual decisions on long-term borrowing.

being 34%, i.e. 66%, whereas the share of financing from foreign sources in 2022 will be reduced to just 2%, while the share of financing from domestic sources will increase to 98% 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 short-term and long-term⁶⁸) during this period, from the level of 66% in 2020 to 98% of total planned financing in 2022, whereas the share of financing through loans (foreign and long-term) will decrease from 34% in 2020 to 2% of total planned financing in 2022.

Foreign sources are used almost entirely to finance investment projects⁶⁹ (concessional sources of funding provided by the World Bank, EIB, EBRD, IFAD, KfW, Council of Europe Development Bank, etc.), while domestic sources are used to finance budgetary spending.

4.4. 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 2008-2022, 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, 6.25⁷⁰. 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/expenditure⁷¹, 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

⁶⁸ Short-term domestic securities will primarily be used for temporary financing of cash flow deficits, and net short-term annual financing will amount to KM 21.0 million (i.e. 4% of total financing) in 2020, 23.0 million KM (i.e. 5% of total financing) in 2021 and KM 20.0 million (i.e. 7% of total financing) in 2022, with annual net borrowing at KM 21.0 million in 2020, and 2,0 million KM in 2021 and -3,0 million KM in 2022.

⁶⁹ Of the total foreign financing, only 5% in 2020 and 8% in 2021 are related to budget spending financing, while in 2022 external sources are used solely to finance investment projects.

⁷⁰ Morten O. Ravn and Harald Uhlig: "Discussion Paper No. 2858 on adjusting the HP – Filter for the frequency of observation, CEPR, June 2001

⁷¹ 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.

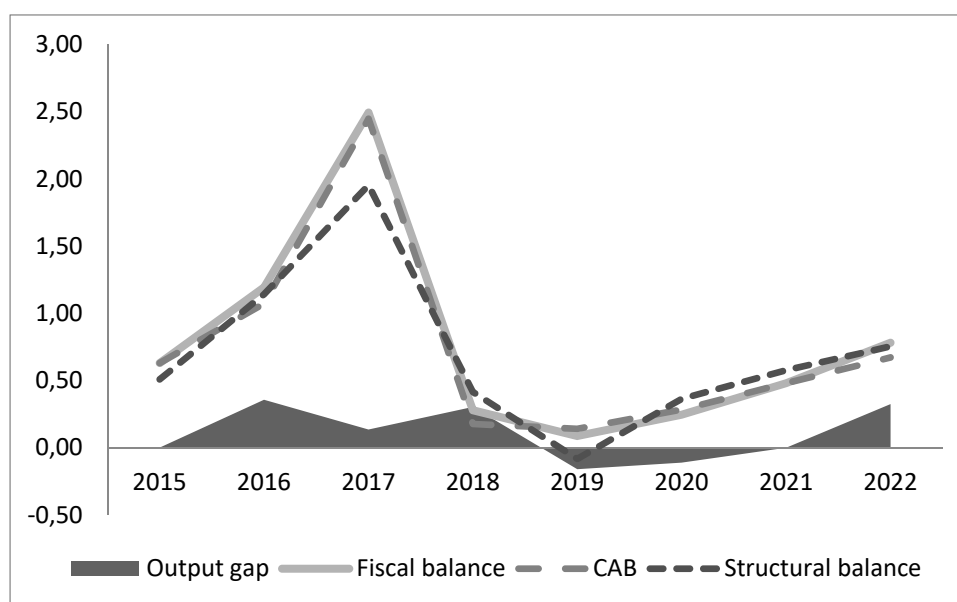
unemployment expenditure in relation to the corresponding tax base, are equal to one. This way calculated overall elasticity of the budgetary balance of the consolidated general government is 0.347, where revenue elasticity equals 0.337 and expenditure elasticity equals -0.01. The obtained results and their interpretation mainly depend on the length of the used sets, reliability and quality of data.

Table 9 - Fiscal balance and components for calculation of cyclically adjusted balance 2015-2022, in % of GDP⁷²

Year	Output gap	Fiscal balance	Primary fiscal balance	Cyclical component	Cyclically adjusted fiscal balance	Cyclically adjusted primary balance	Structural primary balance	Fiscal policy
2015	0.00	0.63	1.52	0.00	0.63	1,52	1,40	1,42
2016	0.36	1.19	2.01	0.12	1.07	1,89	1,95	-0,56
2017	0.14	2.49	3.18	0.05	2.45	3,14	2,64	-0,69
2018	0.30	1.16	1.92	0.10	1.06	0,94	1,18	1,47
2019	-0.16	-0.03	0.77	-0.05	0.02	0,92	0,70	0,48
2020	-0.11	0.10	0.87	-0.04	0.14	1,05	1,13	-0,44
2021	0.00	0.49	1.27	0.00	0.49	1,26	1,36	-0,22
2022	0.32	0.79	1.54	0.11	0.68	1,42	1,50	-0,15

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.

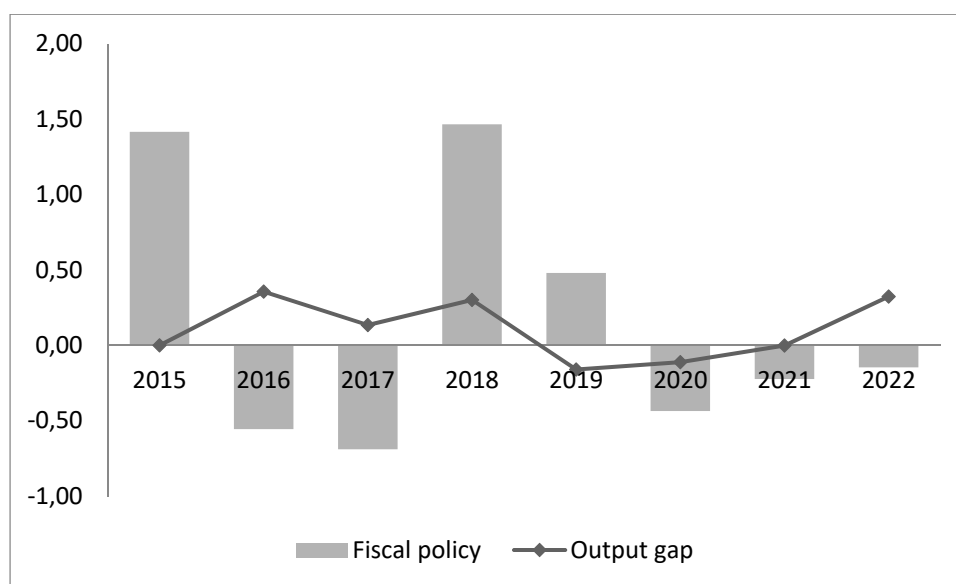
Graph 6 - Actual and cyclically adjusted fiscal balance in 2015-2022 in % of GDP



⁷² 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.

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 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 we can see the positive effects of the cycle in the period 2015-2018, and significant structural improvement in the fiscal position with high values of structural primary balance cleared of one-off effects on both the revenue side and the expenditure side. The actual surplus is slightly higher than the cyclically adjusted surplus and in 2018 but this difference decreased in 2019 due to the negative impact of the cycle. According to projections in 2020, the growth rate of real and potential GDP is expected to be equal while in 2021 and 2022 a higher growth rate of real GDP than the potential one is expected, bringing fiscal position back to the surplus zone.

Graph 7 - Fiscal policy character in BiH in 2015-2022



After 2014, when BiH economy was affected by floods and recorded the greatest negative impact of the cycle with high negative values of the output gap, fiscal consolidation measures were taken by restraining current spending 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 (direct and indirect) and curb the grey economy, leading to an improvement in fiscal stance and a surplus. In 2015, the Law on Special Contribution for Solidarity in the Republika Srpska was adopted to remedy the damage caused by floods, which was extended in 2015. In the area of indirect taxes, amendments to the Law on Excise Duties were adopted with effect from 01.02.2018, which increased the assigned toll, and the effects spread over the period 1.2.2018. do 31.1.2019. years. The graph shows that BiH authorities remain committed to continued fiscal consolidation and expenditure control measures.

4.5. 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 2019 amounts to KM 11,216.8 million. Of this total amount 74.1 % or KM 8,307.4 million pertains to foreign debt, whereas 25.9% or KM 2,909.4 million pertains to domestic debt.

Table 10 - Public debt state⁷³ and projections (in KM million)

	2018	2019	2020	2021	2022
1. FOREIGN DEBT (1.1+1.2+1.3+1.4)	8192.7	8307.4	8854.2	9232.0	9147.1
1.1 Institutions of BiH	74.0	79.2	71.5	65.7	61.3
1.2 Federation of BiH	4702.7	4690.0	5190.3	5652.0	5790.4
- Government of the Federation BiH	2291.2	2106.8	1971.1	1749.0	1492.4
- Cantons	237.1	221.5	238.9	254.1	252.2
- Municipalities and cities	154.1	161.2	156.5	147.2	136.8
- Public companies and other	2020.3	2200.5	2823.8	3501.7	3909.0
1.3 Republika Srpska	3363.1	3484.7	3545.9	3474.3	3260.8
- Budget of Republika Srpska	2118.1	2184.2	2146.7	2082.2	1958.7
- Local self-government units	115.4	120.6	130.0	127.0	121.4
- Public companies and IDB	1129.6	1179.9	1269.2	1265.1	1180.7
1.4 Brčko District	52.9	53.5	46.5	40.0	34.6
2. DOMESTIC DEBT (2.1+2.2+2.3)	2767.7	2909.4	3006.9	3032.3	2933.5
2.1 Federation of BiH	949.2	997.2	990.7	921.6	845.8
- Government of the Federation BiH	704.7	731.9	780.1	742.9	706.3
- Cantons	182.7	195.0	147.2	122.0	90.3
- Municipalities and cities	61.8	70.3	63.4	56.7	49.2
2.2 Republika Srpska	1815.4	1909.7	2014.3	2109.5	2087.2
- Budget of Republika Srpska	1338.2	1453.3	1618.0	1775.2	1809.5
- Local self-government units	298.3	285.9	250.6	214.6	178.8
- Social security funds	178.9	170.5	145.7	119.7	98.9
2.3 Brčko District	3.1	2.5	1.9	1.2	0.5
TOTAL (1+2)	10960.4	11216.8	11861.1	12264.3	12080.6

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

	2018	2019	2020	2021	2022
1.Total FBiH (1.1+1.2)	910.30	918.00	1,107.29	1,146.08	1,203.93
1.1 Foreign debt FBiH (sum a-d)	618.20	651.90	542.73	600.63	572.55
a) Government of FBiH	361.90	381.40	293.56	311.66	296.98
b) Cantons	31.00	33.20	19.34	22.74	21.69
c) Municipalities and cities	9.90	10.60	11.77	13.08	12.46
d) Public companies and other	215.40	226.70	218.06	253.15	241.42
1.2 Domestic debt	292.10	266.10	564.56	545.45	631.38
- Government of FBiH	292.10	213.40	506.03	510.85	590.39
- Cantons		49.00	50.58	26.86	32.63
- Municipalities and cities		3.70	7.95	7.74	8.36
2.Total RS (2.1+2.2)	933.00	725.20	586.30	677.40	658.20
2.1 Foreign debt of RS	345.60	296.30	265.30	285.10	286.50
- Budget of Republika Srpska	250.40	196.10	158.50	174.40	176.80
- Local self-government units	6.50	7.40	8.60	9.60	8.90

⁷³ For Republika Srpska, the total debt is included in accordance with legislation in Republika Srpska.

- <i>Public companies and IDB</i>	88.70	92.80	98.20	101.10	100.80
2.2 Domestic debt of RS	587.40	428.90	321.00	392.30	371.70
- <i>Budget of Republika Srpska</i>	495.30	296.50	242.50	315.00	302.40
- <i>Local self-government units</i>	62.50	113.60	46.40	45.30	43.70
- <i>Social security funds</i>	29.60	18.80	32.10	32.00	25.60
3.Total BD (3.1+3.2)	8.20	9.60	9.00	8.40	7.00
3.1 Foreign debt	7.50	8.90	8.30	7.70	6.30
3.2 Domestic debt	0.70	0.70	0.70	0.70	0.70
4. Foreign debt of Institutions of BiH	5.40	7.60	8.60	6.70	5.20
TOTAL BIH (1+2+3+4)	1,856.90	1,660.40	1,711.19	1,838.58	1,874.33

According to available information of the Ministry of Finance of Republika Srpska and the Ministry of Finance of FBiH the estimated contingent liabilities for 2019 amount to KM 780.1 million, of which KM 153.0 million pertains to the Federation of BiH and KM 627.1 million 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 2019, 61% of loans are directed to the implementation of infrastructure projects, 25% to loans intended for public sector, while 14% represent investment in economic activities. Credit conditions are characterised by a favourable average interest rate of 1.62% (67.9% of loans with fixed interest rate and 32.1% with a variable interest rate) and average maturity of 7.7 years. With regard to the currency structure of loans, those in EUR are still dominant with 59.8%, followed by SRD 24.9%, USD 6.9%, CPU 1.8%, and other currencies⁷⁴ comprising 6.6%.

In the period from 1 January to 30 September 2019, obligations under foreign debt are serviced in their entirety and in time, in the total amount of KM 575.79 million, thus all the assumed commitments are fully executed. Of the aforementioned serviced debt, principal repayment relates to KM 478.62 million (83.12%), and repayment of interest, service and other expenses KM 97.17 million (16.88%). Observed from the point of view of the period of incurrence of debt, KM 82.53 million refers to obligations paid under the "old debt", while KM 493.20 million was paid for obligations under the "new debt".

About 91.8% of the total serviced amount, or KM 528.30 million, relates to payment of liabilities to the following creditors: International Monetary Fund - KM 124.79 million (21.67%), World Bank - IBRD and IDA – KM 141.49 million (24.58%), European Investment Bank – KM 81.63 million (14.18%), European Bank for Reconstruction and Development - KM 78.45 million (13.63%), European Commission with KM 31.28 million (5.43%), the Paris Creditors Club - KM 25.31 million (4.40%), the London Creditors Club - KM 18.47 million (3.21%), the German Development Bank - KM 13.52 million (2.35%), and OPEC fund - KM 13.35 million (2.32%).

The remaining 8.2% of the total serviced foreign debt, or KM 47.43 million, is contributed by: Saudi Development Fund - KM 10.29 million, Government of Spain - KM 9.60 million, Raiffeisen bank A.G. - KM 6.31 million, UniCredit Bank Austria - KM 4.67 million, Korea Export-Import Bank - KM 4.35 million, Council of Europe Development Bank (CEB) - KM 4.30 million,

⁷⁴ The other currencies are: JPY, KRW, CHF, KWD, SAR, CAD, SEK, DKK, GBP.

International Fund for Agricultural Development (IFAD) – KM 2.63 million, etc. Regarding the currency structure of serviced liabilities in the observed period, the majority of liabilities or 77.93% was paid in EUR, 16.75% in USD, while 5.32% was realized in other currencies (under loans from bilateral agreements).

In the total amount of serviced liabilities, the Federation of BiH participated with KM 361.52 million (62.79%), Republika Srpska with KM 199.13 million (34.58%), Brčko District with KM 7.79 million (1.35%) and State institutions - direct obligations of BiH with KM 7.35 million (1.28%).

Table 12 - Public debt sustainability indicator⁷⁵

	2017	2018	2019	2020	2021	2022
GDP (million KM)	32,326	34,016	35,346	36,893	38,720	40,699
Total debt (in million KM)	10,946.1	10,960.4	11,216.8	11,861.1	12,264.3	12,080.6
Export of goods and services (million KM)	12,574	13,559	14,291	15,466	17,084	18,845
Foreign debt (in million KM)	7,804.9	8,192.7	8,307.4	8,854.2	9,232.0	9,147.1
Total debt repayment (in million KM)	2,137.3	1,856.9	1,660.4	1,711.2	1,838.6	1,874.3
Foreign debt service (million KM)	999.5	976.7	964.7	824.9	900.1	870.6
Net revenues from indirect taxes (million KM)	5,573.2	5,834.9	6,101.8	6,290.1	6,499.2	6,737.1
Total debt/GDP (%)	33.9	32.2	31.7	32.2	31.7	29.7
Total debt repayment/GDP (%)	5.7	5.5	4.7	4.6	4.7	4.6
Foreign debt/Export of goods and services (%)	80.4	60.4	58.1	57.2	54.0	48.5
Foreign debt servicing/Revenues from indirect taxes for distribution (%)	13.7	16.7	15.8	13.1	13.8	12.9

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.

According to data available to the FBiH Ministry of Finance, the state of public debt⁷⁶ in the Federation of BiH on 30 September 2019 amounts to KM 5,616.02 million, and it is estimated⁷⁷ to amount to KM 5,797.24 million on 31 December 2019.

⁷⁵ For Republika Srpska, the total debt is included in accordance with legislation in Republika Srpska

⁷⁶ Includes total foreign and domestic debt of the Government of the Federation of BiH, cantons, cities and municipalities in the Federation BiH

⁷⁷ Estimate made on the basis of the amount of foreign debt contracted by the Federation of BiH and subsidiarily transferred to final users - financial institutions, public enterprises, cantons, local communities, banks and other users, as well as internal public debt of cantons, cities and municipalities.

Table 13 - State of public debt in the Federation of BiH on 31 December through years, in KM million

Debt categories	2017	2018	2019		
			30.09.	Estimate 31.12.	Debt to GDP ratio
1	2	3	4	5	6 (5:GDP ⁷⁸)
1. Domestic debt in FBiH	1,132.24	949.22	949.23	997.23	4.54%
1.1. Domestic debt of Federation of BiH	894.69	704.67	683.87	731.87	3.33%
1.1.1. Securities	866.21	673.41	671.54	821.54	3.24%
a) Long-term securities	766.21	633.41	671.54	691.54	3.15%
Old foreign currency savings	40.80	7.99	1.87	1.87	0.01%
War claims	195.42	195.42	149.67	149.67	0.68%
Bonds of FBiH	530.00	430.00	520.00	540.00	2.46%
b) Short-term securities (treasury bills)	100.00	40.00	0	20.00	0.09%
1.1.2. Bank loans	0.00	0.00	0	0.00	0.00%
1.1.3. Obligations of former FBiH Ministry of Defence	12.09	12.08	12.08	12.08	0.06%
1.1.4. Verified domestic debt for which bonds were not issued	16.38	19.18	0.25	8.25	0.04%
Old foreign currency savings	14.42	11.49	0	8.00	0.04%
War claims	1.96	7.69	0.25	0.25	0.00%
1.2. Domestic debt of the cantons	178.22	182.72	195.01	195.01	0.89%
Bonds	18.81	18.81	27.05	27.05	0.12%
Loans	159.41	163.92	167.97	167.97	0.77%
Other	0.00	0.00	0.00	0.00	0.00%
1.3. Domestic debt of municipalities and cities	59.33	61.83	70.34	70.34	0.32%
Bonds	0.30	0.00	0	0	0.00%
Bank loans	59.03	61.83	70.34	70.34	0.32%
Other	0.00	0.00	0.00	0	
2. Foreign debt in FBiH	4,739.37	4,702.74	4,666.79	4,690.02	21.37%
2.1. Foreign debt of FBiH Government	2,393.51	2,291.21	2,174.69	2,106.74	9.60%
2.2. Foreign debt of cantons	248.70	237.14	223.98	221.50	1.01%
2.3. Foreign debt of municipalities and cities	138.72	154.05	163.49	161.24	0.73%
2.4. Foreign debt of public enterprises and other users	1,958.44	2,020.34	2,104.63	2,200.54	10.03%
TOTAL DEBT IN FBiH (1. +2.)	5,871.61	5,651.96	5,616.02	5,687.24	25.92%
TOTAL debt of FBiH Government (1.1. +2.1.)	3,288.20	2,995.88	2,858.57	2,838.61	12.93%
TOTAL debt of cantons (1.2.+2.2.)	426.92	419.86	418.99	416.51	1.90%
TOTAL debt of municipalities and cities (1.3.+2.3.)	198.05	215.88	233.83	231.58	1.06%
TOTAL debt of public enterprises and other users (2.4.)	1,958.44	2,020.34	2,104.63	2,200.54	10.03%

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 (cantons, local communities, public enterprises, financial

⁷⁸ GDP – KM 21,945.62 million, FBiH Institute for Statistics, Release: Annual GDP for FBiH 2018 –production approach, preliminary results, No 10.1.1. of 15 July 2019.

institutions, and other users) and on 30 September 2019 it amounts KM 4,666.79 million (the estimate for 31 December 2019 is KM 4,690.02 million).

By 30 September 2019, out of contracted⁷⁹ foreign loans in the total amount of KM 9,445.73 million, the amount of KM 7,794.59 million was engaged while KM 1,651.14 million was available for engagement in accordance with the dynamics of implementation of approved projects. The amount of KM 164.34 million was engaged during 2019.

The loans are, for the most part, contracted with bilateral creditors and multilateral financial institutions (World Bank, EBRD, EIB, IMF, etc.). Outstanding debt realised through multilateral financial institutions amounts to KM 3,586.65 million or 76.85% of the total external debt of the Federation of Bosnia and Herzegovina, while the remaining KM 1,080.13 million or 23.15% relates to borrowing from bilateral creditors.

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 2019 amounts to KM 949.23 million and it is estimated to amount to KM 997.22 million on 31 December 2019. Long-term debt in the Federation as on 30 September 2019 amounts to KM 936.89 million (the estimate for 31 December 2019 is KM 956.89 million), of which KM 698.59 million based on issued bonds⁸⁰ (567.05 million KM – the estimate for 31 December 2019) based on issued bonds.

On 30 September 2019, there is no outstanding short-term debt in the Federation of Bosnia and Herzegovina. It is estimated that the short-term debt on 31 December 2019 will amount to KM 20.00 million. In the period from 1 January to 30 September 2019, liabilities for external debt were serviced in their entirety and on time, in the total amount of KM 365.74 million, of which KM 302.44 million (82.69%) relates to the repayment of principal while KM 63.30 million (17.31%) relates to payment of interest, service and other costs.

Table 14 - Foreign debt servicing in the Federation of BiH in 2019, in KM million

	Realisation									Estimate		
	Q1			Q2			Q3			Q4		
	A	Q ⁸¹	Total	A	Q	Total	A	Q	Total	A	Q	Total
Relevant debt	59.19	18.04	77.23	146.13	20.53	166.66	94.66	22.56	117.22	129.53	20.57	150.10
Direct debt	0.43	2.02	2.45	0.85	0.11	0.96	1.17	0.05	1.22	0.90	0.12	1.02
Total	59.61	20.07	79.68	146.98	20.64	167.62	95.83	22.61	118.44	130.43	20.69	151.12

Table 15 - Estimated state of debt in the Federation of BiH on 31 December 2019 with projections by 2022 (in KM million)

Type of debt/debtors	2019	2020	2021	2022
Domestic debt	997.22	990.69	921.55	845.82
FBiH Government	731.87	780.09	742.91	706.32
Cantons	195.01	147.16	121.96	90.25
Municipalities and cities	70.34	63.44	56.68	49.25
Foreign debt	4,690.02	5,190.29	5,651.92	5,790.38

⁷⁹ No repaid loans are included

⁸⁰ Treasury bonds account for KM 547.05 million, bonds issued to settle old foreign currency savings KM 1.87 million and bonds issued to settle war claims KM 149.67 million

⁸¹ Data refer to interest, service and other expenses

FBiH Government	2,106.74	1,971.12	1,749.00	1,492.41
Cantons	221.50	238.87	254.05	252.17
Municipalities and cities	161.24	156.54	147.20	136.80
Public enterprises and other	2,200.54	2,823.76	3,501.67	3,909.01
TOTAL	5,687.24	6,180.98	6,573.47	6,636.20
FBiH Government	2,838.61	2,751.21	2,491.91	2,197.63
Cantons	416.51	386.03	376.01	342.42
Municipalities and cities	231.58	219.98	203.88	186.05
Public enterprises and other	2,200.54	2,823.76	3,501.67	3,909.01

Total domestic and foreign debt of the Government of FBiH on 30 September 2019 amounts to KM 2,858.57 million. The estimated total foreign and domestic public debt of the Government of FBiH (without the debt which was transferred to end users in subsidiary agreements) on 31 December 2019 amounts to KM 2,838.61 million, of which KM 2,106.74 million (74.22%) pertains to foreign debt and KM 731.87 million (25.78%) to domestic debt.

Table 16 - State of debt in FBiH by year (state on 31 December in KM million) in relation to the GDP

Year	GDP FBiH ⁸²	State of debt			Debt to GDP ratio		
		Foreign debt	Domestic debt	Total	Foreign debt	Domestic debt	Total
	1	2	3	4 (2+3)	5	6	7
31 Dec 2019	21,946	2,106.74	731.87	2,838.61	9.60%	3.33%	12.93%
30 Sep 2019	21,946	2,174.69	683.87	2,858.56	9.91%	3.12%	13.03%
31 Dec 2018	20,540	2,291.21	704.67	2,995.88	11.15%	3.43%	14.59%
31 Dec 2017	19,540	2,393.51	894.69	3,288.20	12.25%	4.58%	16.83%
31 Dec 2016	19,035	2,829.15	1,016.99	3,846.14	14.86%	5.34%	20.21%
31 Dec 2015	18,103	2,825.99	1,027.58	3,853.57	15.61%	5.68%	21.29%
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%

The foreign debt of the Government of the Federation of Bosnia and Herzegovina is the debt of the Federation of BiH 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, regardless of whether it was contracted directly or through the Ministry of Finance and Treasury of BiH. Foreign debt of the Government of the Federation of BiH on 30 September 2019 amounts to KM 2,174.69 million (it is set to KM 2,106.74 million on 31 December 2019).

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.

⁸² GDP KM 20,540 million- FBiH Institute for Statistics 25 December 2018, Release " Annual Gross Domestic Product for the Federation of BiH, 2017"

Domestic debt of the Government of the Federation of BiH on 30 September 2019 amounts to KM 683.87 million (it is set to KM 731.87 million on 31 December 2019). 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 securities (treasury bills and treasury bonds) issued by the Federation of BiH through auctions in 2011 and 2012, respectively.

According to the tentative calendar of auctions, 14 auctions of treasury bills (KM 380.00 million) and seven auctions of treasury bonds (KM 250.00 million) were planned in 2019. Due to the reduced need for financing current liquidity, by 30 September, 2019, none of the planned treasury bills auctions were held, and one bond auction was cancelled (KM 40 million). During this period, three securities auctions were held, at which KM 90 million was issued, and all three auctions refer to bond auctions in the amount of KM 30.00 million each with maturities of seven, ten and three years. By the end of 2019, there will be one auction of nine-month treasury bills in the amount of KM 20.00 million and three bonds auctions totalling KM 110.00 million (seven-year in the amount of 40.00 million KM, five-year in the amount of KM 30.00 million and three-year in the amount of KM 40.00 million). 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 2019 there were KM 520.00 million remaining outstanding obligations based on issued market securities (at the end of 2019 there will be KM 540.00 million), and KM 151.54 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 2019 amount to KM 12.33 million, and, according to estimates, they will amount to KM 20.33 million by 31 December 2019. Obligations arising from old foreign currency savings verified in 2019 will be settled by issuing securities in 2020.

Table 17 - Structure of domestic debt of the Federation of BiH with state on 31 December in the period 2016 - 2022 (in KM million)

	2017	2018	2019		2020	2021	2022
			30 Sep	31 Dec			
Total domestic debt	894.69	704.67	683.87	731.87	780.09	742.91	706.32
Non-market instruments	236.22	203.41	151.54	151.54	109.86	74.28	38.69
Bonds OFCS ⁸³	40.80	7.99	1.87	1.87	0	0	0
Bonds WC	195.42	195.42	149.67	149.67	109.86	74.28	38.69
Market instruments	600.00	470.00	520.00	560.00	660.00	660.00	660.00
Treasury bills	100.00	40.00	0	20.00	120.00	120.00	120.00
Bonds ⁸⁴	530.00	430.00	520.00	540.00	540.00	540.00	540.00
Obligations of former MoD	12.09	12.08	12.08	12.08	9.78	8.58	7.38
Suppliers	7.25	7.25	7.25	7.25	5.28	4.28	3.28
Salaries	4.84	4.83	4.83	4.83	4.50	4.30	4.10
Other (OFCS verified in 2018 and verdicts for WC)	16.38	19.18	0.28	8.25	0.45	0.05	0.25

⁸³ Old foreign currency savings – includes issuance planned for 2020.

⁸⁴ Includes issuance planned for 2019-2022

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 2019, 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 15.64 million and old foreign currency savings were settled in the amount of KM 108.32 million. For the purpose of settling obligations arising from old foreign currency savings, there were 11 bonds issuances in the total value of KM 891.27 million, of which KM 889.39 million matured and were paid as on 30 September 2019. For the purpose of settling obligations arising from war claims, there were four bonds issuances in the total value of KM 195.42 million. Settlements of principals for war claims for which bonds were issued shall begin after the grace period expires (9 years after issuance)⁸⁵ and the first payment in the amount of KM 45.75 million was made on 30 June 2019.

In 2019 (until 30 September 2019), a total of KM 118.85 million was paid for servicing of domestic debt, of which KM 106.57 million for principal and KM 12.28 million for interest (the total servicing of domestic debt in 2019 is expected to amount to KM 208.85 million, of which KM 196.57 million for principal and KM 16.83 million for interest).

Indebtedness in the Federation of BiH remains in line with the Maastricht criteria, and servicing of the debt within the limits set under the Law on Debt, Borrowing and Guarantees. The share of foreign debt servicing which was transferred to end-users through subsidiary agreements in the total obligation of FBiH is gradually increasing. Servicing of domestic long-term debt of the Federation of BiH makes up a significant share of total annual obligations.

Table 18 - Net borrowing of the Government of the Federation of BiH by issuing securities in the domestic market with projections until 2022 (in KM million)

Type of securities		2017	2018	30 Sep 2019	31 Dec 2019	2020	2021	2022
Treasury bonds of the Federation of BiH	Issuance	0.00	20.00	90.00	200.00	120.00	100.00	170.00
	Repayment of principal	-120.00	120.00	0.00	-90.00	120.00	100.00	170.00
	Net borrowing	-120.00	-100.00	90.00	110.00	0.00	0.00	0.00
Treasury bills of the Federation of BiH	Issuance	300.00	40.00	0.00	20.00	410.00	360.00	360.00
	Repayment of principal	-280.80	-100.00	-40.00	-40.00	310.00	360.00	360.00
	Net borrowing	-19.20	-60.00	-40.00	-20.00	100.00	0.00	0.00
NET TOTAL BORROWING		-100.80	-160.00	50.00	90.00	100.00	0.00	0.00

Debt management with the aim of securing financial resources to finance government needs (servicing existing debt obligations and financing development projects) at acceptable costs and risks in the medium and long term while 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.

⁸⁵ Repayment of tranche I principal started 2019, for tranche II it will start in 2021, for tranche III in 2023, and for tranche IV in 2025

The Law on Borrowing, Debt and Guarantees of the Republika Srpska regulates in detail the scope of borrowing and issuing guarantees of the Republika Srpska and local self-government units, as well as the methods and procedures of borrowing, which together with the existing laws in the area of the budgetary system and the Law on Fiscal Responsibility in the Republika Srpska⁸⁶, represent a comprehensive legal framework for improvement and control of budget discipline. Pursuant to the Law on Borrowing, Debt and Guarantees of the Republika Srpska, the restriction on the amount of debt is set so that the total debt of the Republika Srpska⁸⁷ at the end of the fiscal year may not exceed 60%, while the Republic of Srpska's public debt may not exceed 55% of realized GDP in that year. Debt of Republika Srpska which was incurred under borrowing for financing the rehabilitation of damages from the Single Registry of Damages, prescribed by the Law on the Solidarity Fund for Reconstruction of Republika Srpska, is excluded from these restrictions prescribed for total and public debt of Republika Srpska. Short-term debt of Republika Srpska may not exceed 8% of the amount of regular revenues realised in the previous fiscal year. The total exposure of Republika Srpska under issued guarantees may not exceed 15% of realised GDP in that year. In addition, the RS National Assembly decides on the total amount of RS guarantees that the Government can issue during the fiscal year⁸⁸. Local self-government units may borrow in the long-term only if in the period of creation of debt, the total amount due for repayment, under the proposed debt and total due arrears in any subsequent year does not exceed 18% of its regular revenues realised in the previous fiscal year. Short-term debt of municipalities may not exceed 5% of their regular revenues realised in the previous fiscal year, while exposure of local self-government units under issued guarantees may not exceed 30% of the amount of their regular revenues realised in the previous fiscal year (all rules applicable to local self-government units are also applicable to social security funds, except in part related to guarantees - social security funds may not issue guarantees). The Law on Fiscal Responsibility, within the framework of general fiscal rules, establishes a rule on debt, which implies that the public debt of the Republika Srpska at the end of the fiscal year may not exceed 55% of realized GDP in that year, while within the specific fiscal rules it defines the debt threshold, which implies that if Republika Srpska's public debt reaches 50% of GDP in that year at the end of the fiscal year, the next year's budget must be with a budget surplus.

In September 2019, the Government of Republika Srpska adopted the Republika Srpska Debt Management Strategy for the period 2019-2022⁸⁹, which defines the main goal of the Republika Srpska debt management, the objectives of borrowing for the purpose of meeting the main debt management goal, the strategy for achieving the aforementioned objectives, the tasks of the Ministry of Finance of Republika Srpska, and identifies indicators, i.e. guidelines in order to achieve the debt structure with acceptable level of costs and risks, as follows:

- in order to manage currency risk, foreign currency debt (excluding EUR debt) should be lower than 35% of total observed debt, while in order to develop the domestic market, domestic debt should exceed 25% of total observed debt;

⁸⁶ Official Gazette of Republika Srpska, 94/15 and 62/18

⁸⁷ In accordance with the Law on Borrowing, Debt and Guarantees of the Republika Srpska, the total debt of the Republika Srpska consists of the public debt of the Republika Srpska, the debt of public enterprises, IDB RS and public sector institutions. Public debt is debt of Republika Srpska, debt of local self-government units and debt of social security funds.

⁸⁸ Article 1 of the Law on Amendments to the Law on Borrowing, Debt and Guarantees of the Republika Srpska (Official Gazette of the Republika Srpska, 114/17).

⁸⁹ Document Republika Srpska Debt Management Strategy for the Period 2019–2022 is available at the website of the Government of Republika Srpska

- in order to manage refinancing risk, the average time to maturity should be more than four years and the short-term debt should be less than 8% of the income generated in the previous year;
- in order to manage interest rate risk, debt on fixed terms should exceed 60% of the total observed debt, while the average weighted interest rate should be lower than 3.5%.

State of public debt of Republika Srpska on 30 June 2019 amounts to KM 4,140.1 million, which represents 37.3% of GDP⁹⁰, while the state of total debt of Republika Srpska amounts to KM 5,349.8 million, i.e. 48.2% of GDP, and comprises:

- debt of Republika Srpska in the amount of KM 3,538.7 million,
- debt of local self-government units in the amount of KM 418.5 million,
- debt of social security funds in the amount of KM 183.0 million,
- debt of public enterprises and the Investment Development Bank of Republika Srpska (IDB) in the amount of KM 1,209.7 million.

The total debt of the Republika Srpska as on 30 June 2019 in the amount of KM 5,349.8 million, by origin of debt, relates to:

- Foreign debt in the amount of KM 3,446.5 million, of which:
 - debt of Republika Srpska in the amount of KM 2,123.6 million,
 - debt of local self-government units in the amount of KM 113.2 million,
 - debt of public enterprises and IDB in the amount of KM 1,209.7 million,
- Domestic debt in the amount of KM 1,903.3 million, of which
 - debt of Republika Srpska in the amount of KM 1,415.0 million,
 - debt of local self-government units in the amount of KM 305.3 million,
 - debt of social security funds in the amount of KM 183.0 million.

On 30 June 2019, total debt of Republika Srpska, which is subject to the legal limitation, amounts to KM 5,284.3 million (47.6% of GDP), while the public debt which is subject to legal limitation amounts to KM 4,074.6 million (36.7% of GDP). As on 30 June 2019, the total exposure of Republika Srpska under issued guarantees is KM 627.0 million (5.7% of GDP), while the state of debt based on loans for which the Government of Republika Srpska issued guarantees amounts to KM 502.1 million.

When it comes to the currency structure of the debt portfolio, the total debt of the Republika Srpska is dominated by four currencies: EUR, KM, SDR, and USD. EUR (42.0%) and KM (35.6%) accounted for the largest share in the currency structure of debt, since domestic debt was entirely denominated in local currency. Given that the Central Bank of BiH maintains monetary stability in accordance with the currency board arrangement⁹¹, it can be considered favourable that the euro's share in the currency structure of the debt is significant. The high share of the Euro and the Convertible Mark provides a high degree of predictability of future liabilities (77.6%), and in that sense the Republika Srpska is exposed to lower currency risk. However, due to the significant share of SDR and USD in the currency structure of debt (14.5% and 1.9%, respectively), and given the dominance of the US dollar in the structure of SDR, a strengthening of the US dollar could

⁹⁰ Estimated value of GDP for 2019 amounts to KM 11,100 million.

⁹¹ Currency board arrangement, i.e. currency board, determined the issuance of local currency with full coverage in free convertible assets at a fixed exchange rate of 1 KM: 0,51129 EUR.

have the effect of increasing the foreign debt balance, which would require more domestic currency to service the foreign debt.

As for the maturity structure of debt, it is very important to note, as a positive fact, that the total debt of Republika Srpska, by original maturity, is almost entirely long-term. Namely, only 0.8% of the total debt of the Republika Srpska refers to short-term debt, while the entire remaining debt is long-term and its share is 99.2%. Most of the total debt, i.e. 73.5%, is repaid at fixed interest rates. Of the total foreign debt, 65.9% is repaid on fixed terms, while 87.2% of the total domestic debt is repaid on fixed terms.

The Republika Srpska total debt of 56.2% is in the repayment stage, while the remaining 47.4% is in the grace period. Out of total foreign debt, repayment started for 48.6% of debt (of which 97.7% repayment for "old" debt and 42.3% for "new" debt), while 59.9% of the total domestic debt is in the repayment stage. Regarding the structure of the total debt of the Republic of Srpska in terms of instruments, the marketable part of debt (bonds and treasury bills) is 29.3%, while the remaining debt represents the non-marketable part of debt (loans and debt settled through the action plan or in cash).

Table 19 - Servicing and state of the total debt of Republika Srpska in the period 2018-2022 (in KM million)

No.	DESCRIPTION		2018	1 Jan-30 June 2019	2019	2020	2021	2022
			performance		plan	projections		
1	Foreign debt servicing		345.6	141.7	296.2	265.3	285.1	286.5
	1.1.	of Republika Srpska	250.4	94.2	196.1	158.5	174.4	176,8
	1.2.	of local self-government units	6.5	3.4	7.4	8.6	9.6	8,9
	1.3.	of public enterprises and IDB	88.7	44.1	92.8	98.2	101.1	100,8
2	Domestic debt servicing		587.4	208.2	428.9	321.1	392.4	371.7
	2.1.	of Republika Srpska	495.3	158.3	296.5	242.5	315.0	302,4
	2.2.	of local self-government units	62.5	37.7	113.6	46.4	45.3	43,7
	2.3.	of social security funds	29.6	12.2	18.8	32.1	32.0	25,6
3	Total debt servicing of Republika Srpska (1+2)		933.0	349.9	725.1	586.4	677.5	658.2
3.1.	Servicing of the debt from the budget of Republika Srpska		854.5	301.7	595.8	507.9	599.5	587.6
4	Foreign debt state		3,363.1	3,446.5	3,484.6	3,545.9	3,474.3	3,260.8
	4.1.	of Republika Srpska	2,118.1	2,123.6	2,184.2	2,146.7	2,082.2	1,958,7
	4.1.1.	<i>subject to legal limitation</i>	<i>2,060.7</i>	<i>2,058.1</i>	<i>2,109.8</i>	<i>2,074.8</i>	<i>2,012,8</i>	<i>1,893,1</i>
	4.1.2.	<i>not subject to legal limitation</i>	<i>57.4</i>	<i>65.5</i>	<i>74.4</i>	<i>71.9</i>	<i>69,4</i>	<i>65,7</i>
	4.2.	of local self-government units	115.4	113.2	120.6	130.0	127.0	121,4
	4.3.	of public enterprises and IDB	1,129.6	1,209.7	1,179.9	1,269.2	1,265.1	1,180,7
5	Domestic debt state		1,815.4	1,903.3	1,909.7	2,014.2	2,109.5	2,087.2
	5.1.	of Republika Srpska	1,338.2	1,415.0	1,453.3	1,618.0	1,775.2	1,809,5
	5.2.	of local self-government units	298.3	305.3	285.9	250.6	214.6	178,8
	5.3.	of social security funds	178.9	183.0	170.5	145.7	119.7	98,9
6	PUBLIC DEBT OF REPUBLIKA SRPSKA (4.1. +4.2. +5)		4,048.9	4,140.1	4,214.5	4,290.9	4,318.7	4,167.3
7	TOTAL DEBT OF REPUBLIKA SRPSKA (4+5)		5,178.5	5,349.8	5,394.3	5,560.1	5,583.8	5,348.0
8	RS public debt subject to legal limitation (4.1.1. +4.2. +5)		3,991.5	4,074.6	4,140.1	4,219.0	4,249.3	4,101.7
9	Total debt of RS subject to legal limitation (4.1.1. +4.2. +4.3. +5)		5,121.1	5,284.3	5,320.0	5,488.2	5,514.3	5,282.4
10	State of the short-term debt of Republika Srpska		0.0	40.0	0.0	21.0	23.0	20.0
11	Exposure of Republika Srpska under issued guarantees		549.9	627.0	627.1	568.6	497.2	424.5

Source: Ministry of Finance of RS, reports of local self-government units and social security funds

Shown in the table above, the projected external currency debt in original currency for the period 2019 - 2022 is based on the amount of withdrawn credit funds as by 30 June 2019 plus the

estimated withdrawals for investment projects under implementation⁹² and withdrawals to finance budgetary spending, and minus the estimated amount of foreign debt servicing. To calculate the estimated foreign debt balance from the original currencies to KM, the estimated exchange rates were used based on the assumption that by the end of 2019 there will be an appreciation of the value of all currencies against KM in the amount of 1.38%⁹³ in comparison with the values of on 31 March 2019, and that their values will remain at the same level for the period 2020-2022. The projected state of domestic debt of Republika Srpska and the indirect debt of Republika Srpska in the period 2019-2022 is based on the state of debt as at 30 September 2019, increased by the issuance of securities in the coming period, minus the estimated amount of the Republika Srpska's domestic debt and indirect internal debt servicing. For the preparation of the exposure assessment of the Republika Srpska under the issued guarantees, credit defaults were taken into account for which, as of the preparation of this document, the Republika Srpska Government has issued a Republika Srpska guarantee and a repayment plan for them. Projections of the balance and direct debt service of local self-government units and social security funds were taken from them.

Debt creating flows and risks

According to estimates for the period 2020-2022, debt indicators will move as follows:

- in 2020 net debt⁹⁴ will amount to 1.2% of GDP, in 2021 0.6% of GDP, and in 2022 -1.5% of GDP;
- Nominal growth of total, i.e. public debt in 2020 will be 3.1%, i.e. 1.8%, in 2021 0.4%, i.e. 0.6%, while in 2022 it will be - 4.2%, i.e. -3.5%;
- The state of total, i.e. public debt to GDP ratio in 2020 will be 48.0%, i.e. 37.0%, in 2021 it will be 46.1%, i.e. 35.6%, and in 2022 42.1%, i.e. 32.8%;
- The cost of servicing (servicing based on interest rates) of total, i.e. public debt relative to GDP in 2020 will be 1.2%, i.e. 1.1%, in 2021 1.1%, i.e. 1.0%, while in 2022 it will be 1.0%, i.e. 0.9%.

The main risks to the realization of the aforementioned debt indicators are reflected in the following:

- the realization of assumptions about growth, deficit/surplus, and the need for funding which directly affects the decrease/increase in the level of debt;
- the realization of assumptions about the values of floating interest rates, foreign exchange rates, withdrawal of credit funds (for financing investment projects under implementation and budget spending) and availability of planned debt instruments to finance budget spending in the projected period;
- withdrawal of funds based on potential loans for investment projects, as well as loans for which Republika Srpska guarantees were issued, which are in different stages of preparation (they are not included in the assessment);

⁹² Plan of withdrawal is made in accordance with the PIU information on the dynamics of withdrawal of the approved foreign funds (PIU reports by 30 June 2019).

⁹³ The coefficient of 1.38% represents the ratio between the estimated value of the SDR for the period 2019-2022 (1 SDR = 2.45 KM, which represents the maximum value of the SDR in the period from 1 July 2018 to 30 June 2019, plus 0,02) and its values as on 31 March 2019 (1 SDR = 2,42 KM).

⁹⁴ Indicators of net indebtedness include the net indebtedness of the Government of the Republika Srpska on behalf of the Republika Srpska (including the estimated dynamics of verification and settlement of obligations defined by the Republika Srpska Internal Debt Law), and the net indebtedness of the Republika Srpska on behalf and for the account of the debtors (local self-government units, social security funds, public enterprises, Investment Development Bank and public sector institutions).

- possible changes in legal provisions that would regulate the obligation to settle internal debt in a way different from the existing legal solutions.

Contingent liabilities

Contingent liabilities of the Federation of Bosnia and Herzegovina, namely 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 enterprises on 30 September 2019 amount to KM 10.23 million and pertains to the guarantee that the Government of the Federation of BiH issued in 2010 for JP Željeznice FBiH for a loan in the amount of KM 78.92 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 budget of FBiH in line with the relevant legislation, the risk of activating this guarantee is very low.

The Federation of BiH Parliament on 1 April 2019 issued a Decision approving the Decision on issuing a guarantee of the Federation of Bosnia and Herzegovina (issued by the Government of the Federation of Bosnia and Herzegovina under No. V No. 973/2018 dated 17 August 2018) in favour of the Export-Import Bank of China of the Public enterprise Elektroprivreda BiH dd Sarajevo for the realization of the Project for construction of Block 7 - 450 MW of Tuzla TPP in the amount of up to EUR 613,99 million or 85% of the total value of the Agreement on Engineering, Supply and Construction of Block 7 - 450 MW in TPP Tuzla between JP Elektroprivreda BiH and Consortium China Gezhouba Group Company Limited, Beijing, China (Leader) and GEDI - Guandong Electric Power Design Institute, China (Consortium Member) plus interest and other related costs under the Credit Line Agreement between JP Elektroprivreda BiH and CEXIM BANK.

Table 20 - State of contingent liabilities (loans under guarantees of FBiH) on 31 December with projections until 2022 (in KM million)

	2016	2017	2018	30 Sep 2019	31 Dec 2019	2020	2021	2022
Federation of BiH ⁹⁵	36.61	26.71	16.81	10.23	8.13	107.36	296.37	909.30
Cantons ⁹⁶	83.38	98.64	98.13	98.42	95.40	90.33	86.37	81.31
Municipalities and cities ⁹⁷	54.05	55.07	39.96	43.22	51.30	34.95	35.1	31.20
TOTAL	135.73	180.84	94.90	151.87	152.95	240.77	417.84	1,021.81

Table 21 - Annual liabilities under loans for which FBiH issued or intends to issue guarantees (in KM million)

	2019	2020	2021	2022
Željeznice FBiH	8.12	8.13	0	0
JP EPBiH (TPP Tuzla-block 7)	0	14.56	9.96	11.37
TOTAL	8.12	22.69	9.96	11.37

⁹⁵ Contingent liabilities of the Federation of BiH pertain to the guarantee under subordinated loan for *Željeznice FBiH* and the guarantee for loan of JP EP BiH with CEXIM BANK Debt under this loan of *Željeznice FBiH* is fully settled in 2019, while the projected state of debt under the loan for TPP Tuzla –block 7 in 2020 amounts to KM 107.56 million, in 2021 KM 296.37 million, and in 2022 KM 909.30 million.

⁹⁶ According to data available to the FBiH Ministry of Finance

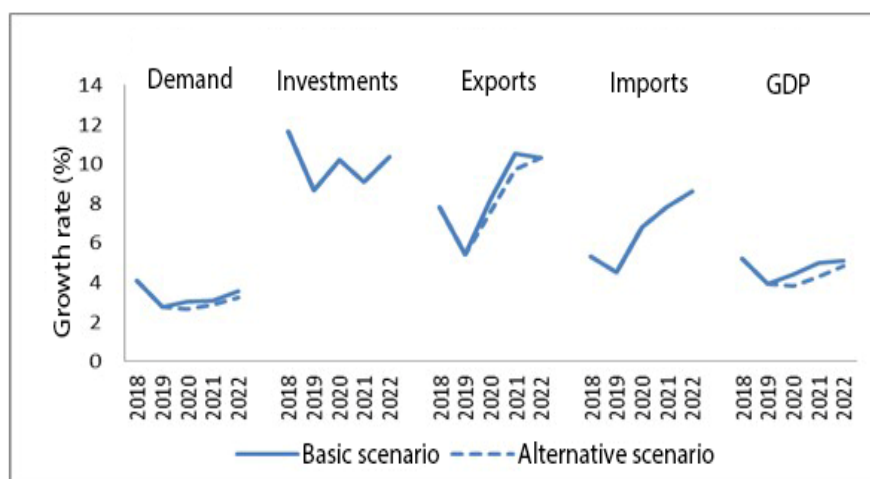
⁹⁷ According to data available to the FBiH Ministry of Finance

4.6. Sensitivity analysis and comparison with the previous programme

Sensitivity of the budgetary projections to alternative scenarios and risks

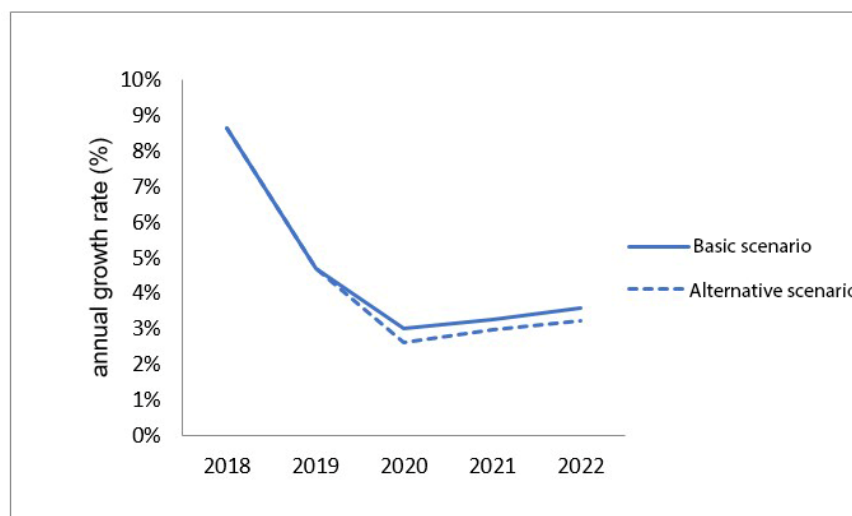
The Directorate for Economic Planning of BiH prepared an alternative scenario of projections of macroeconomic indicators, both for internal risks to the realisation of the baseline scenario and for external risks, considering that developments in the external environment also have a significant impact on economic flows in BiH. When compared to the baseline scenario of macroeconomic projections (DEP, September 2019), projections from the alternative scenario envisage lower growth rates of the GDP in the 2020-2022 period, given the lower growth rates of export and consumption, due to the used assumptions regarding materialization of risks.

Graph 8 - Basic/Alternative Scenario 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 2020-2022 period, when compared to growth rates from the baseline scenario.

Graph 9 - Sensitivity of revenues from indirect taxes



This graph 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 (-0.40 pps. -0.26 pps. and -0.34 pps. in 2020, 2021 and 2022 respectively), because the differences in the estimates of main macroeconomic indicators are not significant to begin with. In absolute values, the differences are KM -26.3 million in 2020, KM -44.4 million in 2021 and KM -69.6 million in 2022.⁹⁸ The biggest differences in absolute values pertain to revenues from collection of VAT (KM -19.1 million, KM -31.8 million and KM -51.3 million in 2020, 2021 and 2022 respectively), given their largest share in the structure of indirect tax revenues, and adjustments of consumption growth rates in the alternative scenario. Excise and road tax revenues were also adjusted downward due to the revised growth rate of consumption in the alternative scenario (together KM -7.2 million, KM -12.7 million and KM -18.3 million in 2020, 2021 and 2022, respectively).

In the Federation BiH, the medium-term projections of public revenues are closely linked to expected macroeconomic developments, which could have a different positive or negative outcome if the planned economic growth accelerates, slows down or completely falls short relative to the assumed one.

The realization of any of the risk factors in the macroeconomic scenario, as well as unplanned changes in the public policies that regulate the introduction and collection of public revenues, will lead to repercussions on the level of their realization.

In particular, it is necessary to look at the revenues from indirect taxes that the Federation of BiH receives from the distribution from the Single Account. In addition to all the factors that may affect a different collection outcome at the level of the overall plan in the Single Account, the share that each entity receives in the allocation is directly influenced by the entity's level of achieved final consumption, based on which the corresponding allocation coefficient is calculated, as well as the level of the entity's foreign debt repayment. The lack of stable coefficients, that is, any significant oscillation in the recorded final consumption, will lead to a different level of realization. Changes in the level of indebtedness, as well as the rescheduling of liabilities arising from existing credit facilities, can also be reflected in the final outcome of indirect tax revenues that the Federation of BiH receives from the allocation from the Single Account.

In relation to the total projection for 2018, given in the Economic Reform Program 2019-2021, which amounted to KM 8.774 million, with a share of 41.4% in the then estimated GDP of the Federation of BiH, or 25.9% in the estimated GDP of Bosnia and Herzegovina, the consolidated revenues of the Federation of BiH were realized by approximately 2% more. The reason for the stated positive deviation is largely based on higher growth of real GDP than assumed, while in the Federation of BiH, the positive effect of debt default interest write-offs, applied in 2018, had a positive effect on the growth of collection of certain categories of public revenues, primarily mandatory contributions to extra-budgetary funds and income tax revenues.

Table 22 - Comparison of consolidated revenues of the Federation of BiH

Period	2018	2019	2020	2021	2022
a. Economic Reform Program 2020-2022					
Consolidated revenues of the Federation of BiH (<i>in KM mill.</i>)	8,948	9,135	9,469	9,857	10,232
b. Economic Reform Program 2019-2021					
Consolidated revenues of the Federation of BiH (<i>in KM mill.</i>)	8,774	9,044	9,401	9,693	-

⁹⁸ In % of GDP: -0.07% in 2020, - 0.12% in 2021 and -0.17% in 2022

DIFFERENCE (a. – b.; a. / b.)					
(in KM mill.)	174.2	91.6	68.4	164.1	-
(in %)	1.99	1.01	0.73	1.69	-

Source: FBiH Ministry of Finance

In Republika Srpska, projections of direct tax revenues and non-tax revenues have been made on the basis of projected macroeconomic indicators for Republika Srpska and existing tax policies in the area of direct taxation, as well as regulations defining non-tax revenues. For each individual type of revenue, the collection trends in the previous period are analysed, potential one-off impacts that will occur in the coming period are included, and the degree of correlation between certain types of revenues and developments of macroeconomic aggregates is determined. Revenue projection is prepared individually for each type of revenues and this is extremely important, since it takes into account the legal bases, seasonal influences and specificities of each individual source of income.

Projections of indirect tax revenues pertaining to the Republika Srpska, in addition to the identified current trends in revenue collection and changes in tobacco excise and customs policies (harmonization of excise duties on cigarettes with EU standards and alignment of excise duties on cut tobacco with the growth of excise duties on cigarettes, as well as implementation of the Free Trade Agreement between BiH and EFTA of 1 January 2015), are based on forecasts of macroeconomic indicators for BiH and the Republika Srpska.

Given the specificity of the system of allocation of indirect tax revenues, the estimated developments of macroeconomic indicators for Republika Srpska are important from the aspect of perceiving the trends of final consumption in the stated period, as a basis for determining the coefficient of allocation of indirect taxes revenues between Republika Srpska and FBiH. However, the projection of external debt servicing is of particular importance for the system of allocation of indirect tax revenues within the Republika Srpska, i.e. between the central government sub-sectors, local self-government units and JE "Putevi Republike Srpske".

The main risks to realizing these revenue projections may be as follows:

- Divergencies in of macroeconomic indicators from projected values, given the close relationship between these projections and revenue projections, that is, the degree of correlation of certain types of revenues with the movement of macroeconomic aggregates;
- Changes in taxation policy in the area of direct taxes, contributions and non-tax revenues;
- Possible changes in indirect taxation policies. In this relation, the expected effects of changed tax policies in the field of excise products, if they are not accompanied by adequate administrative and operational measures and actions, can be reduced through the illegal import and sale, as well as tax evasion;
- Significant divergencies in the movement of the coefficient of allocation of indirect tax revenues between Republika Srpska and FBiH relative to the estimated level;
- Unexpected fluctuations in the international foreign exchange market through changes in foreign debt servicing can lead to divergences from projected indirect tax revenues;
- The operations of the tax administration have a significant impact on revenue trends. Tax revenue depends on improvement of tax discipline;
- Other developments (natural disasters, etc.).

The main political risks to achieving the above projection of indirect tax revenues are as follows:

- As the adoption of Global Framework of Fiscal Balance and Policies in BiH for the 2020-2022 period was delayed, the preparation of RS ERP 2020-2022 started from the assumption that the funds for financing the institutions of BiH, which are extracted from the ITA account, will still amount to KM 750 million in the observed period.;
- Introduction of a new automatic system of revenue allocation from the account of the Indirect Taxation Authority.

Expenditure projections are made on the basis of requests from budget users and obligations arising from laws and regulations. Budget realization is done in accordance with the revenues and inflow into the budget. The realization risk lies in the (non) realization of the macroeconomic and other assumptions on which the projection is based. In addition, the risks in the real sector would have an impact on expected economic growth and employment.

Comparison with the previous program

Table 23 presents the differences of the baseline scenario of projections of revenues from indirect taxes for the 2020-2022 period from this programme (MAU GB ITA, October 2019) relative to the projections from the document ERP 2019-2021 (MAU GB ITA, October 2018).

Table 23 - Differences of projections of revenues from indirect taxes in comparison with projections from the previous programme

Document	Time of preparation of projection	Execution/ projections of indirect taxes (in KM million)				
		2018	2019	2020	2021	2022
ERP 2020-2022	October 2019	6,220.8	6,512.6	6,708.7	6,926.2	7,173.0
ERP 2019-2021	October 2018	6,142.6	6,304.3	6,478.6	6,670.7	
Correction (in %)		1.3%	3.3%	3.6%	3.8%	

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

Implementation for 2018

Execution of indirect tax revenues for 2018 has been exceeded by 1.3 pps. or KM 78.2 million. The projected amounts were mostly exceeded in revenues from VAT (KM 80.2 million) and excise duties on tobacco (KM 7.2 million). VAT revenues were higher due to positive net collection trends in the last quarter of 2018. The lower refunds than expected from October 2018, primarily on the basis of international projects, had a positive effect on net collection. Revenues from excise duties on tobacco were shifted due to the substitution of part of consumption of domestic cigarettes by imported cigarettes and the consequent time-shift in part of collected revenues to 2018.⁹⁹ All other categories of revenue (customs, road taxes, other excise categories) were realized at the level of projected amount (differences between projected and realized revenues vary between KM 0 and 1 million). The exception is the "other revenues", which generated KM 10 million less than the October projections, and this deviation refers to unadjusted revenues on the SA, the amount of which depends solely on administrative factors.¹⁰⁰ The lower amount of unadjusted revenues generated than their cumulative amount in the first three quarters had a positive impact on the realized amounts of other revenue categories, primarily VAT revenues.

Compared to the previous programme, projections of indirect tax revenues for 2019, 2020, and 2021 were increased by KM 208.3 million, KM 230.1 million and KM 255.4 million, or 3.3%, 3,

⁹⁹ Excise duties on domestic cigarettes are paid according to a monthly report ten days after the end of the month, and excise duties on imported cigarettes when raising excise stamps, which is a month - a month and a half before the moment of import/consumption.

¹⁰⁰ Unadjusted revenue means revenue that cannot be linked to payment analytics (single account) and payer's analytic records in ITA IT modules.

6% and 3.8%, respectively (Table 5). VAT revenue projections increased the most (KM 130.1 million for 2019, KM 141.9 million for 2020, and KM 150.7 million for 2021). Excise tax projections were increased by KM 81.9 million, KM 85.3 million and KM 92.4 million compared to the previous programme, while road tax projections increased by KM 9.6 million, KM 13.0 million and KM 15.9 million, for 2019, 2020, and 2021 respectively. The differences in these types of revenues are the result of: (1) changes in the base, i.e. higher execution of VAT revenues, excise duties and, marginally, road taxes in 2018 compared to the projected amounts in the previous programme, (2) positive revenue collection trends in the first three quarters of 2019, in particular the excise duty on tobacco,¹⁰¹ (3) changes in projected growth rates of macroeconomic indicators from the previous programme (DEP), and (4) changes in the assumption of compensation for excise duties and road taxes from VAT credit claims against MAU projections from October 2018, which has an impact on projections of individual types of revenues but not on total revenues.¹⁰² The smaller downward adjustments were made to customs revenues. Customs revenue projections were reduced by KM -2.9 million for 2019 compared to the previous programme, and increased by KM 0.2 million and KM 6.7 million for 2020 and 2021, respectively. The remaining negative differences are related to “other revenues”.

Compared to the projections prepared in October 2018 and presented in the Economic Reform Program 2019-2021, the Federation of BiH's consolidated revenue projection from October 2019 for 2019, 2020 and 2021 is higher by 1%, 0.7% and 1.7% respectively. Revisions were made in accordance with the observed trends in revenue generation and the most recent estimates of real GDP growth in October 2019, while revised collection plans were used for categories such as end-user revenues.

Table 24 - Comparison of consolidated revenues of the Federation BiH at the level of share in GDP of the Federation of BiH

Period	2018	2019	2020	2021	2022
a. Economic Reform Program 2020-2022					
Real growth of GDP (%)	3.8	3.1	3.5	3.9	4.1
TOTAL REVENUES (as % of GDP)	42.0	40.4	39.6	39.3	38.8
b. Economic Reform Program 2019-2021					
Real growth of GDP (%)	3.2	3.3	3.5	3.8	-
TOTAL REVENUES (as % of GDP)	41.4	41.9	42.9	43.1	-
DIFFERENCE (in pps.)					
Real growth of GDP	0.6	-0.2	0.0	0.1	-
TOTAL REVENUES	0.6	-1.5	-3.3	-3.8	-

Source: FBiH Ministry of Finance

¹⁰¹ Differences in projections of excises on tobacco for 2019 originate mainly from a policy of longer delaying of the increases in retail cigarette prices and takeover of a part of the additional tax burden at the expense of the profits of tobacco companies, which contributed to higher cigarette sales and collection of excise duty revenues above expectations. In addition, a factor which affected growth of revenues in the summer months was the increase in seasonal consumption of non-residents. In the coming years, differences in the projections of excises on tobacco result from a higher base for comparison (2019), as well as from alignment of the movements of value of the cigarette market with the macroeconomic projections of the DEP.

¹⁰² Projections from October 2018 state the following - Projected amounts of offsetting the liabilities for excises and for road tax by VAT claims in the period 2019-2021 are proportional to projected amounts in 2018, and possible errors in estimates may reflect to the discrepancies between collection and projections by type of revenue, but not on the total collection of indirect taxes” (MAU Bulletin 160-161, November/December 2018, available at: http://www.oma.uino.gov.ba/bilteni/Oma_Bilten_eng_160_161.pdf). The 2019 OMA projections abandoned this assumption given the months-long overhaul of the Brod Oil Refinery and the consequent decline in domestic derivatives consumption and their import substitution. It is logical that the reduction of obligations for domestic excise duties on oil derivatives in 2019 should lead to a reduction in the need to use VAT credits to settle the obligations for them.

In terms of GDP share, revenue execution in 2018 at the level of 41.4% of the GDP of the Federation of BiH is higher by 0.6 percentage points compared to the projected level and follows a higher realization of the real GDP growth of the Federation BiH relative to what was assumed. The level of consolidated revenues projected in October 2019 in the GDP of the Federation of BiH is down by an average of 3 percentage points compared to the ones presented in the Economic Reform Program 2019-2021, with a declining share, if we observe relations between the given years. The above is primarily the result of fluctuations in the planning of certain categories of non-tax revenues, whose flows are not related to macroeconomic assumptions, which was explained in detail earlier, while the level of projected tax revenues and revenues from mandatory contributions to extra-budgetary funds in GDP in the medium-term reflects stability.

If we compare the documents of the RS ERP for the period 2020–2022 and the RS ERP for the period 2019–2021, it is evident that in 2018, total revenues were higher than planned by 1.4% (KM 60.3 million), mainly related to revenues from social contributions. On the other hand, total expenditures were lower than planned by 0.3% (KM 12.8 million), which, with higher revenue generation, resulted in a deficit reduction, which went down from KM 129.6 million to KM 56.5 million. The deficit was reduced at all government levels while at the level of social security funds the planned deficit turned into a surplus. With the updated budget for 2019 in this year's Programme, compared to last year's programme for the same year, revenues increased by 1.4% (KM 59.2 million) and total consumption by 5.2% (KM 221.4 million), where the overall consumption increase is several times higher than the revenue growth. This resulted in a general government deficit of KM 125.0 million, compared to the surplus of KM 37.1 million planned by last year's Programme. Within total consumption in 2019, current expenditures increased by 0.7% while the largest part of the increase relates to fixed capital expenditures (KM 174.6 million). With the updated projections for 2020 and 2021, revenues increased by 4.2% and 3.0%, respectively, on the positions of social security contributions and tax revenues. Total consumption in the 2020–2021 period increased by 7.3% and 5.3% respectively, where current expenditures stand at 4.1% and 4.0% respectively, and an increase in expenditures on gross fiscal capital is 59.7% and 22.0% respectively. The aforementioned update led to a decrease in the projected surplus from KM 142.0 million to KM 16.4 million in 2020 and from KM 221.7 million to KM 124.6 million in 2021. This is primarily the result of projections being based on careful revenues projections and on expenditures based on the needs expressed by budget users. In execution of the budget, expenditures are reduced to fall within the framework of realisable revenues and proceeds. For this reason, major changes on the expenditure side may occur in the stages of budget adoption and implementation. Also, some one-off inflows and/or measures that were not previously known may lead to changes compared to what was planned.

4.7. Fiscal governance and budgetary frameworks

The medium-term budgetary framework of the institutions of BiH is defined by the Global Framework for Fiscal Balance and Policies in BiH 2020 - 2022, adopted on 27 December 2019, which sets the framework for financing the institutions of BiH in the amount of KM 996 million, with the allocation of indirect taxes of KM 780 million KM for each year.

As for expenditures in 2021, total expenditures are set at the amount of 996 million KM, of which gross salaries and reimbursements of employees in the amount of 735,4 million KM, expenditures for materials and services in the amount of 182,6 million KM, capital expenditures in the amount

of KM 40.7 million, interest in the amount of KM 1 million, remittances based on social protection KM 2.2 million, and other expenditures in the amount of KM 29.5 million.

The envisaged framework for financing the institutions of BiH in 2022 is KM 996 million, of which gross salaries and reimbursements of employees in the amount of KM 740.3 million, expenditures for materials and services in the amount of KM 194.9 million, capital expenditures in the amount of KM 23.5 million, interest in the amount of KM 0.9 million, remittances based on social protection KM 2 million, and other expenditures in the amount of KM 29.8 million. It is important to note that the Budget of the Institutions of BiH is adopted every year in accordance with the adopted Global Framework of Fiscal Balance and Policies in BiH to maintain macroeconomic stability in BiH. The projected deficit will be financed from the surplus of revenues over expenditures from the previous period and from loans.

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 next year and 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 next year and 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 goal of this strategy is to strengthen budget planning, coordination, implementation and monitoring of progress in implementing of activities of public finance management, with the objective of strengthening fiscal accountability and discipline, ensuring efficient and purposeful use of public resources, and improving the quality

of 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 listed below.

The Law on the Budget System of Republika Srpska is defining the budget system of Republika Srpska and preparation of the Framework Budget Document of Republika Srpska as the basis for preparation of the budget. Framework Budget Document is adopted each year for the next and for the following two years. Its purpose is to establish a strategic framework and the upper ceiling of resources within which the annual budget should be prepared.

The Law on the Fiscal Council of BiH defines the existence of the Fiscal Council of BiH which coordinates BiH fiscal policy and adopts the Global Framework of Fiscal Balance and Policies of BiH adopted each year, for the next year and for the following two years. In this document, fiscal goals of the budget are represented, as well as upper ceilings of indebtedness of the Institutions of BiH, RS and BD BiH.

The Law on Fiscal Responsibility of Republika Srpska is defining fiscal rules, measures and procedures on the basis of which fiscal framework is established, and which limits public spending, strengthens responsibility for efficient and effective usage of budget funds, establishes the Fiscal Council of RS and strengthens the system of control and supervision. This Law defines general and special fiscal rules.

Debt Management Strategy of Republika Srpska for the 2019–2022 period is defining the main objective of debt management of the Republika Srpska, the objectives of borrowing for the purpose of fulfilling the main objective of debt management, the strategy of achievement of the stated goals, the tasks of the Ministry of Finance of Republika Srpska, and identifies the main indicators, i.e. guidelines for achieving a debt structure with an acceptable level of cost and risk.

The adoption of the Public Finance Management Strategy of Republika Srpska in 2020 will clearly define directions of reforms in the area of public finance and complete the system of improvement of fiscal responsibility and long-term fiscal stability of Republika Srpska.

When it comes to financial reporting, further improvements will relate to the system of reporting in the government sector through activities aimed at development of statistical basis of financial reporting aligned with internationally recognised standards of macroeconomic statistical systems, increased efficiency, scope and transparency of consolidated financial reports of budget users and controlled public sector units. In parallel to this process, alignment of planning process and budgeting for budget users will be implemented within the public sector.

4.8. Sustainability of public finances

The Public Finance Management Strategy in the Federation of BiH for the 2017-2020 period¹⁰³ has defined a total of twenty-one (21) measures and one hundred (100) activities, of which the

¹⁰³ Government of FBiH, 106th Session of 15 June 2017g

planned realization of a total of sixty-five (65) activities relates to the period 2017-2018. Report on the implementation of the Public Finance Management Strategy in the Federation of BiH for the 2017-2020 period¹⁰⁴ identifies the progress achieved in implementing 26% of the total activities foreseen in the Strategy, in the following areas:

- Established effective supervision over public finances through the implementation of fiscal rules at all levels of government
- Improved quality of historical data and projections of revenues and consolidated expenditures for all levels of government and included in the FBiH Framework Budget Document
- Implemented regulations on fiscal performance
- Established Register of Fees and Taxes
- Strengthened and trained staff to prepare macroeconomic projections in the Federal Ministry of Finance
- Implemented Planning and Budgeting Information System (BPMIS) at the level of all ten cantons
- Revised rulebooks on fiscal reporting of lower levels of government through amendments to legislation
- Regular publishing of monthly, quarterly and annual reports at all levels of government
- Monitoring and checking the quality of the established financial management and control systems and internal audit
- Strengthened capacity of the budget supervision unit
- Strengthened financial, functional and operational independence as well as capacities of the Audit Office of the Institutions in FBiH
- Strengthened role of quality control/quality assurance in auditing

Part (Pillar) of the Strategy related to Budget Planning and Execution defines a set of measures and activities that indicate the need for: broadening the scope of the budget and the Framework Budget Document (DOB), by including extra-budgetary funds in budgets, ensuring budget preparation and budget framework documents in the appropriate IT system, and by improving the allocation of funds in the budget in the medium term and annually.

In the Budget Planning and Execution pillar, most of the planned measures and activities were implemented. The most significant activity carried out in this reporting period was related to support for the preparation of framework budget documents and budgets in the relevant IT system, and in 2018, as a result of the measures and activities undertaken within the USAID FAR project, eBudget application was developed and successfully implemented in all cantons of the Federation of BiH. Its implementation has greatly facilitated the preparation of the budget by the Cantonal Ministries of Finance as well as improved its transparency. The use of this application has enabled cantons to better analyse budget requests submitted by budget users. In the coming period, it is planned to upgrade this application also in the Federal Ministry of Finance, to ensure the uniformity of the process and compatibility in the distribution of data between different levels of government in the Federation of BiH. Also, activities on implementation of program budgeting and linking of strategic plans with financial plans and budget programming are expected to intensify in 2020.

¹⁰⁴ Government of FBiH, 177th Session of 25 April 2019

The inclusion of the FBiH fund for PDI in the budget of the Federation of BiH for 2020 will allow pension payments to be collected and made through the Single Treasury Account and will thus ensure greater transparency in the spending of public funds, as well as contribute to the stability of the payment of pensions.

It is important to note that in 2019 the public procurement procedure for the software for keeping the Single Register of Non-contributory Cash Benefits¹⁰⁵, has been completed and is expected to be put into operation by the end of the current year. This will provide a centralized system of information and reporting on all benefits to individuals on any basis, which will be useful to competent institutions in terms of faster and more efficient processing of data and prevention of abuse. In addition, the activation of this software will result in significant savings in the budgets of all levels of government in the FBiH, and will enable more accurate and fair planning of social policies, as well as better control of earmarked spending of funds.

When it comes to the settlement of arrears arising from labour relations in the FBiH, in 2019 the Government of the FBiH undertook activities to resolve them. Namely, the FBiH Government made a public invitation to the employees of the federal administrative bodies who have executive judgments based on lawsuits filed for breach of collective agreements, offering them to conclude an out-of-court settlement and promptly collect claims they have against the FBiH Budget, provided they waive collection of default interest on arrears. The out-of-court settlement only provided for the payment of principal, as well as the execution of all claims within 60 days, with the aim of speeding up the payment of debts to employees and realizing budgetary savings. The amount planned for these purposes in the Amendments to the FBiH Budget for 2019 is set to KM 17.0 million and the response of employees on the day of the expiry¹⁰⁶ of the Public Invitation is satisfactory¹⁰⁷.

The implementation of all remaining key strategic activities in the coming period will aim at strengthening coordination between the different levels of government in terms of budgetary policies (especially strengthening the role of the FBiH Fiscal Coordination Body), and to ensure some uniformity in budget preparation, implementation and reporting, which would ultimately contribute to better budgetary transparency.

Over 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 the shocks of the global economic crisis (first and second shock, 2009 and 2012, respectively), 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

¹⁰⁵ The establishment of the Single Registry stems from the Law on the Single Registry of Non-contributory Cash Beneficiaries (Official Gazette of FBiH“, 25/17)

¹⁰⁶ The public invitation to sign the out-of-court settlement was announced on 15 August 2019 and lasted 90 days from the announcement date (until 15 November 2019)

¹⁰⁷ The FBiH Government has extended the deadline for the Public Invitation to sign an out-of-court settlement until 31 December 2019. at its 199th Session held on 13 November 2019

performing unregistered economic activity. The measures adopted under this set of laws relate to joint controls of all inspection bodies in Republika Srpska and sanctions for undeclared work and unregistered activity in the form of high fines and the imposition of a measure of banning the activity. In addition to these measures, the Republika Srpska Tax Administration is continuously implementing measures aimed at increasing voluntary reporting and payment of taxes, reducing tax debt and strengthening services within the Tax Administration. Further measures to reduce the informal economy in the area of the taxation procedure relate to the improvement of the tax control function with enhanced application of indirect methods, joint controls of undeclared workers and unregistered activities and control of transactions between related parties, and electronic filing of tax returns and development of electronic services in the taxation process.

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.

Health care reform and public enterprise reform are two key reform areas of the Republika Srpska Government in the coming period, as defined through Joint Socio-Economic Reforms for the period 2019-2022.

5. STRUCTURAL REFORMS IN 2020-2022

5.1. Identification of key obstacles to competitiveness and inclusive growth

An unfavourable GDP structure is an important determinant of economic developments in all Western Balkan countries, including BiH. Specifically, the economic development model in these countries so far has been predominantly based on an increase in externally financed final consumption, while the share of investment and exports, which is a key prerequisite for sustainable economic growth, is at a fairly modest level. Such a model of economy brought about radical structural changes within the economies of the Western Balkan countries, the most significant of which were the rapid process of de-industrialization, the decline of agricultural production and a significant increase in the service sector. 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 the low competitiveness both in the countries of the region and in Bosnia and Herzegovina is the weak production base, i.e. the low share of manufacturing industry and export of goods in GDP. This situation is a consequence of global economic developments and inadequate economic policies in the Western Balkan countries, which have based their economic growth, as already stated, on the growth of domestic consumption financed mainly by cash inflows from abroad.

The BiH Economic Reform Program for 2020-2022 includes 18 structural reforms, 6 of which are new and 12 are old ones. In line with the European Commission's Guidance, the following key barriers to growth and competitiveness have been identified:

- Underdeveloped energy market
- Underdeveloped transport infrastructure and high traffic mortality
- High social security contributions, with the existence of non-taxable benefits in the labour taxation system, give a picture that is not realistic and restrict investment and growth,
- The mismatch between the labour market and the education system,
- Less than stimulative business environment,
- Poor links between the real sector and the scientific and research community, and the mismatch between study programmes, enrolment policies and real sector needs,
- Underdeveloped framework for tourism development as a fast growing sector
- The need to improve support for SMEs

Non-competitive economy is further threatened and affected by unfair competition due to businesses operating in the gray zone. The unsatisfactory level and quality of scientific productivity, as well as the outdated and inefficient structure of the economy, influence the insufficient growth of the economy's productivity. On the other hand, productivity is the only realistic economic model for possible wage increases. The health sector is burdened with an inadequate network of healthcare institutions, a demographic structure of the population that adversely affects its sustainability, great inefficiency of the system, and at the same time its excessive solidarity and social sensitivity, which far exceeds the package of services that is optimal, in accordance with the contribution of each individual in the system.

The inefficiency of the public sector is primarily reflected in the inefficiency of public enterprises, and there is room for improvement of public administration, above all, through its digitalization.

The reform of public enterprises should be viewed through three segments, namely public enterprises that require budget support, utility companies owned by local self-government units and strategic public enterprises expected to be profitable and which will be one of the sources of revenue of the budget, whose reform must be carefully implemented to operate more efficiently.

Mismatches between education and the labour market lead to structural unemployment, adversely affect the competitiveness and productivity of enterprises, lead to unreasonable use of resources, and, on the other hand, increase the costs of enterprises for retraining. In the field of higher education, educating staff for jobs that are not needed creates a gap between the education sector and the job market and the dissatisfaction of those who graduate from colleges for which the labour market currently has no needs.

Negative demographic trends are exacerbating the long-term position in the labour market and the fiscal position and sustainability of all budgetary payments, reducing labour supply and leading to an aging population. If this is added to the trends of population migration, then a negative demographic picture requires that all policies in the coming period include those policies that affect the improvement of conditions, which will lead to the retention of the population.

In order to improve the standard of living 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, land allocation, construction of infrastructure, provision of 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 reforms in the labour market (through professional development programs, various programs of additional training and retraining) in order to increase 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 and achieve a better standard of living. In order to avoid excessive centralization of the financial system, it is necessary for the banking market to abandon the general principle of the universal bank, and by separately setting up specialized institutions to enable greater segmentation of the BiH market (establishment of specialized institutions such as investment banks, mortgage banks, trade unions banks or digital banks). Based on all of the above, Bosnia and Herzegovina must make a strong step forward with regard to structural reforms in the field of education.

5.2. Summary of reform measures

<i>Priority reform measure</i>	Old or new measure	Impact on competitiveness	Impact on employment	Link to the recommendation from the May 2019 Ministerial Meeting (number)
Energy and transport market reform				
1. <i>Energy and gas market development</i>	N	HIGH	HIGH	-
2. <i>Improving energy efficiency and the use of renewable energy sources</i>	O	HIGH	HIGH	-
3. <i>Development and improvement of transport infrastructure</i>	O	HIGH	HIGH	-
Agriculture, industry and services				
4. <i>Improving the competitiveness of agriculture, forestry and water management</i>	O	HIGH	HIGH	-
5. <i>Improving the legal framework governing tourism, tourist guides, tourist boards, tourist tax and catering</i>	N	MEDIUM	MEDIUM	-
6. <i>Reducing pollution and moving towards a circular economy</i>	N	MEDIUM	MEDIUM	-
7. <i>Introducing a model of gradual deregulation and liberalization of auto liability insurance prices</i>	N	MEDIUM	MEDIUM	-
Business environment and reduction of the informal economy				
8. <i>Enhancing the quality infrastructure system in BiH according to the EU model</i>	O	HIGH	HIGH	4
9. <i>Establishing an electronic signature system</i>	N	HIGH	HIGH	5
10. <i>Health sector reform</i>	O	HIGH	HIGH	5
11. <i>Enhancing the business environment</i>	O	HIGH	HIGH	4, 5, 6
12. <i>Reduction of the informal economy</i>	O	HIGH	HIGH	4, 5, 6
Research, development and innovation and the digital economy				
13. <i>Improving the communication and information society sector along with the alignment of the regulatory framework with EU standards</i>	O	MEDIUM	MEDIUM	4
14. <i>Establishing a more efficient management system of scientific research and innovation potential</i>	O	MEDIUM	MEDIUM	-
Trade-related reforms				
15. <i>Improving the trade-related legal framework</i>	N	HIGH	MEDIUM	-
Education and skills				
16. <i>Improving the link between education and labour market</i>	O	HIGH	HIGH	6
Employment and labour markets				
17. <i>Improving the labour market efficiency</i>	O	HIGH	HIGH	1, 6
Social protection and inclusion				
18. <i>Improving the social protection system</i>	O	MEDIUM	MEDIUM	2

5.3. Analysis by area and structural reform measures

5.3.1. Energy and transport market reform

a. Analysis of main obstacles

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. The fourth obstacle to the full implementation of the legally stated objectives in the field of energy efficiency is defining the legal mechanism for the establishment of financial mechanisms for the implementation of energy efficiency measures set by the Energy Efficiency Action Plan in the Federation of Bosnia and Herzegovina which has expired and the new one is in the final preparation stage. 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.

Development of energy markets is not possible without adequate regulatory measures, adoption of laws, implementation of projects, compliance with international obligations, adopted legislation within the Energy Community (EC), which is very important for the improvement of the energy sector in BiH. It is also important to take into account the binding objectives of the EU and the Energy Community, as well as the needs of the regional market, since it depends to a large extent on which direction a particular energy market will develop in the complex process of energy transition.

Given the current situation in the electricity market, operating on fully market principles could lead to a significant increase in electricity prices given the lower levels of electricity prices in Republika Srpska relative to wholesale/market prices and to electricity prices in the close and more distant environment. Here it is necessary to bear in mind the positive segment of the reform, which stipulates that all end customers of electricity will have the right to freely choose their supplier in the market. The reform will have a positive impact on consumers in the segment of the right to choose their supplier, higher quality of services, greater security of supply with electricity as one of the essential products, that is, providing universal service whereby every consumer in the household category and small consumers must have free access to energy at reasonable, easily and clearly comparable, transparent and non-discriminatory prices.

Increasing the revenue of the electricity sector would have a positive effect on its ability to invest in new infrastructure projects and increase energy security, while introducing competition should lead to an increase in the quality of services in the sector. Tariff increases through alignment with market tariffs will have a positive impact on electricity sector revenues, while the impact on the

economy and social conditions is set, as expected, to be slightly negative. Increasing electricity prices to a lesser degree would adversely affect the competitiveness of the economy to the extent in which electricity participates in operating costs.

With regard to social impacts, it is expected that a rise in electricity prices will lead to an increase in the prices of products and services, and based on the regulatory principles of the final marginal cost for tariff setting, it is logical that the electricity price for households will be in the highest tariffs range, what is currently not the case. Reform measures in the electricity market include upgrading the regulatory framework in the electricity sector. One of the most significant activities within the said measure is the restructuring and reorganization of MH "Elektroprivreda Republike Srpske" a.d. Trebinje. Regarding the transport market, the key obstacles to reforming the transport market in Bosnia and Herzegovina are reflected in the following elements:

- Underdeveloped transport infrastructure
- Lack of preconditions for more significant participation of multimodal transport:

In Bosnia and Herzegovina, the development of multimodal transport has remained at the pre-war level, when there were plans to develop this mode of transport. Although studies were made in the post-war period to improve the multimodality of transport in BiH, there were no investments in infrastructure in this respect.

- Failure to recognize the need for investment in railway infrastructure and this mode of transport, as a basis for the development of more sustainable and large-scale transport;

The considerable financial investment necessary for the improvement of the railway infrastructure is one of the most important obstacles without which it is impossible to expect an increase in the volume of rail transport as the most adequate mode of transport and in terms of environment, scale and comfort.

There is still no strategic commitment at the level of responsible stakeholders at all levels of government towards a major shift towards rail transport from other modes of transport, in line with the European guidelines of the 2011 White Paper on Transport .

- Low level of road safety:

The following table gives an overview of the number of fatalities with the total number of road traffic accidents in Bosnia and Herzegovina in the previous three years:

Table 25 - Road traffic accidents in Bosnia and Herzegovina

year	Road traffic fatalities	Severely or slightly injured	Total number of road traffic accidents		
			Total	With killed or injured persons	Exclusively with material damage
2016	321	11188	39543	7716	31827
2017	298	10229	37628	7135	30493
2018	277	10403	36672	7494	29178

Source: Information on road traffic accidents, their causes and consequences in BiH, BIHAMK
https://bihamk.ba/bs/statistika/statistike?category_id=45

By adopting amendments to the Law on the Basics of Road Traffic Safety in BiH during 2017 and 2018, which have tightened the penal policy stemming from this law, there has been a declining trend of the total number of road traffic accidents in BiH, and the number of fatalities fell by about 15%. So the level of road traffic safety is increasing.

Structural barriers to significant development of the transport area are low investment in existing and construction of new transport infrastructure, but also lack of adequate multimodal transport infrastructure. Inappropriate border crossings (with long waiting times for customs procedures on them) on major transit routes further discourage foreign passengers and carriers from using transport routes through Bosnia and Herzegovina.

All of the above has far-reaching effects on the competitiveness and growth of passenger and goods transport. Inadequate border crossings at road routes further reduce the volume of transport that could be carried out through Bosnia and Herzegovina. The slowing of transport at the points of intersection of motorways and express roads additionally slows down traffic flows on already poor transport infrastructure. The slow public procurement procedures in preparing investments in new transport infrastructure further discourage foreign investors from investing in this area. The lack of multimodal capacities further extends the time of transport of goods. Inappropriate strategic approach to regional transport plans, a mismatch between poor infrastructure assumptions at border crossings on major transport routes, and significantly better equipped border crossings on roads not delineated on major regional road routes, further slows down the development of transport activity.

Due to the accumulated arrears of Željeznice Republike Srpske a.d. Doboj (hereinafter: RS Railways), the Government of Republika Srpska in 2017 decided to launch a restructuring project with the support of the World Bank. The main obstacles to the growth and development of this company are reflected in a noticeable downward trend in the number of passengers carried and passenger kilometres (PK), and a modest figure compared to the railway companies in the region. The average age of the rolling stock inventory is 47 years, and of the total number of locomotives, only 37% is in operation.

The main characteristics of the labour force of Željeznice RS are: many different and specific occupations, the necessity of having certain health capabilities, a significant number of jobs in which workers are entitled to an accelerated retirement for working conditions, the occurrence of unfavourable age structure and a significant number of workers with disability status. Labour cost represents the highest cost in the structure of total Željeznice RS expenditures. In addition to the number of employees, the increase in labour costs was also influenced by certain legal solutions.

b. Reform measures

5.3.1.1. Energy and gas market development

1. Description of measure

Measure from the Roadmap for the implementation of activities to which Bosnia and Herzegovina has committed itself by adopting the Western Balkans 6 Initiative and the EC Recommendation from the meetings of the Subcommittee on Transport, Energy, Environment and Regional Cooperation. The missing legal and regulatory framework for gas at the BiH state level is a serious and lasting breach of obligations under the Energy Community Treaty and is the biggest obstacle to liberalization of the gas market. The process of harmonization of the draft law is still ongoing.

The Energy Community Secretariat provided technical assistance for completion of the Study on Establishing an Organized Day-ahead market in Bosnia and Herzegovina. The study was discussed at the Working Group, but the final decision on whether to set up its own electricity exchange in BiH or join one of the existing ones should be made by the competent institutions. Also, one of the next steps would be the creation of a feasibility study on the formation of PX (electricity exchange) in BiH and proposals for merging with other markets, as well as making a decision on forming its own exchange or joining an existing exchange.

Preparation of the Feasibility Study on the formation of PX (electricity exchange) in BiH and proposals for merger with other markets, decision making on establishing its own exchange or joining the existing exchange, as well as the adoption of the "Law on the Regulator of Electricity and Natural Gas, Transmission and Electricity Market in Bosnia and Herzegovina" are the initial steps in establishing an organized electricity market, after which it will be possible to define the following steps.

Improvement of the regulatory framework and restructuring and reorganization of MH "Elektroprivreda Republike Srpske" a.d. Trebinje are necessary due to the incompatibility of the legislation in the field of electricity with the relevant directives of the European Union and the Directives of the Third Energy Package, and incompletely open electricity market and discrimination of market participants, since unbundling of electricity distribution and supply activities was not carried out. The aforementioned reform presupposes the liberalization of the electricity market for all customers (consumers), as well as ownership unbundling of market electricity activities from the regulated ones.

Activities planned in 2020- 2022

- Adopt the Law on Electricity and Gas Regulator, Transmission and Electricity Market in Bosnia and Herzegovina in line with the Third Energy Package
- Law on Transmission System Operator in Bosnia and Herzegovina
- Establish an organized electricity market based on the results of the study
- Make a decision on the formation of its own exchange in accordance with the opinion of the European Commission on BiH's application for EU membership
- Amendment (or adoption of a new) Law on Electricity in the Federation of Bosnia and Herzegovina
- Adoption of the Law on Gas in the Federation of Bosnia and Herzegovina
- The Programme of restructuring of the electricity sector in the Federation of Bosnia and Herzegovina
- Establishment and start-up of the Distribution System Operator in JP Elektroprivreda BiH d.d. Sarajevo and JP Elektroprivreda HZHB d.d. Mostar
- Preparation of the preliminary draft of the Law on Gas in the Federation of Bosnia and Herzegovina
- Adoption of the Amendments to the Law on the Use of Renewable Energy Sources and Efficient Cogeneration in the Federation of Bosnia and Herzegovina
- Adoption of by-laws based on the Law on Electricity (Ministry of energy and mining (MEM), Energy Regulatory Commission of Republika Srpska);
- Implementation of the Law on Electricity (MEM, Energy Regulatory Commission of Republika Srpska, operators holders of licenses to carry out electricity activities);
- Restructuring and reorganisation of the MH "Elektroprivreda Republike Srpske" a. d. Trebinje.

2. Results indicators

Indicator	Baseline (year)	Intermediate target (year)	Target (year)
Number of transposed and implemented EU Directives into national legislation	2020	2021	2022
Number of prepared draft laws and bylaws taken from the EU Directives.			
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			

3. Expected impact on competitiveness (not relevant for the area "social protection and inclusion ")

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.

4. Estimated cost of the activity 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 and for 2019 0.002555 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.

5. Expected impact on social outcomes, such as employment, poverty reduction, equality 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.

6. Expected impact on the environment

Long-term qualitative impact of the measure on the environment.

7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
<p>Insufficient cooperation of other competent institutions with MoFTER (insufficient cooperation of competent entity and joint institutions in BiH due to the existence of different positions on particular issues may lead to a negative opinion on certain agreements and their non-signing, delays in submitting answers and information, etc.)</p> <p>Inability to influence the duration of the process in other institutions (the inability to influence the duration of the process in other institutions may lead to the untimely receipt of information, or to the delay in providing the necessary answers and information)</p> <p>Untimely adoption of laws by the Parliament at all levels of government in Bosnia and Herzegovina Untimely adoption of regulations/implementing acts by the competent ministries, institutions and the Government of the Federation of BiH</p>	High	<p>Establish Working Groups composed of nominated representatives of competent institutions, hold regular meetings and discussions, and come to real consensus on the positions of institutions.</p>

5.3.1.2. Improving energy efficiency and the use of renewable energy sources

1. Description of measure

Obligation under the Energy Community Treaty: In the previous period, an analysis of the system of incentives for renewable energy sources (RES) in Bosnia and Herzegovina was made and the concept of reform of the RES incentive system was proposed. The process of preliminary consultations is in progress. The details and parameters for the administrative implementation of the reform, including the draft legislation are being worked out (based on the analysis of legal gaps in existing entity level laws and regulations governing the field of RES in order to reform the incentive schemes), and proposed necessary amendments to the laws or regulations some of which need to be repealed and new ones introduced to implement the new incentive scheme. Once the public consultation process has been completed and the proposals for necessary amendments to laws and regulations are agreed upon, it will be possible to state what specific regulations are to

be adopted. The first drafts are expected to be prepared by the end of September 2019 and the reform and related laws will be adopted by the end of 2020, i.e. come into force in early 2021.

Preparation of NEEP for the period 2019 -2021 is underway, a Dynamic Activity Plan has been prepared, with a description, planned start and end of realization, and competent institutions for each of the activities. The first draft of NEEAP 2019-2021 is expected to be prepared by the end of September 2019.

The need for an NREAP update has arisen, for the most part, as a result of new energy balances released by BHAS that have led to a significant reduction in the RES target. Draft 3 of the Implementation Report on the RES Directive, submitted to the Energy Community Secretariat in June 2019, also provides information on updated entity APs. After BHAS releases new energy balances, it will be determined whether it will be necessary to update NREAP or whether it will be sufficient to include these changes in the Progress Report.

Activities planned in 2020-2022

- Adopt state level legislation in the field of renewable energy and energy efficiency in accordance with the obligations arising from the Energy Community Treaty
- Prepare a draft Integrated Energy and Climate Plan for BiH
- Reform the incentive system in BiH in the field of renewable energy sources (amendments to legislation)
- Adopt a new National Energy Efficiency Action Plan (NEEAP)
- Update the National Renewable Energy Action Plan.
- Participation in activities to develop and adopt an Action Plan for Renewable Energy of Bosnia and Herzegovina for the period 2020-2030 as part of the NECP BIH
- Activities on amendments to the Law on Energy Efficiency in the Federation of Bosnia and Herzegovina regarding the establishing of financial mechanisms for the implementation of energy efficiency measures
- Development and adoption of the remaining regulations/ implementing acts based on the Law on Energy Efficiency in the Federation of Bosnia and Herzegovina
- 2019 Report on the implementation of the Action Plan for Renewable Energy in the Federation of Bosnia and Herzegovina 2010-2020
- Participation in the activities on development and adoption of the Energy Efficiency Action Plan of Bosnia and Herzegovina for the period 2020-2030 as part of the NECP BIH
- Development and preparation of the Program for the protection of energy vulnerable buyers

2. Results indicators

Indicator	Baseline (year)	Intermediate target (year)	Target (year)
Number of transposed and implemented EU Directives into national legislation	2020	2021	2022
Number of prepared draft laws and bylaws taken from the EU Directives			
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			

3. Expected impact on competitiveness (not relevant for the area "social protection and inclusion"):

Expected impact on competitiveness through the environment

4. Estimated cost of the activity and the source of financing

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.

5. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

Long-term qualitative impact of the measure on social outcomes such as employment, poverty reduction, equality and the gender issue

6. Expected impact on the environment

Long-term qualitative impact on the environment

7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
<p>Insufficient cooperation of other competent institutions with MoFTER (insufficient cooperation of competent entity and joint institutions in BiH due to the existence of different positions on particular issues may lead to a negative opinion on certain agreements and their non-signing, delays in submitting answers and information, etc.)</p> <p>Inability to influence the duration of the process in other institutions (the inability to influence the duration of the process in other institutions may lead to the untimely receipt of information, or to the delay in providing the necessary answers and information)</p> <p>Untimely adoption of laws by the Parliament at all levels of government in Bosnia and Herzegovina</p> <p>Untimely adoption of regulations/implementing acts by the competent ministries, institutions and the Government of the Federation of BiH</p>	High	Establish Working Groups composed of nominated representatives of competent institutions, hold regular meetings and discussions, and come to real consensus on the positions of institutions.

5.3.1.3. Development and improvement of transport infrastructure

1. Description of measure

The main obstacle in the road infrastructure sector is the underinvestment in the construction and reconstruction of roads and motorways over the past three decades. Namely, in the mentioned period there was a multiple increase in the number of vehicles on the roads, i.e., transport of goods and passengers by roads, and at the same time this was not accompanied by the construction of new roads and reconstruction of existing roads to the extent needed. In addition, according to the construction standards, the planned useful life of the newly constructed road is about 20 years, after which it is necessary to carry out reconstruction or rehabilitation of the road, depending on its condition. All this results in the fact that the existing road network on the main motorways and regional routes with high traffic loads (PGDP) does not provide a high quality level of service, i.e., there are congestions, columns on the roads, significant delays in traffic of passengers and goods. The consequence of this is the high number of road accidents in the Federation of Bosnia and Herzegovina. According to official data for 2017, there were 170 fatalities in road traffic accidents, and 6,809 persons were injured.

Studies in 2011 have shown that the Federation of BiH loses more than \$ 400 million a year (over 5% of annual GDP) due to road traffic accidents. Since little has been done until 2019, it can be assumed that the same percentage of GDP is still being lost. As road safety is a critical issue in the FBiH, with per capita fatalities about five times higher than in Western European countries with the best results, there is a strong need for a systematic approach that can result in a reduction in traffic accidents. In addition, the Federation of BiH has not yet adopted road safety audit and monitoring procedures to comply with the requirements of European Directive 2008/96 on road safety management.

A key obstacle in the process of managing the railway sector in the FBiH is the underfunding of the maintenance of the railway infrastructure, which, under the Law on Financing of the Railway Infrastructure and the Co-financing of Passenger and Combined Transport (Official Gazette of the Federation of BiH, 57/03), the Federation of BiH is obliged to finance from the FBiH Budget. In order to carry out the unbundling, i.e. restructuring of the JP Željeznice Federacije BiH, which is also an obligation under EU directives and the Law on Railways of BiH, it is necessary to create a sustainable financing system for rail infrastructure.

In the field of air transport, there is no database on the state of aviation infrastructure in the FBiH with the aim of determining the status and development needs given the constant increase in the number of passengers carried and the increase in cargo traffic. The creation of a database on the state of aviation infrastructure in the FBiH will enable the infrastructure at the airports to increase the traffic of passengers and goods.

In the period 2020-2022 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.

Activities planned in 2020 – 2022

- Development, proposal and implementation of the Program of investment of funds in the sectors of road infrastructure, railway infrastructure and development and improvement of air traffic in the Federation of BiH (adopted by the FBiH Government, implemented by:

FBiH MoTC, JP Autoceste FBiH, JP Ceste FBiH, JP Željeznice FBiH, airports in FBiH, within their respective line competencies).

- Development of the preliminary draft of the new Law on Roads in the Federation of BiH.
- Creation of a database on the status of the airport infrastructure
- Undertaking activities to finance the maintenance of railway infrastructure
- Development of the preliminary draft of the Law on Road Traffic Safety of the Federation BiH
- Ownership restructuring of the company through conversion of debt into shares, and buy out of the shares from minority shareholders (The Ministry of Transport and Communications (MTC) as the competent authority, the Ministry of Finance and the Securities Commission)
- Making the selection of consultants for restructuring and contracting. Ownership restructuring implies the conversion of debt into equity since the Company was unable to settle its obligations to foreign creditors, the Government of Republika Srpska made payments because it is the guarantor.
- Organizational restructuring, carried out with the assistance of consultants selected under the World Bank procedures, and whose obligation it is to propose a model of a functional organization of RS Railways and multi-year contracts for infrastructure maintenance and operator support. (Project Management Unit (PIU), in accordance with World Bank procedures)
- Unbundling the infrastructure and operations into two separate accounting units and forming profit centres from individual organisational parts of the company (Željeznice RS, MTC);
- Downsizing the number of employees by 300 (Željeznice RS, MTC);
- Signing a contract with the RS Government for maintenance of infrastructure and support the operator through co-financing of passenger transport (Željeznice RS, MTC).

2. Results indicators

Indicator	Baseline (year 2020)	Intermediate target (year 2021)	Target (year 2022)
Reduced travel time on built routes, Reduced number of accidents in FBiH, Level of implementation of adopted programs, number of kilometres of new built or rehabilitated roads.	Proposals of the Investment Programme prepared, adopted by the Government of the FBiH and the implementation of the Programme started.	Approved projects being implemented in the field, and other measures being implemented.	Approved projects in the final phase of works and other measures in the phase of completion. - 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. Reduced travel time on new roads.

3. Expected impact on competitiveness

The implementation of these Investment Programmes, as well as the drafting of the Law on Roads, Databases and co-financing of railway infrastructure, is expected to have a positive impact on the growth of competitiveness as a better business environment is created.

4. Estimated cost of the activities and the source of financing

These Investment Programmes, as well as the drafting of the Law on Roads, databases and co-financing of railway infrastructure are planned from the Budget of the Federation of BiH for each year.

5. Expected impact on employment and gender

The implementation of these Investment Programmes, as well as the drafting of the Law on Roads, Databases and co-financing of railway infrastructure, is expected to have a direct positive impact on employment and poverty reduction. It is important to note here that direct engagement of domestic companies and the workforce is expected in the implementation of these measures.

6. Expected impact on the environment

Since this is a transport sector, there is no negative impact on the environment when implementing these measures.

7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
Insufficient preparation of projects for implementation (unresolved expropriation - property legal issues)	High	Proclamation of public interest by the Government of FBiH for entry into possession and commencement of expropriation, Urging against competent line companies (JP Ceste FBiH, JP Autoceste FBiH) and municipalities/cities conducting the expropriation process.
The possibility of having insufficient financial resources necessary for the implementation of planned activities	Low	Timely planning and implementation of these measures
Political instability	Low	Timely planning and implementation of these measures
Possible extraordinary circumstances caused by natural or other disasters	Low	Timely planning and implementation of these measures

5.3.2. Agriculture, industry and services

a. Analysis of main obstacles

Agriculture

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. The characteristics of the agricultural sector in the BiH economy 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 BiH foreign trade deficit. In 2018, real GDP growth was recorded in the field of agriculture, forestry and fishing by 13.2%, and the share of GDP of the agriculture, forestry and fishing sector in the GDP of the Federation of BiH is 4.3% and it is higher than in the previous year (4.1%) and significantly higher than the EU average (1.6%) and the OECD average (1.5%). The multiple jurisdiction over the agriculture sector assigned to a large number of institutions, 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 most represented food industry sectors in the Federation of BiH deal with milk and dairy products, meat and processed meat products, grain processed, flour and mill-bakery products, fruits and vegetable processing, water and refreshing soft drinks, fruits and vegetable processing, alcohol beverages (beer, wine and spirits). Notwithstanding the annual growing assortment of exported food products, as well as the markets to which these products are placed, imports of almost all food products are many times higher than exports. The only branches of the food industry where exports are higher than imports are: the milk industry (milk and sour cream) and the mill industry (wheat flour).

The limited growth of agricultural production and the related value added in agriculture is caused by the still insufficient level of financing of the agricultural sector, as well as the extremely low level of investment in agriculture. Also, the low participation of high-yield crops in the structure of agricultural production, as well as the production of export-oriented products, reduces the positive economic result in the sector.

Highly decentralized agricultural production involving small scale mixed-production farming produces small amounts of market surplus, while fragmented production and lack of mechanization and knowledge make it difficult for farmers to achieve economies of scale in production and produce the quantities needed for some markets, which limits agricultural growth.

The impact of the open market, border porosity and the lack of adequate measures to protect domestic production is a structural barrier to growth and competitiveness. In this regard, some CEFTA members unjustifiably and unilaterally impose unilateral import taxes on, among other things, agricultural products (Kosovo). In addition, certain bilateral agreements and their difficult implementation caused by the political situation in BiH have slowed down or stopped the export of certain products from BiH (beef and exports to the Turkish market).

The impact of climate change and the increasing frequency of weather extremes pose an additional risk to the development of the sector. In the animal sector, the occurrence of infectious diseases,

which are new to these areas and which present an additional risk not only for the development of the sector, but also for human health (lumpy skin disease, African swine fever, etc.) An additional challenge is the negative demographic changes in the form of excessive migration, both permanent migration and village-city migration, lack of shift of generations in agriculture, pronounced migration of female population from rural areas due to difficult living conditions and lack of jobs.

Tourism

The strategic framework of the Tourism and Hospitality Sector for the planned three-year period is primarily determined by the improvement of the legal and institutional framework in approximation to EU standards through a series of directives and regulations that have a direct and indirect impact on the tourism sector in the Federation of Bosnia and Herzegovina. Key obstacles in the area are lack of adequate legal framework in the fields of tourism and hospitality, limited budgetary resources and lack of human resources.

Waste and Environment

In order to achieve quality protection of human health and the environment and sustainable environmental management, it is necessary to continuously work on improving the legal framework in the field of environment in line with EU standards, with the establishment of adequate financial mechanisms. The competence for the environment is decentralized, with insufficient coordination and synchronization of institutions in the field of transposition of EU legislation, as well as the implementation of the existing legal framework. Lack of human resources in the environmental sector will represent one of the challenges in the future, as well as the absence or lack of quality strategic environmental documents, and the budget constraints for financing environmental measures. The area of waste management entails the establishment of infrastructure for managing certain types of waste, which is financially very demanding.

Environmental policy defines and implements measures to improve the situation and reduce environmental pollution, while applying economic development instruments. The polluter pays principle is the basis for defining financial mechanisms. This principle is often treated as a model of "recycling of funds". Aggregation of funds raised and their intended use are key environmental policy factors, enabling the creation of a "green budget" for financing projects and programmes aimed at protecting, conserving and improving the environment. The FBiH Environmental Protection Fund was established under the Law on the Environmental Protection Fund of the Federation of Bosnia and Herzegovina (Official Gazette of the Federation of BiH, 33/03), and in 2010 it began to operate and finance environmental protection projects. Funds coming to the Fund are allocated in such a way that 70% of the funds are distributed to the cantons, and 30% remains to the Fund, which allocates them based on a public call. As the said Law did not fully address the issue of establishment and use of economic instruments for the environment, which hindered the application of the principles of integral access to the environment, sustainable development and the polluter pays principle, as important principles of the formal environmental policy in the Federation of BiH established by the Law, the need arose to pass a new law with the expansion of the Fund's activities.

Activities are being carried out on the technical improvement of the existing infrastructure of the newly built regional landfills and creation of preconditions for the establishment of regional municipal waste management centres, as well as the establishment of infrastructure for selective waste collection.

There is no official environmental statistics, nor is there an environmental information system in place to adequately monitor the state of all environmental components.

Activities were initiated to develop a new F BiH Environmental Strategy 2020-2030, to establish a Register on plants and polluters PRTR, and to establish a Waste Management Information System.

b. Reform measures

5.3.2.1. Improving the competitiveness of agriculture, forestry and water management

1. Description of measure

Facilitating the use of IPARD funds to enhance the sustainability and competitiveness of agricultural and production farms, and improving institutional systems and capacities and harmonization of the legal framework in the field of agriculture and rural development. 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 BiH Rural Development Strategic Plan 2018-2021 - Framework Document.

Ongoing activity on the establishment of the Agricultural Information System: The implementation of this measure fulfils the requirements for safe and quality agro-food products, thus creating the conditions for exporting these products to the large EU market. The same measure prevents the import of products whose characteristics do not meet the standards of safety and quality of agro-food products established on the BiH market.

Changing the system of financial support, and above all the introduction of direct payments per unit of land area, aims at aligning agricultural policy and established administrative and information systems in F BiH and BiH with the CAP, and on the other hand will in the long run improve the competitiveness of domestic agricultural production. This measure will contribute to accelerating the harmonization and more effective implementation of other legislation and standards in the field of agriculture with the EU acquis. The agricultural information system, in addition to agricultural statistics, is the basis for monitoring the effects of agricultural policy, its impact on farm operations and the state of the market and this measure will contribute to the gradual improvement of the established systems in order to gradually establish all components of the Agricultural Information System in the F BiH and BiH. This measure will continue to improve and update (upgrade) the Farm Registry (RPG), the Registry of Domestic Animals, the establishment and maintenance of the Farm Accountancy Data Collection and Analysis System (FADN), and the establishment and maintenance of the Agricultural Market Information System (PTIS).

Improving the competitiveness of agriculture, forestry and water management is one of the strategic goals defined by the Strategic Development Plans in all three strategic sectors: agriculture, forestry and water management. The priorities defined for the next three-year period are the following: informatisation of the sector in order to more efficiently direct financial resources, raising the level of investment within the sector by providing additional sources of financing, improving the foreign trade balance through the introduction of measures to protect domestic production and improving the export capacity of the sector. Also, aligning the legislative

and legal frameworks and strategic programs in terms of their approximation to the frameworks of the European Union and the common agricultural policy is one way of improving the competitiveness of the sector. The measure is implemented on a continuous basis and represents an ongoing activity towards reaching the European Union average measured by indicators such as productivity in the sector, level of investment and employment in the sector.

Activities planned in 2020 – 2022

- Implementation of the Rural Development Strategic Plan 2018-2021 - Framework Document
- Preparation of the draft legal framework for establishing the IPARD structure
- Continuous activity on the establishment of the Agricultural Information System
- Development of Strategy for Agricultural and Rural Development (2022-....)
- Development and adoption of amendments to the set of three laws in the area of food safety, agriculture and veterinary medicine
- Continue activities to transpose and align standards with *acquis* requirements
- Implementation of 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
- Establish the necessary bodies (SPS)
- Continue the coordination of the support available from international projects and secure further support
- Continue 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
- Adoption of the new Law on Financial Support; the responsibility for the implementation of this activity lies with the Federal Ministry of Agriculture, Water Management and Forestry, the Federation Government and the Parliament of BiH.
- Establishment and updating of the Register of Agricultural Advisers and the Register of Private Advisory Services.
- Upgrading the Land Parcels Identification System and their use.
- Establishment of a Farm Accountancy Data Network (FADN).
- Reorganization of the FBiH Ministry of Agriculture, Water Management and Forestry and establishment of a Payments Agency.
- Establishment and maintenance of agricultural market information system (PTIS).
- Development of a new forestry information system (Ministry of Agriculture, Forestry and Water Management of Republika Srpska (MAFWM), JPŠ Šume (Forests) of Republika Srpska); given the size of the forestry system in Republika Srpska, the activity is carried over to 2021 and 2022, with the third phase of the information system development expected to begin in 2022.;
- Setting up a land parcel identification system - inventory of land resources (MAFWM);
- Implementing the animal identification process through development of the animal movement control system (MAFWM);

- Improvement of foreign trade and protection of domestic agricultural production; the measure is implemented on a continuous basis as it implies an ongoing effort to improve conditions (MAFWM);
- Adoption of the new Law on Incentives, the new Law on Agriculture and the new strategic framework for agriculture and rural development by 2025. (MAFWM);
- Creating the conditions for the establishment of IPARD operational structures in BiH (the Managing Authority and the IPARD Payment Agency) as a precondition for opening the possibility of using EU funds for rural development (MAFWM, Ministry of Foreign Trade and Economic Relations);
- Establishment of the RS Water Information System (Ministry of Agriculture, Forestry and Water Management of Republika Srpska, JPŠ Šume Republike Srpske); the measure is carried over from 2021 and into 2022 since the complete procurement, contractor selection, system design and system start-up cannot be expected to be completed within one calendar year, and it is expected that in 2022 the system will be completed and put into operation (MAFWM, JPŠ Šume Republike Srpske);
- Link domestic primary production with domestic food industry (MAFWM);
- Improvement of information systems for more efficient use of resources and more effective application of funds; the activity is carried over from 2021 and into 2022 and entails the continuation of the construction and refinement of information systems in agriculture, which will contribute to a more efficient use of resources, including financial allocations for financing the agricultural sector (MAFWM);
- Implementation of new strategic measures to improve competitiveness, productivity and sustainable development; (MAFWM);
- Creation of agricultural policy measures in line with IPARD procedures; (MAFWM, Ministry of Foreign Trade and Economic Relations).

2. Results indicators

Indicator	Baseline (year)	Intermediate target (year)	Target (year)
Increased number of farms Increased exports of agro-food products Number of implemented projects Increased number of different agricultural products whose characteristics meet the EU standards and the quantity of agro-food products exported from BiH Reduced number of the affected population in BiH			

3. 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.

The implementation of these activities, and the establishment of an efficient system between institutions in the food network, create the conditions for export of products of plant and animal

origin to EU countries. Only a safe and healthy product can be competitive and reach a market of 500 million consumers.

In addition to ensuring income stability, business security and a levelling playing field for domestic farmers relative to agricultural producers in the region, this reform measure will in the long run contribute to improving the competitiveness of domestic agricultural production and increasing the number of those employed in these sectors. Enabling more efficient use of financial support that will increase the competitiveness of agricultural producers will increase the volume and quality of output.

4. Estimated cost of the activities and the source of financing

Funding for the implementation of part of this reform measure is planned in the Budget of the Federation of Bosnia and Herzegovina as part of regular funds.

5. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

Achieving standards, earning capacity, increasing competitiveness and safer placement of products will increase interest in enhancing the production and processing, which will automatically require more workforce. 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. Achieving standards, earning capacity, increasing competitiveness and safer placement of products will increase interest in enhancing the production and processing, which will automatically require more workforce. The implementation of the planned activities is expected to contribute to the sustainable and stable growth of agro-food production and to ensure a better standard of living for farmers, and result in an increase in the number of formally employed people in the agricultural sector and activities related to agriculture and the food industry with greater engagement of women.

6. Expected impact on the environment

This reform measure has no negative impact on the environment.

7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
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	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, so the risk related to the adoption of the procedures at different levels is 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.	High	
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.	Medium	
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.	High	

5.3.2.2. Improving the existing legal framework governing tourism, tourist guides, tourist boards, tourist tax and catering

1. Description of measures

The objective of the measure is to improve the existing normative regulations in the field of tourism and hospitality in order to achieve the set strategic goals and to align the legal framework with EU legislation.

Activities will be aimed at developing and directing the long-term development of tourism and hospitality as a driver of the overall economic development, raising the standards and quality of tourism services, improving the general conditions of stay of tourists in the Federation of BiH and training employees on improving the legal framework and alignment with EU legislation and implementation of tourism and hospitality projects.

Activities planned in 2020-2022

- Adoption of the Law on Tourism of the Federation of BiH
- Adoption of the Law on Catering of FBiH in order to harmonize regulations, with the aim of adopting systemic solutions so as to improve the quality of services, and better promotion of available resources in order to increase the number of tourists.
- Adoption of the Law on the Tourist Tax of the Federation of BiH with the aim of increasing the income from tourism.
- After the prepared legislation has been adopted, they will be followed by the activities on drafting the by-laws arising from the proposed laws.
- Implementation of laws and by-laws

2. Results indicators

- Strategic document prepared, adopted and its implementation started
- Laws drafted, adopted and their implementation started

- By-laws drafted, adopted and their implementation started

The drafting and adoption of the above documents and acts will contribute to:

- Increased number of tourists overnight stays
- Increased revenues from tourism and hospitality
- Increased investments in tourism
- Increased employment in tourism
- Increased share of tourism revenue in GDP
- Reduced gray economy
- Increased number of registered entities engaged in the tourism and hospitality industry

3. Expected impact on competitiveness

Implementation of this reform measure will contribute to growth of competitiveness in the field of tourism.

4. Estimated cost of the activities and the source of financing

The costs are planned within the budget of the FBiH Ministry of the Environment and Tourism, as well as technical support from international organizations.

5. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

The implementation of planned activities and reform measures is expected to increase the number of employed persons, especially young people and women.

6. Expected impact on the environment

The implementation of the reform measure has no negative effect on the environment.

7. Potential risks

One of the main obstacles to achieving the goals of this reform measure could be the failure to adopt regulations within the planned time frame.

5.3.2.3. Reducing pollution and moving towards a circular economy

1. Description of measure

The objective of this measure is to set up a legal framework for establishing basic principles in order to move towards a circular economy, and to create infrastructure for adequate management of particular types of waste, i.e. to adopt implementing regulations that will contribute to the establishment and strengthening of circular economy mechanisms, and a system for monitoring the use of economic instruments in the field of waste management.

As significant resources are needed to fully implement these activities, implementation entails stronger coordination between the FBiH Ministry of Environment and Tourism, the FBiH Environmental Fund, the FBiH Government, cantonal governments and municipal governments. It is also planned to include international funding sources.

Establishment of economic instruments in the field of environment and EE: In implementing this measure, a new Law on the Environmental Protection and Energy Efficiency Fund will be adopted, with the aim of establishing and strengthening a system for monitoring the use of economic instruments in the field of environment and energy efficiency.

As significant resources are needed to fully implement these activities, implementation entails stronger coordination between the FBiH Ministry of Environment and Tourism, the FBiH Environmental Fund, the FBiH Government, cantonal governments and municipal governments. It is also planned to include international funding sources.

Activities planned in 2020-2022

- Establishment of a waste management information system with the aim of improving waste management.
- Adoption of the Law on the Environmental Protection and Energy Efficiency Fund.
- Reporting/ Analysis of data from the Waste Management Information System.
- Improvement of waste management process.
- Adoption of by-laws in accordance with the Law on the Environmental Protection and Energy Efficiency Fund
- Improvement of waste management process
- Reporting/ Analysis of data from the Waste Management Information System.
- Implementation of the Law on the Environmental Protection and Energy Efficiency Fund

2. Results indicators

Establishment of EU standards in the field of environmental protection through reduction of environmental burdens, adequate waste management system in line with the objectives of EU regulations, implementation of measures in the field of climate change, and an established and efficient economic framework for financing environmental activities and measures. Establish adequate environmental reporting systems.

3. Expected impact on competitiveness

The objective of the waste management legislation is to establish a circular economy by introducing market mechanisms (waste fees) which will finance the collection and recycling activities of these waste categories. The development of waste management regulations will contribute to the improvement of the business environment in the field of waste management.

Establishing a legal framework for securing economic instruments in the field of environment and energy efficiency, with increased control over the use of funds, would generate more efficient measures and activities implemented in the field, which would allow a more significant level of competitiveness to attract potential investors in all environmental fields as well as in areas that are potential for implementing energy efficiency measures.

4. Estimated cost of the activities and the source of financing

Activities from this reform measure do not require additional budgetary resources.

5. Expected impact on employment and gender

Establishment of a system for appropriate waste management in FBiH creates space for economic development in an environmentally sustainable manner, and generates new jobs, reducing demographic outflow of population, and creating healthier and better living conditions for people. The creation of small and medium-sized enterprises is expected, which will be involved in the collection and recycling of special categories of waste, which ultimately contributes to job creation.

6. Expected impact on the environment

The implementation of the reform measure has a significant effect on the environment.

7. Potential risks

One of the main obstacles to achieving the goals of this reform measure could be the failure to adopt regulations within the planned time frame.

5.3.2.4. Reducing pollution and moving towards a circular economy

1. Description of measure

The objective of this measure is to set up a legal framework for establishing basic principles in order to move towards a circular economy, and to create infrastructure for adequate management of particular types of waste, i.e. to adopt implementing regulations that will contribute to the establishment and strengthening of circular economy mechanisms, and a system for monitoring the use of economic instruments in the field of waste management.

As significant resources are needed to fully implement these activities, implementation entails stronger coordination between the FBiH Ministry of Environment and Tourism, the FBiH Environmental Fund, the FBiH Government, cantonal governments and municipal governments. It is also planned to include international funding sources.

Establishment of economic instruments in the field of environment and EE: In implementing this measure, a new Law on the Environmental Protection and Energy Efficiency Fund will be adopted, with the aim of establishing and strengthening a system for monitoring the use of economic instruments in the field of environment and energy efficiency.

As significant resources are needed to fully implement these activities, implementation entails stronger coordination between the FBiH Ministry of Environment and Tourism, the FBiH Environmental Fund, the FBiH Government, cantonal governments and municipal governments. It is also planned to include international funding sources.

Activities planned in 2020-2022

- Establishment of a waste management information system with the aim of improving waste management.
- Adoption of the Law on the Environmental Protection and Energy Efficiency Fund.
- Reporting/ Analysis of data from the Waste Management Information System.
- Improvement of waste management process.
- Adoption of by-laws in accordance with the Law on the Environmental Protection and Energy Efficiency Fund
- Improvement of waste management process
- Reporting/ Analysis of data from the Waste Management Information System.
- Implementation of the Law on the Environmental Protection and Energy Efficiency Fund

2. Results indicators – key performance indicators (KPI)

Establishment of EU standards in the field of environmental protection through reduction of environmental burdens, adequate waste management system in line with the objectives of EU regulations, implementation of measures in the field of climate change, and an established and

efficient economic framework for financing environmental activities and measures. Establish adequate environmental reporting systems.

3. Expected impact on competitiveness

The objective of the waste management legislation is to establish a circular economy by introducing market mechanisms (waste fees) which will finance the collection and recycling activities of these waste categories. The development of waste management regulations will contribute to the improvement of the business environment in the field of waste management.

Establishing a legal framework for securing economic instruments in the field of environment and energy efficiency, with increased control over the use of funds, would generate more efficient measures and activities implemented in the field, which would allow a more significant level of competitiveness to attract potential investors in all environmental fields as well as in areas that are potential for implementing energy efficiency measures.

4. Estimated cost of the activities and the source of financing

Activities from this reform measure do not require additional budgetary resources.

5. Expected impact on employment and gender

Establishment of a system for appropriate waste management in FBiH creates space for economic development in an environmentally sustainable manner, and generates new jobs, reducing demographic outflow of population, and creating healthier and better living conditions for people. The creation of small and medium-sized enterprises is expected, which will be involved in the collection and recycling of special categories of waste, which ultimately contributes to job creation.

6. Expected impact on the environment

The implementation of the reform measure has a significant effect on the environment.

7. Potential risks

- Under capacitated environmental sector personnel.
- Under capacitated environmental inspections.
- Underdeveloped system of monitoring and information on the environment.
- Difficulties in establishing a reporting system.
- Verification of the accuracy/validity of environmental data provided by reporting entities.
- Establishment of a surveillance system for used measurement methods and measuring equipment.
- Insufficient coordination between institutions.
- Insufficient coordination in the strategic planning of higher and lower levels of the administrative structure of environmental management.

5.3.3. Business environment and reduction of the informal economy

a. Analysis of main obstacles

Pursuant to constitutional competencies, lower levels of government in the Federation of BiH (cantons and municipalities/cities) are autonomous in introducing fees and taxes, the proceeds of which provide part of the funds for financing activities within the scope of cantonal and municipal/city authorities and their institutions. Given the complexity of competencies, after the conducted analyses, an increase in the number of obligatory payments for legal and natural persons was noticed, the non-harmonized amount of individual payments throughout the Federation of BiH, as well as the constant introduction of new obligations without special systemic solutions, which is one of the significant disincentive factors for business activities, both for new potential investors and for increasing the volume of business of existing business entities in the Federation of BiH.

The commitment of the Government of the Federation of BiH, in cooperation with lower levels of government and full respect for constitutional competences, is to create a simpler and unified business space throughout the territory of the Federation of BiH and, as a step in that direction, it published the Interactive Register of Fees and Taxes in the Federation of BiH and prepared its web application.

The provisions of the Law on Fiscal Systems (Official Gazette of the Federation of BiH, 81/09) aim at establishing a system of control and supervision of money turnover from economic activities in the Federation of BiH, for the purpose of monitoring and managing the parameters of economic trends and collection of public revenues. Due to the development of new ways of doing business, the impact of the global economy, digitalisation and accelerated development of technology, the space for the growth of the so-called "gray economy" is created, which significantly influences the presentation of the real state of the economy in the Federation of BiH so it is necessary to improve the system of fiscalisation in the Federation of BiH.

As the first step towards reducing the tax burden on labour, the Federation of BiH's plans to take action by equalizing the labour taxation method with the EU and OECD countries. The tax base will be expanded with the so far non-taxable benefits (meal, commuting allowance, vacation allowance, etc.), thus creating conditions for reducing contribution rates while achieving a neutral fiscal effect from the standpoint of fiscal sustainability of extra-budgetary funds. On the other hand, progressive taxation of income and introduction of a zero rate on income up to 800 KM are introduced in order to relieve the income of employees.

The current regulations governing the taxation of the possession and sale of property are regulated at the level of ten cantons and at the level of local self-government units, and there are over 20 laws regulating the same matter. This kind of environment leads to fragmented economic environment and makes business difficult.

Insufficient budget allocations to stimulate the development of small and medium-sized enterprises, as well as difficult access to affordable financial resources pose a significant problem in raising the competitiveness of small businesses in the Federation of Bosnia and Herzegovina. Also, there is insufficient allocation of funds for the establishment and development of business zones, business incubators, technological parks, development agencies and other forms of entrepreneurial infrastructure.

The existing Law on Incentives for Small Businesses Development in the Federation of BiH does not envisage significant funds from the FBiH Budget, which in a sense is an obstacle to faster and better development of small business, and therefore it is necessary to work on its changes. The business of craftsmen in the Federation of BiH is a particular problem, which should be facilitated by the new law. When it comes to entrepreneurial infrastructure, it is necessary to draft a new law that should regulate this area for the first time and thus clearly lay out the conditions for development of entrepreneurial infrastructure in the Federation of BiH, which should significantly improve the business climate.

In addition to the small financial resources needed for the development of small businesses, the problem of insufficiently trained human resources for writing quality projects in small and medium-sized enterprises, as well as employees of local authorities, is also very pronounced.

An inadequate legal framework for products adversely affects the productivity and competitiveness of domestic producers, the protection of domestic consumers and the environment, as well as the liberalization of regional trade in goods. Also, non-compliance of domestic regulations with EU regulations and international requirements and standards puts local businessmen and consumers at a disadvantaged position.

The development of a legal and planning framework for the free movement of goods in Republika Srpska is an obligation arising from the Stabilization and Association Agreement between the EU and BiH. It is also a necessary and continuous process, which directly affects the favourable business climate, competitiveness and productivity of the domestic economy and consumer protection. Ensuring domestic product certification and compliance of the domestic legal framework with international quality standards contributes to strengthening domestic production and facilitating access of domestic products to the EU's single market.

Regulating this area contributes to the free trade of goods, as one of the principles of CEFTA, the EU and the WTO. This means reducing trade costs and eliminating barriers to accessing the region's markets, while optimizing production costs, making long-term investments and developing new technologies and new final products, employment and increasing competitiveness.

b. Reform measures

5.3.3.1. Enhancing the quality infrastructure system in BiH according to the EU model

1. Description of measure

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 the 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.

An inadequate legal framework for products adversely affects the productivity and competitiveness of domestic producers, the protection of domestic consumers and the environment, as well as the liberalization of regional trade in goods. Also, non-compliance of domestic regulations with EU regulations and international requirements and standards puts local businessmen and consumers at a disadvantaged position.

It is also a necessary and continuous process, which directly affects the favourable business climate, competitiveness and productivity of the domestic economy and consumer protection. Ensuring domestic product certification and compliance of the domestic legal framework with international quality standards contributes to strengthening domestic production and facilitating access of domestic products to the EU's single market.

Regulating this area contributes to the free trade of goods, as one of the principles of CEFTA, the EU and the WTO. This means reducing trade costs and eliminating barriers to accessing the region's markets, while optimizing production costs, making long-term investments and developing new technologies and new final products, employment and increasing competitiveness.

Development of the legal and planning framework in the free movement of goods sector (EU Chapter 1) in Republika Srpska entails: establishing and updating the applicable legal framework of the Republika Srpska in the free movement of goods sector, adopting necessary new product regulations in line with the *acquis*, EU principles and modern standards, as with other applicable regulations of Republika Srpska; continued removal of the so-called "conflicting" SFRY regulations and JUS standards with mandatory application from the legal system of Republika Srpska; establishment of an operational and publicly available register of applicable regulations defining technical and other requirements for products and information points for the regulations of the Republika Srpska, standards and designated certification bodies of the Republika Srpska; establishment of an operational Notification Point for the regulations of the Republika Srpska in preparation (obligation of EU and CEFTA/WTO); adopting and monitoring the implementation of the "Strategy for Infrastructure Quality of the Products and Services of the Republika Srpska for the Period 2019-2023" and the accompanying "Action Plan for the Implementation of the Strategy and the Transposition of the EU Regulations in the Area of Free Movement of Goods into the Legal System of the RS"; analysis of regulations in terms of meeting the requirements of Art. 34, 35 and 36 of the Treaty on the Functioning of the European Union, as well as the preparation, adoption and monitoring of the implementation of the Action Plan for harmonization of non-harmonized regulations of Republika Srpska with the requirements of Art. 34, 35 and 36 of the Treaty on the Functioning of the European Union.

Activities planned in 2020-2022

- Development of the BiH Quality Infrastructure Strategy – MoFTER BiH
- Adoption of the new or amendments to the existing Law on Technical Requirements for Products and Conformity Assessment
- Adoption of the Law on Accreditation
- Adoption of the Law on Market Surveillance in BiH

- Adoption of the Decree on the procedure for reporting the preparation regulations, standards and conformity assessment bodies in Republika Srpska;
- Provision of software for managing the register (database) of regulations and operation of the information point;
- Establishment of an operational comprehensive register of regulations of the Republika Srpska and information points for businessmen, investors and administrative bodies;
- Establishment of notification point of regulations of Republika Srpska;
- Adoption of a Guidelines for the Implementation of the Republika Srpska Regulations Transposing the New Approach EU Regulations

2. Results Indicators

Indicator	Baseline (year)	Intermediate target (year)	Target (year)
Adopted document	0	0	1
Adopted regulation	3	3	3

3. Expected impact on competitiveness

4. Estimated cost of the activities and the source of financing

5. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

6. Expected impact on the environment

7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
Political risk	High	European Commission support and technical assistance in this area to help the economy more easily offset losses due to political differences with decision makers
Lack of capacity or interest in the market to form a conformity assessment body	High	An insufficient number of jobs in the market, and the establishment and maintenance of competent bodies means large funds, trained personnel and equipment.

5.3.3.2. Establishing an electronic signature system

1. Description of measure

With a view to full implementation of the Law on Electronic Signature of Bosnia and Herzegovina and implementation of electronic signature for public administration, citizens and business entities throughout the country in the previous reporting period, the Ministry of Communications and Transport of Bosnia and Herzegovina established the Office for the Supervision and Accreditation of Verifiers in accordance with Article 20 of the Law on the electronic signature of Bosnia and Herzegovina, which officially started work on 15 January 2018. Activities in the field of electronic signature conducted by the Ministry of Communications and Transport of BiH in the past period are:

- processing of all requests for entry in the records of verifiers or certification bodies in accordance with the Law on Electronic Signature of BiH, namely the Indirect Taxation Authority of Bosnia and Herzegovina, filed on 13 October 2017 and the Agency for Identification Documents, Registers and Data Exchange of Bosnia and Herzegovina, submitted on 18 January 2018,
- Memorandum of Understanding between the Ministry of Communications and Transport of BiH and the Institute of Metrology of BiH concluded on 18 April 2018,
- In coordination with IDDEEA BiH and ITA BiH, activities were carried out with the aim of finding solutions to supplement the necessary documentation (confirmation of compliance with security requirements, proof of concluded liability insurance), where the Office provided full support and guidance to IDDEEA BiH and ITA BiH in the process of obtaining as soon as possible the missing documentation for entry in the records of the certification authorities in Bosnia and Herzegovina.
- TAIEX Expert Mission was held on 20-21 December 2018 where experts Dimitris Zacharopoulos (Greece) and Rytis Rainys (Lithuania) shared their experiences and knowledge with the participants and instructed them on the ways to become potential verifiers in Bosnia and Herzegovina. In addition, they suggested that the Office for Supervision and Accreditation of Verifiers at the Ministry of Communications and Transport of Bosnia and Herzegovina apply for admission to FESA (Forum of European Supervisory Authorities for trust service providers).
- On 6 May 2019, the Office of Supervision and Accreditation of Verifiers, i.e. the Ministry of Communications and Transport, became a member of FESA (Forum of European Supervisory Authorities for trust service providers).
- On 1 July 2019 request has been received from Halcom dd Ljubljana from Slovenia for entry in the Register of Verifiers in Bosnia and Herzegovina.
- On 3 October 2019 Halcom dd Ljubljana was entered in the Register of Verifiers in Bosnia and Herzegovina as the first certification body (CA body), i.e. verifier for providing services of issuing qualified electronic certificates in Bosnia and Herzegovina. In this way, all the necessary conditions for the practical implementation of electronic signature in Bosnia and Herzegovina were created.
- On 17 October 2019, a Press Conference was held and the first certificate was handed to Deputy Minister Saša Dalipagić.

Also, it is planned to continue cooperation and support to IDDEEA BiH and ITA BiH in the process of supplementing the necessary documentation. We hope that, in addition to Halcom, as potential candidates for the provision of services of issuing qualified electronic signatures, we will soon be able to enter in the Register of Verifiers also the Indirect Taxation Authority of Bosnia and Herzegovina (ITA BiH) and the Agency for Identification Documents, Registers and Data Exchange of Bosnia and Herzegovina (IDDEEA BiH).

A draft law on electronic identification and trust services for electronic transactions has been drafted, which is in line with Regulation 910/2014 / EU of the European Parliament and of the Council on electronic identification and trust services for electronic transactions in the internal market and adopted by the Council of Ministers of BiH.

If one considers the results of BiH's progress in the public administration reform process published in the Annual Progress Report (and monitoring of the Revised Action Plan) of the Public Administration Reform Strategy in Bosnia and Herzegovina for 2016, which covers both entities,

the Brčko District and the BiH level, it may be concluded that Republika Srpska is showing the best results in the reform processes, especially in the segment of administrative decision-making and development of e-services, as well as in the development of e-government. It can be concluded that in Republika Srpska there is a strong basis for the further development of eGovernment, which is reflected in the existence of a basic legal and regulatory framework governing the area of eGovernment, established basic ICT infrastructure supporting electronic communications services, and strong social and political commitment to the further development of the information society.

In Republika Srpska, a comprehensive reform of business registration was implemented in 2013 with the establishment of a one-stop shop system, which significantly reduced the cost of starting a business, the procedure and the number of days required to register. The next stage of reform concerns the possibility of e-registration of business entities (entrepreneurs and businesses) and is in the final phase in Republika Srpska.

It is a continuation of the implementation of earlier activities that lay the foundations for the development of the digital society and includes the completion of the reform of e-registration of businesses and the digitization of administrative procedures. The measure was carried over from the previous period and implemented in the part referring to the previous year. The technical implementation of the certification body was completed in 2019, making the certification body operational. The preparation of internal acts and procedures is planned, which must be adopted in order for the certification body to start issuing certificates, both formally and legally. The Agency for Intermediary, IT and Financial Services - APIF will perform the function of the registration body, that is, perform the tasks of receiving applications and delivering the certificates.

The implementation of the Strategy for Regulatory Reform in the Republika Srpska has systematically led activities to improve the business environment and facilitate doing business by removing unnecessary administrative procedures. This significantly accelerated the registration of business entities and reduced costs. Of particular note is the progress made by Republika Srpska in the segment of e-services provided by the Tax Administration of the Republika Srpska, as well as activities on cadastre digitalization and land registry reform. A project was implemented with the World Bank, which aimed at establishing an interoperable information system of the Republika Srpska - a point of intermediation in the exchange of data between different administrative levels, where data from different registers would be exchanged and used. In the previous period, an interoperability framework at the BiH level was developed, harmonized and finally adopted, as a prerequisite for wider cooperation regarding the mutual exchange of data between administrative bodies and the creation of more e-services. The administrative procedure at all administrative levels of BiH has been improved, through changes to the basic laws that enable the administration's electronic communication with citizens. The Law on General Administrative Procedure also regulates the issue of compulsory obtaining of ex officio evidence on the facts on which official records are kept, in order to avoid requiring the acquisition of such documents by citizens.

Activities planned in 2020 – 2022

- Finalisation of activities related to the complete establishment and functionality of the National Centre for Digital Identity Management within which the first qualified certification body will function, which will be in charge of issuing certificates with electronic signatures to legal and natural persons in the Republika Srpska;
- Finalisation of the process of digitalisation of the court archive;

- Finalisation of activities related to the implementation of the project of e-registration of business entities in Republika Srpska through the adoption of the Law on Tax Procedure of the Republika Srpska.

Potential risks

Risk	Probability (low or high)	Planned mitigating action
Failure to adopt the Law on electronic identification and trust services for electronic transactions	High	Introduce citizens, public and private sector to the benefits and start with the broader use of electronic signature. Work on the citizens' awareness and thus change the political climate that will result in the adoption of a Law that is in line with eIDAS Regulation 910/2014.

5.3.3.3. Health system reform

1. Description of measure

The health sector is burdened with an inadequate network of healthcare institutions, a demographic structure of the population that adversely affects its sustainability, great inefficiency of the system, and at the same time with its excessive solidarity and social sensitivity, which far exceeds the package of services that is optimal, in accordance with each individual's contribution to the system. The potential costs of implementing a measure can significantly delay its implementation.

The challenges for the coming period are particularly related to the full implementation of the reform of the health care system, with particular attention to accelerating the pace of reform implementation, especially in the phase of halting the increase in arrears and finding models for their settlement. All of the above is only a prerequisite for the introduction of all healthcare institutions and the Health Insurance Fund (HIF) into the treasury system of operations, which will preserve their fiscal discipline, and create the preconditions for structural reform of the system, which will be based on the standardization of the network of healthcare institutions, and finding new health insurance financing models.

Activities planned in 2020-2022

- Defining models for settlement of arrears in the healthcare system;
- Development of priority liabilities of public health institutions in relation to the type of liabilities, maturity and possible dynamics of settlement, with emphasis on arrears to the Tax Administration and the Health Insurance Fund;
- Prepare a plan to settle liabilities and begin using the new model to clear arrears;
- Establish mechanisms to ensure the proper use of funds invested to settle certain types of liabilities;
- Prepare selected public healthcare institutions and local self-government units for the transition to the treasury operations in 2021 and 2022, and prepare the remaining institutions, local self-government units and the Health Insurance Fund for the transition into the treasury operations in 2023, and complete the process of introducing the remaining public healthcare institution in the treasury operations system.
- Adopt a new legal framework governing the healthcare system (Law on Health Insurance, Law on Health Protection, Law on Medical Documents and Records in the Health Sector and the Law on Health care Activities) regulate the early retirement institute with the aim

of overcoming problems related to workers whose medical treatment was not completed within a year;

- Increase control of the use of sick leave;
- Develop and sign a new special collective agreement for employees in the health sector;
- Perform standardization of the Republika Srpska health system network based on the health needs of the population;
- Optimize the number of employees and align with the by-laws of the Law on Health Protection
- In cooperation with the World Bank, undertake activities to improve the performance monitoring system of public health institutions;
- Considering the problem of labour outflow to EU countries, communication between the institutions of the system with the State Border Service should be regulated in order to clearly determine the length of stay of citizens of Republika Srpska outside the territory of BiH in order to prevent abuse of obligations from employment, health care rights and other regulations;
- Determine the cost of all individual services in the healthcare system;
- Find new models of the health care system financing – increase funding for health protection of the population and define several "health care packages".

2. Results indicators

Level of reduction of total liabilities of public health institutions and the Republika Srpska Health Insurance Fund (initial value: balance of total liabilities as of 31 December 2018, according to the financial statements of public health institutions and the Health Insurance Fund of the Republika Srpska). Level of liquidity and financial stability of public health institutions and the Republika Srpska Health Insurance Fund (initial value: liquidity ratio and financial stability ratio based on the annual financial statements of public health institutions and the Republika Srpska Health Insurance Fund, according to the financial statements of public health institutions and the Health Insurance Fund of the Republika Srpska, as of 31 December 2018). Type, number, spatial distribution and capacity of health institutions founded by Republika Srpska, local government unit and other legal or natural person (initial value: data on institutions registered in the Register of Health Institutions as of end February 2019). Amount of public funds available for health care of the population of the Republika Srpska (initial value: data included in the health account of the Republika Srpska for 2018). A package of measures was prepared and implemented to prevent further growth of arrears in the healthcare system.

3. 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 clearance of 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 spending.

4. Estimated cost of the activities and the source of financing

At this point, it is not possible to estimate the cost of overall reform. Funding for health system reform will be provided from the Republika Srpska budget, and part of the funding for reform will be secured through the World Bank support.

5. Expected impact on social outcomes, such as employment, poverty reduction, equality 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.

6. Expected impact on the environment

No impact.

7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
Potential costs of implementing a measure can significantly slow down its implementation	High	

5.3.3.4. Enhancing the business environment

1. Description of measure

Improving the system of non-tax revenues - The Government of the Federation of BiH's commitment to implement reforms aimed at creating a favourable business environment, as an incentive element to increase both foreign direct investment and domestic investment, which further affects economic growth and macroeconomic strengthening, recognized the special necessity to carry out regulation activities in the area of non-tax revenues, i.e., fees and taxes, in the territory of the Federation of BiH, with full respect for constitutional competences and cooperation with lower levels of government.

Following the completion of the web application of the interactive Register of Fees and Taxes in the Federation of BiH, which is under the supervision of the Federal Ministry of Finance, in the next period it is necessary to create legal preconditions for its keeping and updating. Consequently, in the forthcoming period, the Federal Ministry of Finance, in accordance with the constitutional competencies of each level of government in the Federation of BiH, will continue with the activities of legal regulation of the Register, which will ultimately clearly define the establishment and maintenance of the Single Register of Fees and Taxes in the Federation of BiH.

Reducing the tax burden on labour - The new base and differentiated personal income tax rates make it possible to distribute the tax burden more equitably between different categories of individuals in terms of shifting the tax burden to higher income individuals. In addition, this reform aims to curb the informal economy. By prescribing the same rates of contribution for pension and disability insurance and health insurance for payments that are not formally and legally under the Employment Agreement, but other relationships such as fee contracts, royalties, temporary and occasional employment contracts, etc., which are made with all features of the Employment Contract, will increase registered employment.

At its 146th session held on 7 June 2018, the Government of the Federation of BiH adopted the Proposal of the Law on Income Tax and the Proposal of the Law on Contributions, and submitted them to the parliamentary procedure. Tax burden restructuring - In order to simplify the business environment, a uniform law on property taxation at the level of the Federation of BiH should be adopted in the coming period. To this end, it is planned to make an analysis of property tax regulations, which would precede the adoption of a uniform law.

Analyze regulations on property taxation, and prepare laws and regulations with the consent of lower levels of government (cantons).

Easier access to affordable finance for SMEs to increase investment, profits and jobs - The most important projects supporting small and medium-sized enterprises are: credit and grant allocation. Loans will continue to be placed at an interest rate of 1% over 7 years. The grants will be awarded through projects: strengthening competitiveness, support for newly established small business entities and incentives for crafts (old, traditional, related and special).

In order to improve capacities of SMEs to better access affordable financial resources, it is planned to hold various types of educational workshops throughout the Federation of BiH. In addition, amending the existing legislation will provide a more favourable environment for the activities of the small business entities in order to maintain their stability and development.

Increasing the economic activity of SMEs by removing administrative barriers - The FBiH Ministry of Development, Entrepreneurship and Crafts will undertake a series of activities aimed at enhancing the competitiveness of small and medium-sized enterprises, increasing their number, stimulating the growth of innovative and export-oriented SMEs, as well as creating a favourable business environment for the establishment and development of small business entities.

Amending the existing legislation will provide a more favourable environment 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. 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. Amending the existing legislation will provide a more favourable environment for the activities of the small business entities in order to maintain their stability and development.

The following obstacles are recognized as key barriers to growth and competitiveness in the business environment:

- overlapping of inspection controls at the subjects of control by two levels of inspections; lack of coordination, i.e. communication between the RS and local level of inspections; imposing more repressive measures in relation to preventive measures;
- current spending expenditures in public administration and modernization of public administration, which will rest on the rule of law, openness and transparency, professionalism, efficiency, accountability and cost-effective access to taxpayer funds;
- entrepreneurial infrastructure exists in the form of business zones, incubators and clusters, but entrepreneurship needs to be strengthened and upgraded and new forms of support such as free zones and technological parks established;
- the length of court proceedings can be challenged by lodging an appeal with the Constitutional Court, which in recent times seems often to be the case, practice has shown that an appeal is not a sufficiently effective means of securing the right to a trial within a reasonable time;
- obstacles to the advancement of safe environment for business in the region and beyond are: insufficient fight against corruption, money laundering, organized crime and cyber crime, migrant crisis and the return of fighters from foreign battlefields;

- The Economic Reform Program 2019-2021 envisaged reform of the Republika Srpska Inspectorate in two phases: drafting the Law on Inspections and reforming the Republika Srpska Inspectorate and Inspections from all levels of government in Republika Srpska;
- 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;
- Strengthening support for SMEs will be improved through existing and creation of new forms of entrepreneurial infrastructure and includes: establishment of an information system for business zones of Republika Srpska, initiation of activities on establishment of Technological Park and creation of preconditions for the development of free zones in the Republika Srpska and their promotion;
- The adoption of the Law on Trial within a Reasonable Time will ensure the protection of the right to a fair trial by all citizens and legal entities, bearing in mind that making judgments within a reasonable time is one of the basic prerequisites for a good business environment;
- Development of strategic documents in the field of security will contribute to the improvement of general security and a safe environment for business.

Activities planned in 2020 – 2022

- Improving the system of non-tax revenues
- Reducing the tax burden on labour
- Tax burden restructuring
- Easier access to affordable finance for SMEs to increase investment, profits and jobs
- Increasing the economic activity of SMEs by removing administrative barriers
- Reform of the Republika Srpska Inspectorate through the establishment of a new organizational structure and improvement of the Republika Srpska inspection system, through a synchronized inspection system at all levels of government in the Republika Srpska (Ministry of Administration and Local Self-Government and the Republika Srpska Inspectorate),
- Adoption of the Law on Civil Servants, the Law on Amendments to the Law on the Register of Employees in Users of Budget Funds of Republika Srpska, establish a system of wage setting based on values and adoption of Operational plan for reducing the total payroll expenditure (Ministry of Administration and Local Self-Government and other ministries and institutions of Republika Srpska in line with their competencies),
- Strengthening support for SMEs through upgrading existing and creating new forms of entrepreneurial infrastructure,
- Implementation of procedures for selection of contractors for the development of portals and development of portals for business zones, development of a project task for a technological park, finding sources of financing and construction of a technological park, adoption of the Law on Free Zones and promotion and support in the development of free zones (Ministry of Economy and Entrepreneurship, Development Agency of the Republika Srpska),
- Adoption of the Law on Trial within a Reasonable Time (Ministry of Justice),

- Strengthening the institutional and legal framework in the fight against corruption, organized crime and terrorism, cybercrime and other forms of serious crime (RS MIA and other ministries and institutions of Republika Srpska, in line with their competencies).

2. Results indicators

Indicator	Baseline (year)	Intermediate target (year)	Target (year)
Legal framework for establishing a Single Register of Fees and Taxes in the Federation of BiH has been adopted	Register of Fees and Taxes in the Federation of BiH prepared and published	Single Register of Fees and Taxes in the Federation of BiH established	
Tax wedge	A fairer system of taxation of personal income is in place		
Regulations prepared and published			
Investments in SMEs realised			
- profit in SMEs realised			
- number of new jobs in SMEs			
- number of new SMEs			
- total income in SMEs			

3. Expected impact on competitiveness (not relevant for the area of "social protection and inclusion")

- Improving the system of non-tax revenues
- Reducing the tax burden on labour
- Tax burden restructuring
- Increasing the economic activity of SMEs by removing administrative barriers

4. Estimated cost of the activities and the source of financing

Improving the system of non-tax revenues - The implementation does not require additional costs to the budget of the Federation of BiH, except for the ordinary expenses of employees on implementation. Since it is implemented with the technical support of the international project in Bosnia and Herzegovina all additional costs are covered by donor funds.

Reducing the tax burden on labour - Activities on drafting laws and by-laws are planned to be implemented within the regular salary plan of employees of the Federal Ministry of Finance and the FBiH Tax Administration. Also, bearing in mind that activities regarding software solutions are yet to be determined, the costs of implementing these activities will be estimated after the adoption of the proposed laws and by-laws. Regarding the effect of the implementation of the measure on the revenues of the budget, that is, extra-budgetary funds, according to the performed micro simulation estimates, the proposed reduction of the total contribution rate, as well as changes in the taxation of income, will be compensated by the extension of the base for calculation and will not negatively affect the level of collection of revenues on this basis.

Tax burden restructuring - The activities are planned to be implemented as part of the regular salary plan for employees of the Federal Ministry of Finance.

Easier access to affordable finance for SMEs to increase investment, profits and jobs - These activities will be carried out by the FBiH Ministry of Development, Entrepreneurship and Crafts. Costs for implementation will be regular expenses for salaries of employees (there will be no additional costs), except for the funds foreseen in the Budget of the Federation of BiH for financial support to small and medium-sized enterprises.

The budget support for SMEs planned for this measure in 2020 amounts to KM 3,500,000, in 2021 to KM 5,000,000 and in 2022 to KM 8,000,000.

Increasing the economic activity of SMEs by removing administrative barriers – These activities will be carried out by the FBiH Ministry of Development, Entrepreneurship and Crafts. Costs for implementation will be regular costs for salaries of employees (there will be no additional costs), except for the funds foreseen in the Budget of the Federation of Bosnia and Herzegovina for the improvement of entrepreneurial infrastructure.

The budget support planned for this measure in 2020 amounts to KM 2,500,000, in 2021 to KM 4,500,000 and in 2022 to KM 6,500,000.

5. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

Improving the system of non-tax revenues - Establishing a Single Registry of Fees and Taxes in the Federation of BiH is one of the steps to support the equitable development and strengthening of all parts of the Federation of BiH, which, given the current situation affecting Bosnia and Herzegovina and thus the Federation of BiH too, is a significant factor in reducing the demographic outflow of the population.

Reducing the tax burden on labour - Employment is expected to increase, since the employer will be discouraged from hiring persons on the basis of fee contracts and other similar contracts (the new Law prescribes the same rates of contribution for pension and disability insurance and health insurance under those contracts as for employment). By reducing the cost of labour, labour demand will increase, which will also lead to employment growth.

Tax burden restructuring - In these stages of activity, employment, poverty reduction, equality and gender issues are not directly affected, it affects the business environment.

Easier access to affordable finance for SMEs to increase investment, profits and jobs - Creating a better business environment for the growth and development of the small business of the Federation of Bosnia and Herzegovina directly affects employment growth, poverty reduction, but the implementation of this measure will have a positive impact on equality and the gender issue as well.

Increasing the economic activity of SMEs by removing administrative barriers - The overarching goal of investing in entrepreneurial infrastructure is to foster a balanced regional development throughout the FBiH, leading to increased employment and poverty reduction. Increased economic activity directly affects employment growth.

6. Expected impact on the environment

No implications.

Increasing the economic activity of SMEs by removing administrative barriers - Investing in the construction of business zones will contribute to the relocation of business facilities from urban

areas to business zones provided for by spatial plans, which in any case has a direct positive impact on the environment.

7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
Untimely proposal of the legislative framework for the establishment of the Single Registry of Fees and Taxes in the Federation of BiH by the Government of the Federation of BiH	Low	Timely, detailed introduction of all stakeholders with the importance of adopting the legal framework and establishing a Single Registry of Fees and Taxes in the Federation of BiH
Untimely adoption of the legislative framework for the establishment of the Single Registry of Fees and Taxes in the Federation of BiH by the Parliament of the Federation of BiH	High	
Untimely adoption of the Law by the FBiH Parliament	High	
Lack of funds in the Budget for the FBiH Tax Administration to develop a software solution	Low	Timely plan funds in the FBiH budget
Non - acceptance of the solution by lower levels of government (cantons)	High	Public consultation with lower levels of government
Untimely adoption of the Law by the FBiH Parliament	High	
Untimely adoption of the Law by the FBiH Parliament	Low	Seek financial support from alternative sources
Lack of planned financial resources	Low	Seek financial support from alternative sources

5.3.3.5. Reduction of the informal economy

1. Description of measure

In order to combat the so-called "gray economy" in the Federation of BiH, the importance of carrying out activities to improve the system of fiscalisation in the Federation of BiH has been recognized.

At its 18th extraordinary session, held on 19 April 2018, the House of Peoples of the Federation of BiH Parliament considered and adopted the Draft Law on Amendments to the Law on Fiscal Systems. Following the adoption of the draft Law by the House of Representatives of the Parliament of the Federation of BiH, the Federal Ministry of Finance, as the proponent, will, in accordance with the Conclusions of the Houses, organize and conduct a public debate and proceed with the preparation of the Proposal of the Law. Its adoption creates the presumption of strengthening the discipline of recording the money transactions, reducing the so-called "gray economy" and better control over the parameters of economic trends, consumption.

Furthermore, from 2018, the Federal Ministry of Finance, with all actors involved in the process of fiscalisation, initiated activities on the technical improvement of the process of fiscalisation in the Federation of BiH, which will be followed by the implementation of new technical and technological solutions, which will enable better control over the recorded transactions, and which will require changes to existing procedural regulations in this area.

The fiscal cash register system established in 2007 is technologically outdated, does not even monitor the entire cash business, which is why there is still some space for the gray area. In this regard, a real and well-founded need to revise the existing system has emerged. Any solution that

would affect the liberalization of the fiscal systems market, reduce associated operating costs and reduce procedures or automate them would certainly have positive effects on the business environment in Republika Srpska and Bosnia and Herzegovina in general.

Resolving the issue of using parallel POS (Point of Sale) devices from which fraudulent fiscal receipts are issued and the occurrence of using defiscalized certified fiscal devices from which receipts are issued that fully correspond to the prescribed appearance of a fiscal receipt (except for the payer's UIB, which the average customer does not notice), but such turnover is not submitted to the Republika Srpska Tax Administration's server through daily reports.

The existing model of the fiscal cash register system has shown certain deficiencies and there is a real need for the system to be improved, all with the aim of implementing the policy of the Government of the Republic of Srpska regarding the reduction of the gray area in the presentation of turnover. Due to all of the above, it was necessary to initiate activities to review the existing model, and based on the analysis and the models offered, made the transition to a less demanding, but at the same time more effective and efficient system. Reducing the gray area in the presentation of turnover by implementing a new fiscal cash register system

Activities planned in 2020 – 2022

- Adoption of the Law on Amendments to the Law on Fiscal Systems
- Preparation of draft by-laws in the field of fiscalisation
- Implementation of the Law and by-laws
- Development and adoption of the new Law on Fiscal Cash Registers and by-laws for the implementation of the new Law; (Ministry of Finance, TA of RS)
- Implementation of technical aspects of "on-line" fiscal system in Republika Srpska;
- Full implementation of the new system of fiscalisation in Republika Srpska (Ministry of Finance, TA of RS).

2. Results indicators

Indicator	Baseline (year)	Intermediate target (year)	Target (year)
Reduced volume of the so-called "gray economy" in the Federation of BiH measured through an increase in recorded turnover through fiscal devices. Established a more functional and efficient system of fiscalisation in the Federation of BiH with the use of modern technological solutions	Not available		

3. Expected impact on competitiveness

Improving the process of fiscalisation in the Federation of BiH will lead to a decrease in the so-called "gray economy", consumer protection, and a more realistic presentation of economic trends in consumption. The implementation of this measure will contribute to securing an additional and stable source of tax revenue, thereby opening up space for reducing para-fiscal pressure for legal entities already operating within the formal economy. The implementation of the aforementioned reform measure will increase the competitiveness of business entities operating regularly and presenting all their income.

4. Estimated cost of the activities and the source of financing

Since these are system solutions, their implementation requires the provision of additional funds from the Budget of the Federation of BiH to the Tax Administration of the Federation of BiH, for the development of technical and technological solutions.

5. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

Elimination of the so-called "gray economy" should lead to a positive movement of all economic parameters (level of investment, level of employment, income per capita etc.)

6. Expected impact on the environment

No implications.

7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
Untimely adoption of regulations in the area of fiscalisation by Parliament	High	

5.3.4. Research, development and innovation and the digital economy

a. Analysis of main obstacles

Under current conditions, Bosnia and Herzegovina is investing effort into the development of a supportive, favourable and innovative environment. Accordingly, the main direction it intends to follow is smart specialisation, i.e. the use and development of innovations focused on supporting economic growth and competitiveness, as well as enhancing the ICT sector by aligning the BiH regulatory framework with EU standards.

BiH's regulations pertaining to telecommunications are not in line with the Regulatory framework for electronic communications of the European Union. It is a priority to adopt the relevant strategies and policies to regulate this area.

According to the Global Innovation Index 2019, Bosnia and Herzegovina is ranked 76th out of 130 countries, and its position remains unchanged in comparison with the previous year. This is an alarm indicating that this area is in need of reforms. It is encouraging that BiH has noted some progress in the areas of Knowledge and Technology Outputs, which is visible through the introduction of new technology and technological innovations into enterprises.

One of the challenges that have been identified is the low level of investment in research and development, which definitely has a significant impact on the competitiveness of the BiH research and development community in the international sphere. The estimated total allocations for research and development over the last few years amounted to around 0.2% of the GDP. Insufficient financing is the most common reason for not introducing innovative activities to enterprises in BiH.

Another challenge that has been identified is the ineffective system of managing the research-science and innovations potential in BiH. This is supported by the fact that BiH, at the moment, does not have a database of available capacities of science and research institutions, their legal

status, staff, financing, etc. The set of statistical data at the state level which follows the EUROSTAT methodology was published for the first time in 2014. The BiH Agency for Statistics released the first edition of R&D data for 2014. Since then, they have been released annually.

According to the Global Competitiveness Index 2019, Bosnia and Herzegovina is ranked 91st out of 140 countries, with the lowest ranking in terms of innovation capacity (114th place). Due to the lack of skills, fragmented labour market and low level of integration into the global flows of knowledge and value chains, foreign direct investment is not targeting knowledge-based sectors. The situation is further aggravated by the brain drain, which is another challenge that must be resolved in the future period.

This measure has been transferred from the previous period, partially edited. The technical implementation of the certification body was completed in 2019, which formally put the certification body in operation. The preparation of internal acts and procedures, which must be adopted in order for the certification body to start issuing certificates formally and legally, is currently underway.

The biggest obstacles in the area of research, development and innovations in RS are: insufficient horizontal and vertical institutional alignment and cooperation, unsatisfactory number and/or structure of researchers and research institutions, dominant brain drain, low level and quality of productivity in science, insufficient cooperation of the science, research, and innovation community with the economy, low level of investment in scientific and research development, lack of objectivity and bias in the process of estimating research results and insufficient interdisciplinary approach to research, capacity of the economy to absorb new technological solutions not matching the level of awareness of decision-makers about the importance of innovation, especially in institutions of higher education, as well as the lack of interest of the economy to invest in research centres that may support and promote the development of innovations.

b. Reform measures

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

The ICT sector in BiH is insufficiently developed and uncompetitive because there is a series of obstacles to regional economic integration, including the implementation of the Multi-annual Action Plan on Regional Economic Area in the Western Balkans (REA MAP) in the relevant areas.

Some of the main obstacles are:

- Lack of laws, policies and strategies regulating this area which are in line with the relevant legislation of the EU;
- Absence of a network with sufficient territorial coverage, sufficient speed of services and fulfilling the prescribed security criteria;
- Lack of developed e-services for all citizens;
- Underdeveloped e-government;
- Services and systems that are not protected from threats and abuse, which includes the area of Cyber security.

1. Description of measure

Activities planned in 2020 – 2022

- Preparation and adoption of:
 - the Law on Information Security and Security of Network and Information Systems/Ministry of Communications and Transport of BiH (MCT BiH);
 - the Law on Electronic Identification and Trusted Services for E-transactions/MCT BiH;
 - the Broadband Access Strategy/MCT BiH
 - the Law on E-communications and E-media/MCT, CRA, DEI, relevant entity-level and DB BiH bodies;
 - the Strategy for Information Society Development in Bosnia and Herzegovina/MCT BiH;
 - Broadband Infrastructure Mapping/CRA, MCT BiH, relevant entity-level and DB BiH bodies, telecommunications operators
 - the Strategy of E-government Development in Bosnia and Herzegovina/MCT BiH and GS SM BiH;
- Establishment of a National Centre for Digital Identity Management and functional Public Key Infrastructure (PKI);
- Adoption of the legal framework as a prerequisite for increasing the level of information security;
- Established infrastructure for communication and data exchange (e-Sanduče);
- Established service for electronic registration of births (e-Beba);
- Establishment of ICT infrastructure for implementation of the consolidated utility calculation and billing system (RS Ministry for Scientific and Technological Development, Higher Education and Information Society - MSTDHEIS);
- Support to the development of a software solution for e-registration of business entities and test phase, i.e. start of implementation (activity lead is the Ministry of Economy and Entrepreneurship, supported by MSTDHEIS).
- Continued strengthening of infrastructural capacities for the implementation of application solutions (MSTDHEIS, line ministries, local communities, business sector);
- Selection of administrative procedures ready for digitisation and preparation (activity lead is the Ministry of Economy and Entrepreneurship, supported by MSTDHEIS).
- Enhancement and development of the ICT infrastructure and e-services (MSTDHEIS)

2. Results Indicators

Indicator	Baseline (year)	Intermediate target (year)	Target (year)
Legislation of BiH aligned with EU standards	2020	2021	2022
	20%	40%	75%
Territorial coverage of BiH by broadband services	2020	2021	2022
	40%	50%	60%

3. Expected impact on competitiveness

Economic growth will be stimulated by introducing new services and openness to investment, the conditions needed to create new jobs will be created, the productivity of existing work processes,

revenues and return of investments will be increased. Investments in the area of broadband access directly impact the growth of the gross domestic product, competitiveness of all sectors of the economy and improved quality of life of the citizens.

4. Estimated cost of the activities and the source of financing

Estimate annual additional expenses of the implementation of all activities within this measure. Name the source of financing used to cover all expenses. However, do not mention specific donors or lenders. To be defined at or after the workshop on “Exchange of Knowledge on Determining the Costs of Structural Reforms: ERP 2020-2022” on 2-3 October 2020 in Tarčin.

5. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

Explained under 3. Expected impact on competitiveness.

6. Expected impact on the environment

The measure is neutral in terms of impact on the environment.

7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
CoM BiH and PA BiH not adopting the legislation	High	Inform the public about the importance of adopting the prepared legislation

5.3.4.2. Establishing a more efficient management system of scientific research and innovation potential

1. Description of measure

Changes should focus on the following general goals:

- Enhance human capacities, especially of young scientists and innovators,
- Encourage enterprises to increase demand for innovation and research,
- Hold quality as the highest priority in all instances of public decision-making,
- Increase both private and public financing of ITRI.

What is needed is:

- Strengthening the demand for innovation
 - Introduce new tax benefits to facilitate R&D and innovation activities of enterprises, remove the administrative and tax burden on start-up enterprises during their first year of operation;
 - Create the general framework for the development of the industry-university partnership, especially promote intermediary organisations;
 - Develop a policy which will identify the group of enterprises with innovation potential and work with them to increase their potential;
 - Facilitate the establishment of venture capital and initial finances for private finance and investment institutions and attract foreign finances to increase their activity in this area in BiH;
- A Quality system based on STI performance

- Develop support schemes for new generations of scientists and innovators on all levels;
- Develop research infrastructure;
- Develop the programme for “Centres of Excellence” to gradually increase the quality and expand the system;
- Institutional development
 - Enhance the networking capacities of relevant ministries by establishing an institutional coordination system of innovation policies and alignment on all levels of government
 - Expand the scope of responsibilities of the council for science in terms of innovation.
- Financing
 - Increase financing of science, technology, and innovation on the basis of competitiveness
 - Provide more allocations at the state level

Define the higher education activity as an activity of special importance for Republika Srpska and, at the same time, as an integral part of the international, especially European, educational, scientific, and arts space. Apply the principles of fundamental European documents related to the area of higher education in the process of defining the goals and principles of higher education. Introduce a new higher education principle, alignment with the European higher education system, which will be a step towards European education development trends for the higher education system in Republika Srpska.

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 - Strategy of Smart Specialisation; 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 (the Decision of the Council of Ministers from the 173rd session held on 10 June 2019 meant the adoption of the Information on the process of the Strategy for Smart Specialisation – S3, with the proposal to officially include BiH into the process of developing smart specialisation. The Directorate for Economic Planning is tasked with implementing the Information in cooperation with the Ministry of Foreign Trade and the Ministry of Civil Affairs of Bosnia and Herzegovina).

Activities planned in 2020 – 2022

- Adoption of the Law on the Science and Innovation Fund of Republika Srpska and 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
- 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;
- 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;
- Establishing an efficient system in the field of scientometrics and bibliometrics through the formation of a team of consultants in this field (MSTDHEIS);
- Harmonization of the legal framework in accordance with the observed shortcomings and needs for the more efficient functioning of the scientometrics and science promotion system, as well as the Science and Innovation Fund of Republika Srpska;

2. Results Indicators

3. Expected impact on competitiveness

Linking science and business contributes to economic growth, competitiveness and creation of new jobs

4. Estimated cost of the activities and the source of financing

State-level:

Annual grants to support projects

Funding to pay entry ticket to EU programmes: HORIZON, COST and EUREKA programmes

5. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

Linking science and business contributes to economic growth, competitiveness and creation of new jobs

6. Expected impact on the environment

7. Potential risks

5.3.5. Trade-related reforms

a. Analysis of main obstacles

The existing situation in the field of real estate brokerage in the territory of the Federation of Bosnia and Herzegovina features significant irregularities and issues, which are the result of the lack of a legislative framework to regulate the area. This economic activity is characterised by the application of general rules regulated by the Law on Obligations and specific provisions of the Law on Internal Trade, which regulate real estate brokerage in general.

The legally unregulated situation is favourable to an increasing number of persons/entities brokering real estate trade without registering, in the sphere of the “grey economy.” Along with the fact that these are mostly transactions with a turnover of large monetary value which, among other things, resolve the existential issues of individuals, there is an urgent need to regulate the area with a separate law.

It is necessary to adopt European standards in the field of real estate brokerage in Republika Srpska and normatively regulate the field by adopting the Law on Real Estate Brokerage with the goal of strengthening the competitiveness of business entities in the services sector and tackling grey economy while creating the conditions for the development of the real estate market in Republika Srpska.

The analysis of the current situation in Republika Srpska in the field of real estate brokerage identified the following: high share of gray economy, low quality of brokering services, absence of liability insurance, brokerage contracts are rarely made in practice or do not contain all the necessary elements, cash payment of commissions, absence of an adequate source of data about transactions carried out in real estate brokerage.

b. Reform measures

5.3.5.1. Improving the trade-related legal framework

1. Description of measure

This field needs to be legally regulated primarily to reduce unfair competition, ensure better regulation of the market, consumer protection, register data on all transactions and real estate turnover, as well as to increase the efficiency of control of legal and natural persons working in this field, which will affect tax and contributions revenues. The goal of this measure is the regulation of the field of real estate trade.

The main goals of regulating the area of real estate brokerage are: ensuring a high level of legal security for all participants in real estate trade brokerage, higher quality of services in the area of real estate brokerage in line with European standards of doing business, strengthening the competitiveness of business entities in the services sector, combating the grey economy and developing the real estate market in Republika Srpska.

Activities planned in 2020-2022

- Preparation of the Law on Real Estate Brokerage (Ministry of Trade of the Federation of BiH)
- Preparation of the Law on Electronic Trade
- Preparation and adoption of regulations related to the Laws (Ministry of Trade of the Federation of BiH)
- Setting up the electronic Register of Real Estate Brokers and Agents (Ministry of Trade of the Federation of BiH and the Chamber of Commerce of the Federation of BiH)
- Implementation and monitoring of the implementation of the legal framework
- Setting up a register of persons working in real estate brokerage, monitoring the effects of the adopted Law on reducing the gray economy, growth and development of this activity and protection of all participants in real estate trade (Ministry of Trade and Tourism)
- Updating the register of persons working in real estate brokerage, monitoring the effects of the adopted Law on reducing the gray economy, growth and development of this activity and protection of all participants in real estate trade (Ministry of Trade and Tourism).

2. Results indicators

Indicator	Baseline (year)	Intermediate target (year)	Target (year)
Adopted laws and regulations			

3. Expected impact on competitiveness

The implementation of this measure through the adoption of the necessary legislative and legal framework will lead to the decrease of unfair competition, better regulation of the market,

consumer protection, improved control over registering transaction and real estate turnover data and regulation of the professional status of the real estate brokerage activity.

4. Estimated cost of the activities and the source of financing

The implementation of these activities is planned within the plan of regular expenditures on the staff salaries of the Ministry of Trade of the Federation of BiH.

Also, considering the fact that all activities related to technological, technical and software solutions for the Register are yet to be determined, the implementation costs of these activities can only be estimated later and additional funds will need to be ensured within the Budget of the Federation of Bosnia and Herzegovina or another source of financing.

5. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

As a result of the adoption and implementation of the Law, we expect an increase in the number of the formally employed in the sector of real estate brokerage services.

There are no legal limitations in terms of neutrality of impact on gender.

6. Expected impact on the environment

This reform measure will not have any negative impact on the environment.

7. Potential risks

Failure of the Parliament of the Federation of BiH to adopt the Law on Real Estate Brokerage, whose Draft has been developed by the Government of the Federation of BiH and delivered to the Parliament in 2018, in a timely manner.

5.3.6. Education and skills

a. Analysis of main obstacles

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 of the Agency for Statistics of BiH, the number of the registered unemployed in BiH in October 2018 was 437,783.

In terms of the educational structure of the unemployed persons, the largest number of the unemployed have highly skilled qualification and skilled qualification (142,537), followed by persons with secondary education qualification (124,326) and unqualified workers (119,733 persons). Persons with university education qualification make up the smallest number of the unemployed (6,482), followed by persons with two-year college qualification (36,376), including persons with PhDs and Master's degrees. The share of the female population in the registered unemployed is 55.9%, i.e. 244,522 female persons. Within the female population, the highest number of the unemployed comprises persons with secondary education qualification (78,124), unqualified workers (68,624), and highly skilled and skilled qualification (64,401 female persons).

In its document, the Strategic Directions for Higher Education Development in the Federation of Bosnia and Herzegovina 2012-2022, the Ministry of Education and Science of the Federation of BiH (FMES) recognised the importance of introducing lifelong learning and linking education with the labour market and identified the need to facilitate the development and deepening of expert knowledge, skills and ability to adapt education programmes to the labour market, i.e. harmonise the secondary and higher education programmes, as well as adult education, with the needs of the labour market. The need for mobility and internationalisation aimed at improving the competence of students after completing university education and faster employment was also identified, as well as the need to increase competitiveness in the labour market, reducing unemployment and increasing the level of economic activity of the country.

Aware of the fact that adult education is an important segment of the overall education system, especially in countries with an unfavourable education structure such as Bosnia and Herzegovina and therefore the Federation of BiH, as well as the fact that a large number of adults have difficulties finding or keeping employment, FMES has focused its activities on improving their life and work skills and competences, educating quality labour force and scarce skills/occupations as the main resource of a competitive economy in the Federation of BiH based on knowledge, improving the standard of living for students, supporting international academic mobility of teaching staff and students through the newly-established Foundation for the Mobility of Students and Teachers of the Federation of Bosnia and Herzegovina, and supporting lifelong learning.

The barriers to growth and competitiveness in the area of education and skills are: mismatch of the enrolment policies with the labour market requirements; Insufficiently developed entrepreneurial-innovative component in the education process; Practical lessons and out-of-school education in companies are not available to most pupils 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. Analysis of the situation in the labour market also points to insufficient flexibility and low efficiency of the labour market, which result in low activity and employment rates, high rate of long-term unemployment, limited possibilities for integrating young persons into the labour market.

b. Reform measures

5.3.6.1. Improving the link between education and the labour market

1. Description of measure

Ensuring the quality of education through the development and implementation of the qualifications framework in BiH which, among other things, includes the development of occupational standards and qualification standards, as well as new study programmes and curricula based on learning outcomes and key competencies.

In the SEE 2020, the Dimension “Education and Competences” defines improving the regional knowledge and skills base and sets specific objectives in two main domains: a reduction of early leavers from education and training and an increase in tertiary educational attainment.

In the Sector Planning Document for the period 2016-2017 and Action Document for 2016, the main focus is on further development of the qualifications framework (development of occupational standards, qualification standards for new study programmes and curricula defined on the basis of learning outcomes); improving the key competences for lifelong learning on all levels of education; quality assurance on all levels of education and types of education/learning.

Alignment of vocations and occupations, especially from the aspect of easier alignment of curricula to new demands of the labour markets of local communities. Continued reform and modernisation of vocational secondary education through the establishment of occupational standards based on competences and learning outcomes (the standards are defined as a specific strategic goal which will provide the fundamental measures for further activities in redefining the existing occupations nomenclature, i.e. occupational classification).

As a service, the pre-school education system needs to be made accessible and the structure of the pre-school curricula needs to be re-examined.

Primary education based on quality and openness, in which every pupil will obtain quality knowledge and skills that can be interlinked and applied in further education and daily life, while meeting the developmental needs of pupils and needs of the society and respecting equal right of access and equal opportunities for each individual, without discrimination on any basis.

Activities planned for the period 2020-2022

- Develop strategies of career guidance in the process of lifelong learning
- Further develop occupational standards and qualification standards for higher education
- Develop new study programmes for initial teacher education based on learning outcomes, in line with occupational standards and qualification standards
- Improve human capacities in the sector of education
- Strengthen institutional capacities for recognition of qualifications in higher education
- Programme of training, professional and advanced education of adults, with a special focus on women, in order to facilitate integration into the labour market
- Support public institutions of higher education on projects aimed at linking study programmes with the needs of the labour market
- Develop an enrolment policy in line with the real needs of the labour market and development policies of Republika Srpska (Guidelines), based on the estimated needs of the labour markets of local communities

- Initiate project for equipping all classrooms and labs with state-of-the-art teaching aids and communication tools (one pupil – one iPad or laptop/video beam, sound system, smart blackboards, etc. / 5G in all schools) by utilising the intellectual and material capacities of local companies; the project should define the number of schools in the first year
- Analyse the learning outcomes of existing curricula and programmes; develop knowledge catalogues for each subject curriculum; develop flexible curricula with up to 20% of curricula created by teachers, pupils and schools in cooperation with the local community;
- Analyse existing modules by vocations and occupations of the third and fourth degree, with special emphasis on practical classes and methods of grading pupils; develop a redefined model for module development for all vocations and occupations; based on the results of the analysis, develop revised modular curricula, in accordance with the needs of the labour market;
- Equip secondary schools with workshops and train a sufficient number of teachers to ensure the provision of knowledge and skills to secondary school pupils that are necessary for the occupation which can ensure economic development
- Finance and support the organisation of pre-school programmes in order to ensure coverage of 50% (2020), 55% (2021) and 60% (2022) of children with pre-school education (Ministry of Education and Culture, local self-government units)
- Analyse pre-school education curricula (Ministry of Education and Culture and Pedagogical Institute of Republika Srpska);
- Raise the quality of primary education, improve the conditions in schools and modernise the teaching process in primary education, increase support to gifted and talented pupils, organise training of teachers and associates in order to facilitate the development of gifted and talented pupils, analyse curricula and education programmes based on learning outcomes through defining knowledge standards describing the quantity and quality of knowledge and skills a pupil will have after completing each level of education, continuously improve the quality of textbooks and other teaching materials in accordance with contemporary curricula – digitalisation (Ministry of Education and Culture, Institute for Textbooks, universities, institutions of science, etc.)
- Ensure coverage of primary school pupils of 98% (2021) and 99% (2022); ensure a greater level of individualisation of classes and application of the means, forms and methods that are in accordance with the needs of gifted and talented pupils.

2. Results indicators

Indicator	Baseline (year)	Intermediate target (year)	Target (year)
Number of schools/institutions of higher education that carry out self-evaluation (the indicator is on the level of results)			2022

3. Expected impact on competitiveness

The development of new competencies, i.e. knowledge and skills based on learning outcomes, as well as key competences for lifelong learning, will have a positive impact on increasing overall employability, primarily in the sense of faster and easier adaptability to the constant changes in the labour market, which will contribute to strengthening the competitiveness and overall economic development of BiH.

4. Estimated cost of the activities and the source of financing

Considering the jurisdictions in the field of education, the financing of these reform measures is not covered by the budget of BiH institutions. The implementation of the measures is to be financed from EU funds and other donor sources of financing.

In the Federation of BiH;

The planned finances in 2020 amount to KM 272.000,00

The planned finances in 2020 amount to KM 272.000,00

The planned finances in 2020 amount to KM 272.000,00

5. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

Improving the links between education and the labour market is a long-term process that demands continuous activities of both the relevant institutions and society as a whole.

The successful linkage of education and the labour market must be preceded by the harmonisation of enrolment policies in secondary schools and institutions of higher education with the needs of employers and the labour market. New qualifications based on learning outcomes (knowledge, skills and competences necessary in the modern, global and always changing labour market) and key competencies should increase employability and give workers the competences to find or change employment more easily.

6. Expected impact on the environment

This measure will have no impact on the environment.

7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
Absence of institutional collaboration	High	Improve coordination with the institutions

5.3.7. Employment and labour markets

a. Analysis of main obstacles

According to the Labour Force Survey 2018, the employment rate increased relative to the previous year and stands at 34.3%. Administrative data shows that in 2018 there were an average of 804,497 employed persons, of which 341,521 were women. This is an increase compared to the previous year, when 784,094 persons were employed (of which 329,922 were women).[1] Other survey indicators – the unemployment rate and activity rate – also recorded a positive trend. Despite this, the high long-term unemployment rate still poses a major challenge for Bosnia and Herzegovina (68.6% of the total unemployment rate comprises persons unemployed for more than two years).[2] The inactivity rate in 2018 was 57.9%, which means that only 42.1% of the working-age population in Bosnia and Herzegovina is employed or looking for employment. Observed by gender, only one in four women are active, and the reason most commonly given for the inactivity is taking care of the household.[3] According to data delivered by the Agency for Labour and Employment of BiH, a total of KM 142.6 million was spent on active employment measures in Bosnia and Herzegovina in 2018, which is also the largest amount ever spent on employment

measures. Apart from that, in 2018, for the first time, more finances were spent on active employment policies than on passive employment policies. This positive ratio was recorded in both entities and the Brčko District. Both entities still favour measures pertaining to support to employment and rehabilitation, followed by start-up entrepreneurship. Available finances must be targeted in the most cost-effective way.

One of the main obstacles to implementing active employment measures is the fact that some persons register with employment bureaus to use other rights, for example, the right to health protection. Another problem is the high share of informal employment. Although it is difficult to estimate the share of informal employment, according to data of the LFS 2018, 24.0% of all persons registered as unemployed with employment bureaus are actually employed, 31.9% are unemployed, while 44.1% are inactive. Apart from this, the employed also face a series of challenges in terms of exercising their rights and workplace safety, and it is necessary to adopt a set of laws to improve this field.

The labour market in FBiH features a 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 and a high share of informal employment.

Despite the fact that positive trends have been identified in the labour market over the past few years, primarily in terms of the decreased number of unemployed persons and overall increase of the number of employed persons, there is still room for improvement in this field. A significant challenge is the fact that a large number of the working-age population, especially women, is inactive in the labour market.

Another challenge to the functioning of the labour market is the fact that the public employment service – the Employment Institute of the Republika Srpska – does not have precise data on active job seekers due to the fact that a significant number of unemployed persons registers with unemployment records not to seek the services of employment mediation and preparation for employment, but for other rights, primarily the right to health insurance. This fact makes it difficult to plan, target and implement active employment measures in the labour market. One of the obstacles to growth and competitiveness in the field of employment and labour markets is the low level of employment of active job seekers and the relatively poor qualification and age structure of the registered unemployed persons.

b. Reform measures

5.3.7.1. Improving the labour market efficiency

1. Description of measures

Improving the capacities of labour market institutions and modernisation of service provision focused on an individual, comprehensive approach to job seekers and improving the effectiveness of their market positioning, as well as institutional development and human capacities development aimed at more efficient mediation between job seekers and employers.

The main goal of this reform is to improve the labour market efficiency by adopting strategic documents and normative acts which will contribute to greater support for employment and strengthening of the function of employment mediation.

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 2018 and 2019.

Activities planned in 2020-2022

- development of the Law on Representation of Trade Unions and Employers' Associations;
- development of the Law on the Council of Employees;
- monitoring the implementation of the Labour Law;
- monitoring the implementation of the Law on Safety at Work;
- monitoring of the application and implementation of the Law on Employment Mediation and Social Security of the Unemployed;
- monitoring the implementation of employment support programmes financed by the credit line of the World Bank – EBRD;
- developing an Employment Strategy in the Federation of Bosnia and Herzegovina;
- monitoring the implementation of the strategy for strengthening the function of mediation in public employment services;
- monitoring the implementation of the rulebook on records in the field of employment.
- Preparation and adoption of by-laws regulating records of unemployed persons, the rights and obligations of unemployed persons – active job seekers. and other acts necessary to ensure the provision of precise data on the labour market situation in Republika Srpska (Ministry of Labour and War Veterans and Disabled People's Protection - MRBIZ in cooperation with social partners and the Employment Institute);
- Improving social dialogue through the strengthening of the role of the RS Economic and Social Council and work of other tri-partite bodies on the preparation and development of regulations and strategic documents from the field of labour, employment and safety at work;
- Preparation of the Law on Amendments to the Labour Law, which includes developing a clear and uniform definition of wage and elements for wage calculation, precisely defining the minimum wage (MRBIZ in cooperation with social partners);
- Preparation of the Law on the Prevention of Violence and Harassment at Work (Ministry of Labour and War Veterans and Disabled People's Protection in cooperation with social partners);
- Preparation of the Law on Amendments to the Law on Safety at Work (MRBIZ in cooperation with social partners);
- Developing a new medium-term strategic document in the field of employment (MRBIZ in cooperation with social partners);
- Developing a medium-term strategic document in the field of safety and health at work (MRBIZ in cooperation with social partners);
- Continue implementation of the Programme for social welfare of workers who lost their jobs in the process of privatisation, bankruptcy and liquidation of companies (MRBIZ in cooperation with social partners);

- Amend legislation from the area of employment and adjust it so that pupils can learn and work at the same time, and regulate it through stimulating compensation for work of pupils in internships (no taxation/safety and health at work regulated through private insurance policies or otherwise);

2. Results indicators

Indicator	Baseline (year)	Intermediate target (year)	Target (year)
<ul style="list-style-type: none"> - Number of handbooks, guidelines and other materials for monitoring the needs of the labour market and analyses of the labour market - Two employment institutes using the newly developed procedures (handbooks and instructions) for monitoring the needs of the labour market - Number of developed tools for implementation and monitoring of results - Number of persons employed through active employment measures - Number of employment institutes' staff trained for employment 	Start of implementation is planned in the fourth quarter of 2019. The project will last for 24 months.		
<ul style="list-style-type: none"> - Developed laws, implemented laws, by-laws and strategic documents, implemented employment projects. 			

3. Expected impact on competitiveness

Public employment services efficiently link job seekers with the labour markets, provide training and other incentives for employment.

Trained staff of labour market institutions is more efficient in implementing active labour market measures, focused on cooperation with employers and services provision; Implementation of these measures could indirectly impact the growth of competitiveness, with direct the impact on economic growth and growth on employment as the main goals of the ERP, considering the fact that the measures are focused on increasing the employment rate.

4. Estimated cost of the activities and the source of financing

Source of financing: within IPA 2016 (1.5 million euros)

5. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

The implementation of employment support programmes is expected to have a positive impact on employment, i.e. increasing the employment rate, more active participation of target groups in active labour market programmes, including the youth, long-term unemployed persons, persons with lower levels of qualifications, as well as persons over the age of 40.

6. Expected impact on the environment

No negative impact on the environment.

7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
Lack of absorption capacity of key users and lack of an efficient implementation and monitoring system.	Low	
Failure to adopt the planned legal and strategic acts in due time, which particularly refers to employment in the Federation of Bosnia and Herzegovina (2020-2022), Failure of social partners to align in the process of adopting strategic and normative acts.		

5.3.8. Social protection and inclusion

a. Analysis of main obstacles

According to available data of the Agency for Statistics, 16.9% of the population lived in relative poverty. The poverty rate among the elderly population (65+) and children (<15 years) is higher than the average poverty rate for the whole country. The poverty rate of the elderly population is 19.6%, while the share of children living in relatively poor households is 18.7%. Observed by the status of the head of household, the households most at risk of poverty are those households in which the head of household is unable to work (38.5%), and at least risk of poverty are households in which the head is employed (11.6%). In order to decrease the poverty rate among the most vulnerable groups of the population, it is necessary to improve the social protection system and targeting of social protection.

Considering the fact that this is a very complex field and also very socially sensitive, it is necessary to analyse the situation professionally, carefully and in great detail. Another risk and obstacle is the accuracy of data received from local self-government units and lack of financing needed to establish the Social Protection Institute and keep it operating.

b. Reform measures

5.3.8.1. Improving the social protection system

1. Description of measures

The main goals of this reform measure are to ensure regular payment of benefits to users of benefits for civilian victims of war and members of their families and persons with “non-war” disabilities, provide support to associations of civilian persons with disabilities, implement the Strategy for advancement of rights and status of persons with disabilities in FBiH 2016-2021, establish an efficient system of monitoring and controlling the spending of budget finances on financing non-contributory benefits, establish a system of controlling the inclusion of special categories of civilian victims of war in the system, regulate the work and financing of associations of persons with disabilities, establish a non-discriminatory system of cash benefits for persons with disabilities, regardless of the cause of disabilities.

The Action Plan for the Implementation of the Work Programme of Republika Srpska for the period 2019–2022 includes the activity of comprehensive mapping of all social benefits in Republika Srpska, allocated on all levels of government. The bearers of the activity are the Ministry of Health and Social Welfare, Ministry of Labour and War Veterans and Disabled People's Protection, and the activity also includes the Ministry of Finance, the Union of Municipalities and Cities of Republika Srpska and local self-government units.

Activities planned in 2020-2022

- Law on Protection of Civilian Victims of War
- Law on Associations of Persons with Disabilities and Representation of Associations of Persons with Disabilities
- Law on the Common Principles and Framework of Material Support to Persons with Disabilities
- Law on Vocational Rehabilitation, Training and Employment of Persons with Disabilities (amendments).
- Activities for the adoption of by-laws and the implementation of adopted laws.
- Adoption of a new strategic document for the improvement of the situation of persons with disabilities in the Federation of BiH for the period 2022-2027
- Monitoring of the implementation of activities aimed at improving the situation in this field
- Defining the social mapping model (Ministry of Health and Social Welfare)
- Implementing the procedure necessary to establish the Social Welfare Institute (Ministry of Health and Social Welfare);
- Monitoring the reorganisation of the public institution Child Protection Fund (Ministry of Health and Social Welfare);
- Adopt the Law on Social Mapping.

2. Results indicators

Indicator	Baseline (2020)	Intermediate target (year)	Target (year)
Adopted laws and by-laws within the planned deadlines			

3. Expected impact on competitiveness

The implementation of this measure will not have a negative impact on competitiveness, economic growth or the growth of employment, but it will contribute to greater efficiency in meeting the needs of socially vulnerable categories of the population and reducing the pressure on decision-makers.

4. Estimated cost of the activities and the source of financing

Currently, the Federal Ministry of Labour and Social Policy is unable to give a precise estimate of the finances needed to implement the described activities. Namely, before the laws are adopted, it is necessary to estimate the impact of the regulations, which will serve as the basis for employers to choose an option. According to preliminary estimates, the implementation of the Law on Protection of Civilian Victims of War will require about KM 26,000,000.00 (70% from the Budget of the Federation of BiH, 30% of finances to be provided by the cantons from their budgets).

The amount of KM 500,000.00 annually is planned from the Budget of the Federation of BiH to implement all obligations resulting from the Law on Associations of Persons with Disabilities and Representation of Associations of Persons with Disabilities after the Law is adopted.

The Law on the Common Principles and Framework of Material Support to Persons with Disabilities in the Federation of BiH is an anti-discriminatory law which will affirm equality and the gender issue and most importantly, equalise the rights and cash benefits for persons with disabilities, regardless of the cause of disabilities. Other rights for participation in war (disabled war veterans), compensation for consequences of war (civilian victims of war), at work (persons with work disabilities), etc. will continue to be financed through specific laws and from the usual sources, i.e. the Budget of FBiH. Therefore, no separate budget is planned for this law, just alignment with the UN Convention on the Rights of Persons with Disabilities and the *acquis communautaire*.

Amendments to the Law on Vocational Rehabilitation, Training and Employment of Persons with Disabilities will not require additional financing. The goal is to improve the conditions of employment of persons with disabilities in FBiH, which is regularly financed through the Fund for Professional Rehabilitation and Employment of Persons with Disabilities in the annual amount of KM 24,774,273.00.

5. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

The proposed reform activities will contribute to the overall improvement of the situation of persons with disabilities and their families, create the conditions for integration into the labour market (employment) and raise awareness about its importance, as well as improve the situation of groups of the population which are excluded on several accounts, such as women with disabilities. Persons with disabilities will have better conditions for comprehensive social integration and position in society.

6. Expected impact on the environment

No negative impact on the environment

7. Potential risks

Considering the fact that jurisdiction in the field of social policy is divided between the FBiH and cantonal authorities under the Constitution of the Federation of BiH, there may be problems in the implementation of these activities in terms of the cantons ensuring the financing necessary to implement them.

6. THE COST AND FINANCING OF STRUCTURAL REFORMS

Council of Ministers of BiH.

This program covers the implications that we have been able to quantify so far. Unfortunately, the capacity for this type of analysis is limited and further strengthening of knowledge and capabilities is needed to assess the impact of policy change on budgets and other important economic variables.

The total estimated cost of the reform priorities identified by this Program by year has not been stated due to the inability to define all activities in individual years.

Government of the Federation of BiH

Budgetary implications of the 2020-2022 Economic Reform Program. years are shown in Table 10 a and b of Annex 1.

This program covers the implications that we have been able to quantify so far. Unfortunately, the capacity for this type of analysis is limited and further strengthening of knowledge and capabilities is needed to assess the impact of policy change on budgets and other important economic variables.

The total estimated cost of the reform priorities identified by this Program by year has not been stated due to the inability to define all activities in individual years. Most of the costs of the proposed reform priorities will be secured by borrowing from credit funds, taking into account the borrowing opportunities of the Federation of BiH.

Government of the Republika Srpska

With regard to the costs and sources of financing structural reforms, an assessment of the cost of activities and the source of funding for individual reforms is given in Chapter 5. In some cases it was not possible to estimate the costs and / or sources of funding at this time, while some activities did not require additional cash. As shown in the previous chapter, a significant number of activities will be financed from the budget and partly from donations and loans from international institutions, as detailed in Chapter 5 on individual reforms.

7. INSTITUTIONAL ISSUES AND STAKEHOLDER INVOLVEMENT

The review of institutional issues and stakeholder involvement in the process of drafting the BiH Economic Reform Program 2020-2022. was presented in Chapter 5 of the Program. A thorough review of institutional issues and stakeholder involvement of both levels of government.

Council of Ministers of BiH.

The approach to the coordination of ERP 2020-2022¹ has remained the same as the previous year by way of providing a more direct and interactive communication and facilitation towards the institutions on the part of the coordinators at the state and entity levels. The first step towards the coordination of the ERP 2020-2022 was the submission of all technical documents by the European Commission to the institutions of the state and entity for the preparation of PER 2020-2022 (European Commission Assessment for ERP 2019-2021, Joint Conclusions for the Western Balkans and Turkey for ERP 2019-2021 and the European Commission Guidelines for ERP 2020-2022). The Directorate for Economic planning of BiH held meetings with all institutions at the state level that participate in the formulation of the structural reforms and other important chapters of the ERP in August 2019. Discussions at the meeting included lessons learned, areas for improvement and assistance in the preparation of ERP 2019-2021, the presentation of the European Commission Guidelines for ERP 2020-2022, the ERP 2019 Implementation Report and an approach to achieving consumer spending across the country for structural reforms. Regular communication and cooperation is continuously maintained with representatives of state and entity institutions, coordinators at all levels, and with the European Commission in BiH and Brussels. The Directorate additionally held individual meetings according to areas of structural reform with institutions that expressed the need for technical assistance.

The Directorate for Economic Planning, as the national coordinator for the drafting of PER 2020-2022, organized two meetings with the entity coordinators for PER 2020-2022 in order to improve the coordination and quality of the document. Also, the Directorate has improved cooperation with the BiH Ministry of Finance and Treasury to improve the quality of Chapter 4: Fiscal Framework.

On September 19, 2019, the Council of Ministers of BiH adopted the Information on the technical documentation of the European Commission for the Economic Reform Program of Bosnia and Herzegovina for 2019-2021 (ERP) for the Council of Ministers of BiH and the Action Plan for the Economic Reform Program 2020-2022. years. The technical documents were submitted as preparatory materials to the institutions on 17 June 2019, with an invitation to hold preparatory meetings for ERP 2020-2022. DEP offered its technical support in the preparation process and was in constant and direct communication with each participant.

DEP and the European Commission (DG NEAR) are in constant communication regarding the reform measures and the planned workshop for the first draft of ERP 2020-2022. DG NEAR is fully informed of all DEP preparation activities. The European Commission expert mission is scheduled for November 11-13, 2019.

Following the preparatory meetings, on 23 August 2019, a table for the Summary of Reform Measures was provided to all institutions. They were instructed that these reform measures provide a standardized structure for collecting key information from institutions and that the number of proposed measures should not exceed 20 measures. All institutions have submitted their inputs

and are awaiting further instructions. Coordinators from RS and FBiH are preparing their inputs, which we will forward to the European Commission, as well as country-level contributions for initial comments and recommendations. The deadline for submitting the first draft of ERP 2020-2022 to the European Commission is 16 October 2019

A two-day workshop was held for civil servants organized by CEF and DEP in Tarcin, entitled: Sharing knowledge on determining the cost of structural reforms: ERP for the period 2020-2022. (October 2-3). Coordination was further enhanced as all relevant actors involved in the development of ERP 2020-2022 were present.

In the period 14 - 22-10 October 2019, the DEP conducted an additional round of meetings with the MoFTER of BiH with the aim of identifying the reforms that will be included in this year's Chapter 5: Analysis by Structural Reform Areas and Priorities. Further cooperation with this ministry has been established as a result and measures for structural reforms have been improved.

From November 11 to 13, the DEP worked closely with the European Commission expert mission that visited BiH. After several meetings, the DEP continued to work closely with all stakeholders in the preparation of the PER 2020-2022.

In the last phase of preparation of the ERP document, difficulties were encountered in preparing the second draft of the PER and the last contributions to the Directorate for Economic Planning were submitted in the week from 20 to 24 January 2020, which made it impossible to hold Public consultations.

Government of the Federation of BiH

Economic Reform Program of the Federation of Bosnia and Herzegovina 2020-2022 was prepared on the basis of the following strategic documents adopted by the Government of the Federation of BiH:

- Socio-economic reform package adopted by the entity levels of government,
- Individual sector strategies.

In order to prepare contributions from the Federation of BiH for the development of the BiH Economic Reform Program, the following activities have been undertaken:

- In cooperation with the European Commission, a meeting was held on the development of the ERP in Sarajevo, attended by the relevant ministries, at which representatives of the European Commission presented Guidelines for the drafting of economic reform programs.
- All line ministries in charge submitted written proposals for reform priorities that served to prepare the first Draft Document of the Economic Reform Program from the Federation of BiH.
- The text has been published on the website of the Federal Ministry of Finance / Finance prior to adoption at a Government session with the aim of securing a public hearing at the request of the European Commission.
- After the Federation of BiH Government approved the Federation of BiH's Economic Reform Program 2020-2022. The Program was submitted to the Directorate for Economic Planning for consolidation.

Government of the Republika Srpska

As part of the process of drafting the PER RS 2020-2022. At its session held on 4 July 2019, the Government of the Republika Srpska considered the Information on the activities for the preparation of the Economic Reform Program of the Republika Srpska for the period 2020-2022. years and coordination of activities related to the preparation of the BiH Economic Reform

Program for the period 2020-2022. years, appointed the Republika Srpska Team to produce the PER RS 2020-2022. and instructed all Republika Srpska Ministries and Institutions to participate fully in the process of developing the PER RS 2020-2022, to perform diagnostics, to analyze the situation, to identify key obstacles to growth and competitiveness, and to propose measures that will eliminate them, in accordance with the methodology and the European Commission Guidelines, and that the process of drafting the BiH Economic Reform Program 2020-2022 should be conducted solely in such a way that the Republika Srpska remains clearly visible in the process and document, in accordance with the constitutional powers and competencies of the Republika Srpska institutions.

As part of the drafting process, technical assistance was provided in the form of workshops organized by the Center for Excellence in Finance from Slovenia, held as part of the project Strengthening the capacities of line ministries to assess the fiscal implications of structural reforms, funded by EU Multi-Beneficiary IPA.

During the process of developing diagnostics, analyzing the situation and defining the draft reforms, consultations were carried out and proposals were submitted to the Union of Employers' Associations of Republika Srpska, the Chamber of Commerce of Republika Srpska, and the Union of Trade Unions of Republika Srpska, who submitted proposals for PER RS 2020-2022. As part of the consultation process, on September 19, 2019, the Minister of Finance held a meeting with the Federation of Trade Unions of the Republika Srpska on the subject of the drafting of the PER RS, and on November 8, 2019, a meeting of the Prime Ministers and Ministers of the Government of the Republika Srpska with representatives of the Chamber of Commerce of Republika Srpska. Memorandum on common policies for the period 2018-2020. concluded with the Union of Employers' Associations, Memorandum on Joint Measures for the period 2018-2020. Concluded with the Union of Trade Unions, the Guidelines for Economic Development, on which the Government of the Republic of Srpska worked together with representatives of the Union of Employers' Associations of the Republika Srpska and the Chamber of Commerce of the Republika Srpska from April 2018 constitute one of the bases for the development of the PER RS 2020-2022. years.

Joint Socio-Economic Reforms 2019-2022. years represent the framework of the Government of Republika Srpska for the next four-year period. And of course, special attention was paid to the proposals submitted to the Government of Republika Srpska by the Chamber of Commerce of Republika Srpska, the Union of Employers' Associations of Republika Srpska and the Union of Trade Unions of Republika Srpska.

It is important to emphasize that the Economic Reform Program for 2020-2022. discussed at the session of the Economic and Social Council of Republika Srpska and received the support of the social partners.

With all of the above in mind, with the intention of fully following the methodology and guidelines of the European Commission for the preparation of documents defining economic policies for the next medium-term period, the Economic Reform Program of the Republika Srpska for the period 2020-2022. will be the fourth PER to be submitted to the NSRS for review and adoption.

ANNEX 1

Table 1a: Macroeconomic prospects

	ESA Code	2018	2018	2019	2020	2021	2022
		bn EUR	Rate of change				
1. Real GDP at market prices	B1*g	17.123	3.6	3.0	3.5	3.6	3.8
2. Current GDP at market prices	B1*g	17.392	5.2	3.9	4.4	5.0	5.1
Components of real GDP							
3. Private consumption expenditure	P3	12.830	2.5	1.8	1.9	2.0	2.1
4. Government consumption expenditure	P3	3.285	0.9	1.0	0.6	0.5	0.5
5. Gross fixed capital formation	P51	3.157	9.2	8.3	9.7	8.9	8.8
6. Changes in inventories and net acquisition of valuables (% of GDP)	P52+P53	0.377	2.2	1.9	1.9	2.1	2.1
7. Exports of goods and services	P6	6.810	5.9	3.4	6.0	7.5	7.1
8. Imports of goods and services	P7	9.336	3.2	2.5	4.2	5.6	5.0
Contribution to real GDP growth							
9. Final domestic demand		19.3	3.7	3.1	3.4	3.3	3.5
10. Change in inventories and net acquisition of valuables	P52+P53	0.4	-0.7	0.0	0.0	0.3	0.1
11. External balance of goods/services	B11	-2.5	0.6	0.0	0.1	0.0	0.2

Table 1b: Price developments

Percentage changes, annual averages	ESA Code	2018	2019	2020	2021	2022
1. GDP deflator		1.6	0.9	0.8	1.3	1.3
2. Private consumption deflator		1.6	1.0	1.3	1.4	1.6
3. HICP ¹		:	:	:	:	:
4. National CPI change		1.4	1.0	1.2	1.4	1.5
5. Public consumption deflator		2.9	1.5	1.5	1.5	2.5
6. Investment deflator		2.2	0.4	0.5	0.2	1.4
7. Export price deflator (goods & services)		1.8	2.0	2.1	2.8	3.0
8. Import price deflator (goods & services)		2.1	1.9	2.5	2.1	3.4

¹ Agency for Statistics of BiH does not publish HICP.

Table 1c: Labour markets developments

	ESA Code	2018	2018	2019	2020	2021	2022
		Level	Level/Rate of change				
1. Population (thousands)			3,504.0	3,504.0	3,504.0	3,504.0	3,504.0
2. Population (growth rate in %)			0.0	0.0	0.0	0.0	0.0
3. Working-age population (persons)			2,396	2,262	2,262	2,262	2,262
4. Participation rate			42.1	42.1	42.6	43.3	43.9
5. Employment, persons			822	803	822	843	864
6. Employment, hours worked			:	:	:	:	:
7. Employment (growth rate in %)			0.8	-2.4	2.4	2.5	2.5
8. Public sector employment (persons)			193.4	196.7	:	:	:
9. Public sector employment (growth in %)			0.9	1.7	:	:	:
10. Unemployment rate			18.4	15.7	14.7	13.9	13.1
11. Labour productivity, persons		40.7	2.8	5.5	1.1	1.1	1.3
12. Labour productivity, hours worked			:	:	:	:	:
13. Compensation of employees	D1	15.5	6.2	:	:	:	:

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 2017 and is taken from BiH Agency for Statistics, Demography 2017. 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 2019 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 2018 and 2019 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 in BiH, 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. Participation rate - refers to the participation of the labor force in the working age population (survey data).

Table 1d: Sectoral balances

Percentage of GDP	ESA Code	2018	2019	2020	2021	2022
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	:	:	:	:	:
<i>of which:</i>						
- Balance of goods and services		:	:	:	:	:
- Balance of primary incomes and transfers		:	:	:	:	:
- Capital account		:	:	:	:	:
2. Net lending/borrowing of the private sector	B.9/ EDP B.9	:	:	:	:	:
3. Net lending/borrowing of general government		0.3	0.1	0.2	0.5	0.8
4. Statistical discrepancy		:	:	:	:	:

Table 1e: GDP, investment and gross value added

	ESA Code	2018	2019	2020	2021	2022
GDP and investment						
GDP <i>level</i> at current market prices (in domestic currency)	B1g	34.0	35.3	36.9	38.7	40.7
Investment ratio (% of GDP)		18.5	19.4	20.5	21.3	22.3
Growth of Gross Value Added, percentage changes at constant prices						
1. Agriculture		9.1	:	:	:	:
2. Industry (excluding construction)		3.9	:	:	:	:
3. Construction		2.8	:	:	:	:
4. Services		3.1	:	:	:	:

Table 1f: External sector developments

		2018	2019	2020	2021	2022
1. Current account balance (% of GDP)	% of GDP	-3.4	-3.2	-3.3	-2.8	-2.8
2. Export of goods	bn EUR	5.2	5.4	5.8	6.5	7.1
3. Import of goods	bn EUR	9.0	9.4	10.0	10.8	11.7
4. Trade balance	bn EUR	-3.8	-4.0	-4.2	-4.4	-4.6
5. Export of services	bn EUR	1.9	2.0	2.2	2.4	2.6
6. Import of services	bn EUR	0.6	0.6	0.7	0.7	0.8
7. Service balance	bn EUR	1.3	1.4	1.5	1.6	1.8
8. Net interest payments from abroad	bn EUR	-0.1	-0.1	-0.1	-0.1	-0.2
9. Other net factor income from abroad	bn EUR	0.0	0.0	0.1	0.1	0.2
10. Current transfers	bn EUR	2.0	2.1	2.1	2.2	2.2
11. <i>Of which</i> from EU	bn EUR	1.4	1.5	1.5	1.6	1.6
12. Current account balance	bn EUR	-0.6	-0.6	-0.6	-0.6	-0.6
13. Capital and financial account	bn EUR	0.8	0.4	0.7	0.6	0.6
14. Foreign direct investment	bn EUR	0.4	0.4	0.4	0.4	0.5
15. Foreign reserves	bn EUR	5.9	6.4	6.9	7.3	7.7
16. Foreign debt	bn EUR	11.4	11.4	11.6	11.7	11.9
17. <i>Of which</i> : public	bn EUR	4.2	4.2	4.7	4.7	:
18. <i>O/w</i> : foreign currency denominated	bn EUR	11.4	11.4	11.6	11.7	11.9
19. <i>O/w</i> : repayments due	bn EUR	:	:	:	:	:
20. Exchange rate vis-à-vis EUR (end-year)	NCU/EUR	1.9558	1.9558	1.9558	1.9558	1.9558
21. Exchange rate vis-à-vis EUR (annual average)	NCU/EUR	1.9558	1.9558	1.9558	1.9558	1.9558
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	:	:	:	:	:

Table 1g: Sustainability indicators

	Dimension	2015	2016	2017	2018	2019
1. Current Account Balance	% of GDP	:	:	-4.0	-3.4	-3.2
2. Net International Investment Position	% of GDP	:	:	:	:	:
3. Export market shares	%, yoy	:	:	:	:	:
4. Real Effective Exchange Rate	%, yoy	:	:	:	:	:
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	:	:	:	:	:

Table 2a: General government budgetary prospects – Bosnia and Herzegovina

	ESA Code	2018	2018	2019	2020	2021	2022
		mill. KM	% of GDP				
Net lending (B9) by sub-sectors							
1. General government	S13	95.0	0.3	0.1	0.2	0.5	0.8
2. Central government	S1311	-63.8	-0.2	-0.3	-0.2	0.1	0.3
3. State government	S1312	:	:	:	:	:	:
4. Local government	S1313	42.1	0.1	0.2	0.2	0.2	0.3
5. Social security funds	S1314	116.7	0.3	0.2	0.2	0.2	0.2
General government (S13)							
6. Total revenue	TR	13,574.2	39.9	39.3	39.1	38.3	37.8
7. Total expenditure	TE	13,479.2	39.6	39.2	38.9	37.8	37.0
8. Net borrowing/lending	EDP.B9	95.0	0.3	0.1	0.2	0.5	0.8
9. Interest expenditure	EDP.D41 incl. FISIM	259.3	0.8	0.8	0.8	0.8	0.7
10. Primary balance		354.3	1.0	0.9	1.0	1.3	1.5
11. One-off and other temporary measures		:	:	:	:	:	:
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		7,024.8	20.7	20.3	20.7	20.3	20.1
12a. Taxes on production and imports	D2	5,662.7	16.6	16.8	16.8	16.5	16.3
12b. Current taxes on income and wealth	D5	1,384.3	4.1	3.9	3.9	3.8	3.8
12c. Capital taxes	D91	4.3	:	:	:	:	:
13. Social contributions	D61	4,971.1	14.6	14.6	14.6	14.4	14.2
14. Property income	D4	178.1	0.5	0.6	0.6	0.6	0.6
15. Other (15 = 16-(12+13+14))		1,400.2	4.1	3.7	3.2	3.0	2.9
16 = 6. Total revenue	TR	13,574.2	39.9	39.3	39.1	38.3	37.8
p.m.: Tax burden (D2+D5+D61+D91-D995)		12,022.4	35.3	35.4	35.3	34.7	34.4
Selected components of expenditures							
17. Collective consumption	P32	5,945.9	17.5	17.2	17.0	16.6	16.2
18. Total social transfers	D62 + D63	5,043.0	14.8	15.1	15.1	14.7	14.2
18a. Social transfers in kind	P31=D63	726.5	2.1	2.1	2.1	2.0	1.9
18b. Social transfers other than in kind	D62	4,316.5	12.7	13.0	13.0	12.7	12.3
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	259.3	0.8	0.8	0.8	0.8	0.7
20. Subsidies	D3	464.1	1.4	1.4	1.4	1.4	1.4
21. Gross fixed capital formation	P51	929.2	2.7	3.0	2.7	2.4	2.3
22. Other (22 = 23-(17+18+19+20+21))		837.6	2.5	1.7	1.9	1.9	2.2
23=7. Total expenditures	TE	13,479.2	39.6	39.2	38.9	37.8	37.0
p.m. compensation of employees	D1	3,507.3	10.3	10.2	10.2	9.8	9.4

Table 2a: General government budgetary prospects – Institutions of Bosnia and Herzegovina

	ESA Code	2018	2018	2019	2020	2021	2022
		mill. KM	% of GDP				
Net lending (B9) by sub-sectors							
1. General government	S13	-33.0	-0.1	:	-0.2	-0.2	-0.2
2. Central government	S1311	-33.0	-0.1	:	-0.2	-0.2	-0.2
3. State government	S1312	:	:	:	:	:	:
4. Local government	S1313	:	:	:	:	:	:
5. Social security funds	S1314	:	:	:	:	:	:
General government (S13)							
6. Total revenue	TR	923.6	2.7	2.6	2.5	2.4	2.3
7. Total expenditure	TE	956.6	2.8	2.6	2.7	2.6	2.5
8. Net borrowing/lending	EDP.B9	-33.0	-0.1	:	-0.2	-0.2	-0.2
9. Interest expenditure	EDP.D41 incl. FISIM	0.8	:	:	:	:	:
10. Primary balance		-32.2	-0.1		-0.2	-0.2	-0.2
11. One-off and other temporary measures		:	:	:	:	:	:
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		750.0	2.2	2.1	2.1	2.0	1.9
12a. Taxes on production and imports	D2	750.0	2.2	2.1	2.1	2.0	1.9
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))		173.6	0.5	0.4	0.4	0.4	0.4
16 = 6. Total revenue	TR	923.6	2.7	2.6	2.5	2.4	2.3
p.m.: Tax burden (D2+D5+D61+D91- D995)		750.0	2.2	2.1	2.1	2.0	1.9
Selected components of expenditures							
17. Collective consumption	P32	823.0	2.4	2.3	2.5	2.4	2.3
18. Total social transfers	D62 + D63	2.5	:	:	:	:	:
18a. Social transfers in kind	P31=D63	:	:	:	:	:	:
18b. Social transfers other than in kind	D62	2.5	:	:	:	:	:
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	0.8	:	:	:	:	:
20. Subsidies	D3	:	:	:	:	:	:
21. Gross fixed capital formation	P51	88.4	0.3	0.1	0.1	0.1	:
22. Other (22 = 23-(17+18+19+20+21))		41.9	0.1	0.1	0.1	0.1	0.1
23=7. Total expenditures	TE	956.6	2.8	2.5	2.7	2.6	2.4
p.m. compensation of employees	D1	652.9	1.9	1.9	2.0	1.9	1.8

Table 2a: General government budgetary prospects – Federation of Bosnia and Herzegovina

	ESA Code	2018 mill. KM	2018	2019	2020	2021	2022
% of GDP							
Net lending (B9) by sub-sectors							
1. General government	S13	163.5	0.5	0.5	0.4	0.3	0.4
2. Central government	S1311	30.9	0.1	0.1	0.1	0.1	0.1
3. State government	S1312	:	:	:	:	:	:
4. Local government	S1313	44.4	0.1	0.2	0.1	0.1	0.1
5. Social security funds	S1314	88.2	0.3	0.2	0.1	0.1	0.2
General government (S13)							
6. Total revenue	TR	8,157.6	24.0	23.7	23.5	23.1	23.0
7. Total expenditure	TE	7,994.1	23.5	23.2	23.1	22.8	22.6
8. Net borrowing/lending	EDP.B9	163.5	0.5	0.5	0.4	0.3	0.4
9. Interest expenditure	EDP.D41 incl. FISIM	129.1	0.4	0.4	0.4	0.4	0.4
10. Primary balance		292.6	0.9	0.9	0.8	0.8	0.9
11. One-off and other temporary measures		:	:	:	:	:	:
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		3,753.6	11.0	11.2	11.1	11.0	11.0
12a. Taxes on production and imports	D2	2,874.7	8.5	8.7	8.6	8.5	8.5
12b. Current taxes on income and wealth	D5	878.3	2.6	2.5	2.5	2.5	2.4
12c. Capital taxes	D91	0.6	:	:	:	:	:
13. Social contributions	D61	3,430.7	10.1	10.2	10.1	10.0	10.0
14. Property income	D4	58.4	0.2	0.2	0.2	0.2	0.1
15. Other (15 = 16-(12+13+14))		914.9	2.7	2.2	2.1	2.0	1.9
16 = 6. Total revenue	TR	8,157.6	24.0	23.7	23.5	23.1	23.0
p.m.: Tax burden (D2+D5+D61+D91-D995)		7,184.3	21.1	21.4	21.2	21.0	20.9
Selected components of expenditures							
17. Collective consumption	P32	3,713.7	10.9	10.7	10.4	10.3	10.1
18. Total social transfers	D62 + D63	2,907.8	8.5	8.9	9.0	8.8	8.5
18a. Social transfers in kind	P31=D63	:	:	:	:	:	:
18b. Social transfers other than in kind	D62	2,907.8	8.5	8.9	9.0	8.8	8.5
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	129.1	0.4	0.4	0.4	0.4	0.4
20. Subsidies	D3	286.5	0.8	0.9	1.0	1.0	1.0
21. Gross fixed capital formation	P51	452.2	1.3	1.6	1.6	1.5	1.5
22. Other (22 = 23-(17+18+19+20+21))		504.8	1.5	0.8	0.8	0.8	1.0
23=7. Total expenditures	TE	7,994.1	23.5	23.2	23.1	22.8	22.6
p.m. compensation of employees	D1	1,843.9	5.4	5.3	5.1	4.9	4.7

Table 2a: General government budgetary prospects – Republika Srpska

	ESA Code	2018	2018	2019	2020	2021	2022
		mill. KM	% of GDP				
Net lending (B9) by sub-sectors							
1. General government	S13	-56.5	-0.2	-0.4	:	0.3	0.5
2. Central government	S1311	-82.7	-0.2	-0.4	-0.1	0.1	0.3
3. State government	S1312	:	:	:	:	:	:
4. Local government	S1313	-2.3	0.0	0.1	0.1	0.1	0.1
5. Social security funds	S1314	28.5	-0.1	0.1	0.1	0.1	0.1
General government (S13)							
6. Total revenue	TR	4,273.0	12.6	12.3	12.5	12.2	11.9
7. Total expenditure	TE	4,320.5	12.7	12.7	12.5	11.9	11.4
8. Net borrowing/lending	EDP.B9	-56.5	-0.2	-0.4	0.0	0.3	0.5
9. Interest expenditure	EDP.D41 incl. FISIM	129.0	0.4	0.4	0.4	0.3	0.3
10. Primary balance		72.5	0.2	0.0	0.4	0.7	0.8
11. One-off and other temporary measures		:	:	:	:	:	:
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		2,343.9	6.9	6.9	6.9	6.8	6.7
12a. Taxes on production and imports	D2	1,862.3	5.5	5.5	5.6	5.5	5.4
12b. Current taxes on income and wealth	D5	477.9	1.4	1.3	1.3	1.3	1.2
12c. Capital taxes	D91	3.7	:	:	:	:	:
13. Social contributions	D61	1,540.4	4.5	4.4	4.5	4.4	4.3
14. Property income	D4	119.7	0.4	0.5	0.4	0.4	0.4
15. Other (15 = 16-(12+13+14))		269.0	0.8	0.6	0.6	0.6	0.6
16 = 6. Total revenue	TR	4,273.0	12.6	12.3	12.5	12.2	11.9
p.m.: Tax burden (D2+D5+D61+D91-D995)		3,884.3	11.4	11.3	11.4	11.2	10.9
Selected components of expenditures							
17. Collective consumption	P32	1,307.5	3.8	3.8	3.8	3.6	3.4
18. Total social transfers	D62 + D63	2,075.8	6.1	6.0	5.9	5.8	5.5
18a. Social transfers in kind	P31=D63	726.5	2.1	2.1	2.1	2.0	1.9
18b. Social transfers other than in kind	D62	1,349.3	4.0	3.9	3.9	3.8	3.6
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	129.0	0.4	0.4	0.4	0.3	0.3
20. Subsidies	D3	149.4	0.4	0.5	0.5	0.5	0.4
21. Gross fixed capital formation	P51	384.1	1.1	1.2	0.9	0.7	0.7
22. Other (22 = 23-(17+18+19+20+21))		283.6	0.8	0.9	1.0	1.0	1.0
23=7. Total expenditures	TE	4,329.5	12.7	12.7	12.5	11.9	11.4
p.m. compensation of employees	D1	941.1	2.8	2.8	2.9	2.8	2.7

Table 2a: General government budgetary prospects – Brčko District

	ESA Code	2018	2018	2019	2020	2021	2022
		mill. KM	% of GDP				
Net lending (B9) by sub-sectors							
1. General government	S13	21.0	0.1	-0.1	:	:	:
2. Central government	S1311	21.0	0.1	-0.1	:	:	:
3. State government	S1312	:	:	:	:	:	:
4. Local government	S1313	:	:	:	:	:	:
5. Social security funds	S1314	:	:	:	:	:	:
General government (S13)							
6. Total revenue	TR	220.0	0.6	0.6	0.6	0.6	0.6
7. Total expenditure	TE	199.0	0.5	0.7	0.6	0.6	0.6
8. Net borrowing/lending	EDP.B9	21.0	0.1	-0.1	:	:	:
9. Interest expenditure	EDP.D41 incl. FISIM	0.4	:	:	:	:	:
10. Primary balance		21.4	0.1	-0.1	:	:	:
11. One-off and other temporary measures		:	:	:	:	:	:
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		203.8	0.6	0.6	0.6	0.6	0.6
12a. Taxes on production and imports	D2	175.7	0.5	0.5	0.5	0.5	0.5
12b. Current taxes on income and wealth	D5	28.1	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))		16.2	:	:	:	:	:
16 = 6. Total revenue	TR	220.0	0.6	0.6	0.6	0.6	0.6
p.m.: Tax burden (D2+D5+D61+D91-D995)		203.8	0.6	0.6	0.6	0.6	0.6
Selected components of expenditures							
17. Collective consumption	P32	101.7	0.3	0.3	0.4	0.3	0.3
18. Total social transfers	D62 + D63	56.9	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	56.9	0.2	0.2	0.2	0.2	0.2
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	0.4	:	:	:	:	:
20. Subsidies	D3	28.2	0.1	0.1	:	:	:
21. Gross fixed capital formation	P51	4.5	:	0.1	:	:	:
22. Other (22 = 23-(17+18+19+20+21))		7.3	:	:	:	:	:
23=7. Total expenditures	TE	199.0	0.6	0.7	0.6	0.6	0.6
p.m. compensation of employees	D1	69.4	0.2	0.2	0.2	0.2	0.2

Table 2b: General government budgetary prospects – Bosnia and Herzegovina

	ESA Code	2018	2019	2020	2021	2022
		mill. KM				
Net lending (B9) by sub-sectors						
1. General government	S13	95.0	30.8	90.8	186.0	317.9
2. Central government	S1311	-63.8	-104.6	-67.3	15.2	131.1
3. State government	S1312	:	:	:	:	:
4. Local government	S1313	42.1	81.6	94.1	86.3	97.4
5. Social security funds	S1314	116.7	53.8	64.0	84.5	89.4
General government (S13)						
6. Total revenue	TR	13,574.2	13,878.4	14,429.5	14,833.3	15,384.1
7. Total expenditure	TE	13,479.2	13,847.6	14,338.7	14,647.3	15,066.2
8. Net borrowing/lending	EDP.B9	95.0	30.8	90.8	186.0	317.9
9. Interest expenditure	EDP.D41 incl. FISIM	259.3	275.8	283.9	301.5	304.1
10. Primary balance		354.3	306.6	374.7	487.5	622.0
11. One-off and other temporary measures		0.0	0.0	0.0	0.0	0.0
Components of revenues						
12. Total taxes (12 = 12a+12b+12c)		7,051.3	7,339.5	7,635.9	7,864.3	8,189.5
12a. Taxes on production and imports	D2	5,662.7	5,950.9	6,203.6	6,381.7	6,651.1
12b. Current taxes on income and wealth	D5	1,384.3	1,383.9	1,427.8	1,477.9	1,533.6
12c. Capital taxes	D91	4.3	4.6	4.5	4.6	4.8
13. Social contributions	D61	4,971.1	5,164.7	5,402.6	5,587.8	5,791.1
14. Property income	D4	178.1	223.1	225.6	230.5	230.0
15. Other (15 = 16-(12+13+14))		1,373.7	1,150.8	1,165.5	1,150.7	1,173.5
16 = 6. Total revenue	TR	13,574.2	13,878.4	14,429.5	14,833.3	15,384.1
p.m.: Tax burden (D2+D5+D61+D91-D995)		12,022.4	12,504.1	13,038.5	13,452.1	13,980.6
Selected components of expenditures						
17. Collective consumption	P32	5,945.9	6,085.8	6,260.3	6,436.4	6,606.7
18. Total social transfers	D62 + D63	5,043.0	5,325.8	5,581.1	5,708.6	5,796.9
18a. Social transfers in kind	P31=D63	726.5	742.6	766.8	782.0	788.9
18b. Social transfers other than in kind	D62	4,316.5	4,583.2	4,814.3	4,926.6	5,008.0
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	259.3	275.8	283.9	301.5	304.1
20. Subsidies	D3	464.1	491.9	530.0	559.3	558.8
21. Gross fixed capital formation	P51	929.2	1065.5	977.9	919.4	933.2
22. Other (22 = 23- (17+18+19+20+21))		837.6	602.9	705.5	722.0	866.5
23=7. Total expenditures	TE	13,479.2	13,847.6	14,338.7	14,647.3	15,066.2
p.m. compensation of employees	D1	3,507.3	3,604.4	3,777.5	3,804.0	3,830.0

Table 2b: General government budgetary prospects – Institutions of Bosnia and Herzegovina

	ESA Code	2018	2019	2020	2021	2022
mill. KM						
Net lending (B9) by sub-sectors						
1. General government	S13	-33.0	13.8	-67.5	-61.6	-64.9
2. Central government	S1311	-33.0	13.8	-67.5	-61.6	-64.9
3. State government	S1312	:	:	:	:	:
4. Local government	S1313	:	:	:	:	:
5. Social security funds	S1314	:	:	:	:	:
General government (S13)						
6. Total revenue	TR	923.6	902.0	923.9	929.8	926.5
7. Total expenditure	TE	956.6	888.2	991.4	991.4	991.4
8. Net borrowing/lending	EDP.B9	-33.0	13.8	-67.5	-61.6	-64.9
9. Interest expenditure	EDP.D41 incl. FISIM	0.8	0.8	1.0	1.0	0.9
10. Primary balance		-32.2	14.6	-66.5	-60.6	-64.0
11. One-off and other temporary measures		:	:	:	:	:
Components of revenues						
12. Total taxes (12 = 12a+12b+12c)		750.0	750.0	780.0	780.0	780.0
12a. Taxes on production and imports	D2	750.0	750.0	780.0	780.0	780.0
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))		173.6	152.0	143.9	149.8	146.5
16 = 6. Total revenue	TR	923.6	902.0	923.9	929.8	926.5
p.m.: Tax burden (D2+D5+D61+D91-D995)		750.0	750.0	780.0	780.0	780.0
Selected components of expenditures						
17. Collective consumption	P32	823.0	828.0	913.0	918.0	935.2
18. Total social transfers	D62 + D63	2.5	3.5	2.0	2.2	2.0
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	2.5	3.5	2.0	2.2	2.0
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	0.8	0.8	1.0	1.0	0.9
20. Subsidies	D3	:	:	:	:	:
21. Gross fixed capital formation	P51	88.4	31.0	43.7	40.7	23.5
22. Other (22 = 23-(17+18+19+20+21))		41.9	24.9	31.7	29.5	29.8
23=7. Total expenditures	TE	956.6	888.2	991.4	991.4	991.4
p.m. compensation of employees	D1	652.9	668.0	731.5	735.4	740.3

Table 2b: General government budgetary prospects – Federation of Bosnia and Herzegovina

	ESA Code	2018	2019	2020	2021	2022
		mill. KM				
Net lending (B9) by sub-sectors						
1. General government	S13	163.5	182.9	141.8	123.0	174.2
2. Central government	S1311	30.9	50.3	54.3	44.3	60.2
3. State government	S1312	:	:	:	:	:
4. Local government	S1313	44.4	55.2	48.0	37.8	48.4
5. Social security funds	S1314	88.2	77.4	39.5	40.9	65.6
General government (S13)						
6. Total revenue	TR	8,157.6	8,391.4	8,656.7	8,949.3	9,364.5
7. Total expenditure	TE	7,994.1	8,208.5	8,514.9	8,826.3	9,190.3
8. Net borrowing/lending	EDP.B9	163.5	182.9	141.8	123.0	174.2
9. Interest expenditure	EDP.D41 incl. FISIM	129.1	143.4	151.6	169.6	176.5
10. Primary balance		292.6	326.3	293.4	292.6	350.7
11. One-off and other temporary measures		:	:	:	:	:
Components of revenues						
12. Total taxes (12 = 12a+12b+12c)		3,753.6	3,957.4	4,094.9	4,241.9	4,466.0
12a. Taxes on production and imports	D2	2,874.7	3,069.10	3,175.50	3,286.90	3,470.90
12b. Current taxes on income and wealth	D5	878.3	888.3	919.4	955	995.1
12c. Capital taxes	D91	0.6	0	:	:	:
13. Social contributions	D61	3,430.7	3,600.3	3,726.3	3,881.3	4,056.3
14. Property income	D4	58.4	59.2	62.5	64.3	58.8
15. Other (15 = 16-(12+13+14))		914.9	774.5	773.0	761.8	783.4
16 = 6. Total revenue	TR	8,157.6	8,391.4	8,656.7	8,949.3	9,364.5
p.m.: Tax burden (D2+D5+D61+D91-D995)		7,184.3	7,557.7	7,821.2	8,123.2	8,522.3
Selected components of expenditures						
17. Collective consumption	P32	3,713.7	3,783.50	3,824.60	3,998.10	4,130.30
18. Total social transfers	D62 + D63	2,907.8	3,129.1	3,312.7	3,388.3	3,456.0
18a. Social transfers in kind	P31=D63					
18b. Social transfers other than in kind	D62	2,907.8	3,129.1	3,312.7	3,388.3	3,456.0
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	129.1	143.4	151.6	169.6	176.5
20. Subsidies	D3	286.5	306.5	353.2	377.7	396.2
21. Gross fixed capital formation	P51	452.2	579.7	586.3	595.8	610.5
22. Other (22 = 23-(17+18+19+20+21)		504.8	266.3	286.5	296.8	420.8
23=7. Total expenditures	TE	7,994.1	8,208.5	8,514.9	8,826.3	9,190.3
p.m. compensation of employees	D1	1,843.9	1,860.1	1,875.4	1,890.7	1,905.6

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.

Table 2b: General government budgetary prospects – Republika Srpska

	ESA Code	2018	2019	2020	2021	2022
		mill. KM				
Net lending (B9) by sub-sectors						
1. General government	S13	-56.5	-125.0	16.5	124.6	208.6
2. Central government	S1311	-82.7	-127.8	-54.1	32.5	135.8
3. State government	S1312	:	:	:	:	:
4. Local government	S1313	-2.3	26.4	46.1	48.5	49.0
5. Social security funds	S1314	28.5	-23.6	24.5	43.6	23.8
General government (S13)						
6. Total revenue	TR	4,273.0	4,363.6	4,619.4	4,718.0	4,849.3
7. Total expenditure	TE	4,329.5	4,488.6	4,602.9	4,593.4	4,640.7
8. Net borrowing/lending	EDP.B9	-56.5	-125.0	16.5	124.6	208.6
9. Interest expenditure	EDP.D41 incl. FISIM	129.0	131.2	130.6	130.2	126.1
10. Primary balance		72.5	6.2	147.1	254.8	334.7
11. One-off and other temporary measures		:	:	:	:	:
Components of revenues						
12. Total taxes (12 = 12a+12b+12c)		2,343.9	2,422.5	2,543.3	2,618.0	2,711.5
12a. Taxes on production and imports	D2	1,862.3	1,949.5	2,060.3	2,120.3	2,198.0
12b. Current taxes on income and wealth	D5	477.9	468.4	478.5	493.0	508.7
12c. Capital taxes	D91	3.7	4.6	4.5	4.6	4.8
13. Social contributions	D61	1,540.4	1,564.4	1,676.3	1,706.5	1,734.8
14. Property income	D4	119.7	163.9	163.1	166.2	171.2
15. Other (15 = 16-(12+13+14))		269.0	212.8	236.8	227.3	231.8
16 = 6. Total revenue	TR	4,273.0	4,363.6	4,619.4	4,718.0	4,849.3
p.m.: Tax burden (D2+D5+D61+D91-D995)		3,884.3	3,986.9	4,219.6	4,324.5	4,446.3
Selected components of expenditures						
17. Collective consumption	P32	1,307.52	1,355.56	1,390.09	1,387.21	1,401.50
18. Total social transfers	D62 + D63	2,075.8	2,121.7	2,190.8	2,234.2	2,254.0
18a. Social transfers in kind	P31=D63	726.5	742.6	766.8	782.0	788.9
18b. Social transfers other than in kind	D62	1,349.3	1,379.1	1,424.0	1,452.2	1,465.1
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	129.0	131.2	130.6	130.2	126.1
20. Subsidies	D3	149.4	167.1	176.8	181.6	162.6
21. Gross fixed capital formation	P51	384.1	410.7	336.9	272.7	288.9
22. Other (22 = 23- (17+18+19+20+21))		283.6	302.4	377.7	387.4	407.6
23=7. Total expenditures	TE	4,329.5	4,488.6	4,602.9	4,593.4	4,640.7
p.m. compensation of employees	D1	941.1	996.3	1,078.6	1,085.5	1,091.5

Table 2b: General government budgetary prospects – Brčko District

	ESA Code	2018	2019	2020	2021	2022
mill. KM						
Net lending (B9) by sub-sectors						
1. General government	S13	21.0	-40.9	0.0	0.0	0.0
2. Central government	S1311	21.0	-40.9	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	220.0	221.4	229.5	236.2	243.8
7. Total expenditure	TE	199.0	262.3	229.5	236.2	243.8
8. Net borrowing/lending	EDP.B9	21.0	-40.9	0.0	0.0	0.0
9. Interest expenditure	EDP.D41 incl. FISIM	0.4	0.4	0.7	0.7	0.6
10. Primary balance		21.4	-40.5	0.7	0.7	0.6
11. One-off and other temporary measures		:	:	:	:	:
Components of revenues						
12. Total taxes (12 = 12a+12b+12c)		203.8	209.5	217.7	224.4	232.0
12a. Taxes on production and imports	D2	175.7	182.3	187.8	194.5	202.2
12b. Current taxes on income and wealth	D5	28.1	27.2	29.9	29.9	29.8
12c. Capital taxes	D91	:	:	:	:	:
13. Social contributions	D61	:	:	:	:	:
14. Property income	D4	:	:	:	:	:
15. Other (15 = 16-(12+13+14))		16.2	11.9	11.8	11.8	11.8
16 = 6. Total revenue	TR	220.0	221.4	229.5	236.2	243.8
p.m.: Tax burden (D2+D5+D61+D91-D995)		203.8	209.5	217.7	224.4	232.0
Selected components of expenditures						
17. Collective consumption	P32	101.7	118.7	132.6	133.1	139.7
18. Total social transfers	D62 + D63	56.9	71.5	75.6	83.9	84.9
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	56.9	71.5	75.6	83.9	84.9
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	0.4	0.4	0.7	0.7	0.6
20. Subsidies	D3	28.2	18.3	:	:	:
21. Gross fixed capital formation	P51	4.5	44.1	11.0	10.2	10.3
22. Other (22 = 23-(17+18+19+20+21))		7.3	9.3	9.6	8.3	8.3
23=7. Total expenditures	TE	199.0	262.3	229.5	236.2	243.8
p.m. compensation of employees	D1	69.4	80.0	92.0	92.4	92.6

Table 3: General government expenditure by function**Bosnia and Herzegovina**

% of GDP	COFOG Code	2018	2019	2020	2021	2022
1. General public services	1	8.1	8.2	7.8	7.5	7.4
2. Defence	2	0.9	0.8	0.9	0.9	0.8
3. Public order and safety	3	3.2	3.1	3.5	3.3	3.2
4. Economic affairs	4	2.7	2.6	2.5	2.3	2.2
5. Environmental protection	5	0.3	0.3	0.3	0.3	0.3
6. Housing and community amenities	6	0.8	0.9	0.9	0.9	0.9
7. Health	7	5.9	6.0	6.0	5.8	5.7
8. Recreation. culture and religion	8	0.7	0.6	0.6	0.6	0.6
9. Education	9	4.0	3.9	4.0	3.9	3.8
10. Social protection	10	13.0	12.7	12.5	12.3	12.1
11. Total expenditure (item 7 = 23 in Table 2)	TE	39.6	39.2	38.9	37.8	37.0

in mill. KM	COFOG Code	2018	2019	2020	2021	2022
1. General public services	1	2,758.6	2,889.2	2,865.8	2,918.4	3,019.2
2. Defence	2	311.6	291.9	324.2	329.8	332.8
3. Public order and safety	3	1,095.9	1,084.9	1,273.3	1,290.5	1,306.4
4. Economic affairs	4	927.4	928.4	922.1	904.6	912.7
5. Environmental protection	5	114.0	110.4	113.6	115.7	119.8
6. Housing and community amenities	6	283.7	317.1	342.8	345.1	359.1
7. Health	7	1,993.2	2,113.1	2,218.5	2,261.0	2,328.2
8. Recreation. culture and religion	8	234.1	228.8	221.8	228.8	235.3
9. Education	9	1,351.5	1,389.7	1,463.2	1,496.8	1,535.0
10. Social protection	10	4,409.3	4,493.9	4,593.5	4,756.7	4,917.9
11. Total expenditure (item 7 = 23 in Table 2)	TE	13,479.2	13,847.5	14,338.7	14,647.4	15,066.3

Institutions of Bosnia and Herzegovina

% of GDP	COFOG Code	2018	2019	2020	2021	2022
1. General public services	1	0.9	0.8	0.6	0.6	0.6
2. Defence	2	0.8	0.8	0.8	0.8	0.8
3. Public order and safety	3	0.7	0.7	1.0	1.0	0.9
4. Economic affairs	4	0.2	0.2	0.2	0.1	0.1
5. Environmental protection	5	0.0	0.0	0.0	0.0	0.0
6. Housing and community amenities	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 religion	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	0.0	0.0	0.0	0.0
11. Total expenditure (item 7 = 23 in Table 2)	TE	2.8	2.5	2.7	2.6	2.4

in mill. KM	COFOG Code	2018	2019	2020	2021	2022
1. General public services	1	312.9	287.0	228.4	217.9	224.4
2. Defence	2	285.1	270.0	301.5	306.3	308.3
3. Public order and safety	3	253.3	245.0	368.7	374.4	366.0
4. Economic affairs	4	65.2	55.0	57.8	57.8	57.6
5. Environmental protection	5	6.4	5.5	6.1	6.0	6.0
6. Housing and community amenities	6	0.0	0.0			
7. Health	7	5.2	5.0	6.5	6.7	6.8
8. Recreation. culture and religion	8	14.4	8.5	3.3	3.3	3.3
9. Education	9	3.0	2.8	6.3	6.2	6.2
10. Social protection	10	11.1	9.4	12.8	12.8	12.8
11. Total expenditure (item 7 = 23 in Table 2)	TE	956.6	888.2	991.4	991.4	991.4

Federation of Bosnia and Herzegovina

% of GDP	COFOG Code	2018	2019	2020	2021	2022
1. General public services	1	5.2	5.1	5.1	5.1	5.0
2. Defence	2	0.1	0.1	0.1	0.1	0.1
3. Public order and safety	3	1.5	1.5	1.5	1.5	1.5
4. Economic affairs	4	1.3	1.3	1.2	1.2	1.2
5. Environmental protection	5	0.2	0.2	0.2	0.2	0.2
6. Housing and community amenities	6	0.4	0.4	0.4	0.4	0.4
7. Health	7	3.6	3.6	3.5	3.5	3.5
8. Recreation. culture and religion	8	0.3	0.3	0.3	0.3	0.3
9. Education	9	2.5	2.5	2.4	2.4	2.4
10. Social protection	10	8.4	8.3	8.2	8.1	8.0
11. Total expenditure (item 7 = 23 in Table 2)	TE	23.5	23.2	23.1	22.8	22.6

in mill. KM	COFOG Code	2018	2019	2020	2021	2022
1. General public services	1	1,771.1	1,818.9	1,886.2	1,956.1	2,036.2
2. Defence	2	21.3	21.9	22.7	23.5	24.5
3. Public order and safety	3	514.2	528.1	547.6	567.9	591.2
4. Economic affairs	4	432.9	444.6	461.0	478.1	497.7
5. Environmental protection	5	80.9	83.1	86.2	89.3	93.0
6. Housing and community amenities	6	146.0	149.9	155.5	161.2	167.9
7. Health	7	1,227.9	1,261.1	1,307.7	1,356.1	1,411.7
8. Recreation. culture and religion	8	108.1	111.0	115.1	119.4	124.3
9. Education	9	844.3	867.1	899.2	932.4	970.7
10. Social protection	10	2,847.4	2,922.8	3,033.7	3,142.3	3,273.1
11. Total expenditure (item 7 = 23 in Table 2)	TE	7,994.1	8,208.5	8,514.9	8,826.3	9,190.3

Republika Srpska

% of GDP	COFOG Code	2018	2019	2020	2021	2022
1. General public services	1	1.7	1.9	1.8	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	0.9	0.8	0.8
4. Economic affairs	4	1.3	1.2	1.1	1.0	0.9
5. Environmental protection	5	0.1	0.1	0.1	0.1	0.1
6. Housing and community amenities	6	0.4	0.5	0.5	0.5	0.5
7. Health	7	2.2	2.3	2.4	2.3	2.2
8. Recreation, culture and religion	8	0.3	0.3	0.2	0.2	0.2
9. Education	9	1.4	1.4	1.4	1.3	1.3
10. Social protection	10	4.5	4.3	4.1	4.1	3.9
11. Total expenditure (item 7 = 23 in Table 2)	TE	12.7	12.7	12.5	11.9	11.4

in mill. KM	COFOG Code	2018	2019	2020	2021	2022
1. General public services	1	594.2	672.4	654.9	643.4	650.0
2. Defence	2	5.2	0.0	0.0	0.0	0.0
3. Public order and safety	3	311.9	286.8	330.9	323.5	324.5
4. Economic affairs	4	429.3	428.8	403.3	368.7	357.4
5. Environmental protection	5	26.7	21.8	21.3	20.4	20.8
6. Housing and community amenities	6	135.6	163.7	184.6	181.2	188.5
7. Health	7	735.3	811.5	882.8	876.6	888.1
8. Recreation, culture and religion	8	96.3	91.5	89.5	89.1	90.7
9. Education	9	468.1	479.9	514.4	514.9	514.8
10. Social protection	10	1,527.0	1,532.0	1,521.3	1,575.7	1,606.1
11. Total expenditure (item 7 = 23 in Table 2)	TE	4,329.5	4,488.5	4,602.9	4,593.5	4,640.8

Brčko District

% of GDP	COFOG Code	2018	2019	2020	2021	2022
1. General public services	1	0.2	0.3	0.3	0.3	0.3
2. Defence	2	0.0	0.0	0.0	0.0	0.0
3. Public order and safety	3	0.0	0.1	0.1	0.1	0.1
4. Economic affairs	4	0.0	0.0	0.0	0.0	0.0
5. Environmental protection	5	0.0	0.0	0.0	0.0	0.0
6. Housing and community amenities	6	0.0	0.0	0.0	0.0	0.0
7. Health	7	0.1	0.1	0.1	0.1	0.1
8. Recreation, culture and religion	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	0.6

in mill. KM	COFOG Code	2018	2019	2020	2021	2022
1. General public services	1	80.4	110.9	96.3	101.0	108.6
2. Defence	2					
3. Public order and safety	3	16.5	25.0	26.1	24.7	24.7
4. Economic affairs	4					
5. Environmental protection	5					
6. Housing and community amenities	6	2.1	3.5	2.7	2.7	2.7
7. Health	7	24.8	35.5	21.5	21.6	21.6
8. Recreation. culture and religion	8	15.3	17.8	13.9	17.0	17.0
9. Education	9	36.1	39.9	43.3	43.3	43.3
10. Social protection	10	23.8	29.7	25.7	25.9	25.9
11. Total expenditure (item 7 = 23 in Table 2)	TE	199.0	262.3	229.5	236.2	243.8

Table 4: General government debt developments

% of GDP	ESA Code	2018	2019	2020	2021	2022
1. Gross debt		32.2	31.7	32.2	31.7	29.7
2. Change in gross debt ratio		-1.7	-0.5	0.5	-0.5	-2.0
Contributions to change in gross debt						
3. Primary balance		-1.0	-0.9	-1.0	-1.3	-1.5
4. Interest expenditure	EDP D.41	0.8	0.8	0.8	0.8	0.7
5. Stock-flow adjustment		-1.4	-0.4	0.7	0.0	-1.2
<i>of which:</i>						
- Differences between cash and accruals		:	:	:	:	:
- Net accumulation of financial assets		:	:	:	:	:
<i>of which:</i>						
- Privatisation proceeds		:	:	:	:	:
- Valuation effects and other		:	:	:	:	:
p.m. implicit interest rate on debt		2.4	2.5	2.5	2.5	2.5
Other relevant variables						
6. Liquid financial assets		:	:	:	:	:
7. Net financial debt (7 = 1 - 6)		:	:	:	:	:

Table 5: Cyclical developments

% of GDP	ESA Code	2018	2019	2020	2021	2022
1. Real GDP growth (%. yoy)	B1g	3.6	3.0	3.5	3.6	3.8
2. Net lending of general government	EDP. B.9	0.3	0.1	0.2	0.5	0.8
3. Interest expenditure	EDP. D.41	0.8	0.8	0.8	0.8	0.7
4. One-off and other temporary measures		-0.2	0.2	-0.1	-0.1	-0.1
5. Potential GDP growth (%. yoy)		3.4	3.5	3.5	3.5	3.4
Contributions:						
- labour		:	:	:	:	:
- capital		:	:	:	:	:
- total factor productivity		:	:	:	:	:
6. Output gap		0.3	-0.2	-0.1	0.0	0.3
7. Cyclical budgetary component		0.1	-0.1	0.0	0.0	0.1
8. Cyclically-adjusted balance (2-7)		0.2	0.1	0.3	0.5	0.7
9. Cyclically-adjusted primary balance (8+3)		0.9	0.9	1.1	1.3	1.4
10. Structural balance (8-4)		0.4	-0.1	0.4	0.6	0.8

Table 6: Divergence from previous programme

	2018	2019	2020	2021	2022
1. GDP growth (%. yoy)					
Previous programme	3.3	3.5	3.7	3.8	:
Latest update	3.6	3.0	3.5	3.6	3.8
Difference (percentage points)	0.3	-0.5	-0.2	-0.2	:
2. General government net lending (% of GDP)					
Previous programme	0.9	1.4	1.7	1.9	:
Latest update	0.3	0.1	0.2	0.5	0.8
Difference	-0.6	-1.3	-1.5	-1.4	:
3. General government gross debt (% of GDP)					
Previous programme	32.9	32.1	31.1	28.9	:
Latest update	32.2	31.7	32.2	31.7	29.7
Difference	-0.7	-0.4	1.1	2.8	:

Table 7: Long-term sustainability of public finances

% of GDP	2007	2010	2020	2030	2040	2050	2060
Total expenditure	:	:	:	:	:	:	:
of which:	:	:	:	:	:	:	:
- 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 (this was earlier included in the health care)	:	:	:	:	:	:	:
Education expenditure	:	:	:	:	:	:	:
Other age-related expenditures	:	:	:	:	:	:	:
Interest expenditure	:	:	:	:	:	:	:
Total revenues	:	:	:	:	:	:	:
<i>of which:</i> property income	:	:	:	:	:	:	:
<i>of which:</i> from pensions contributions (or social contributions, if appropriate)	:	:	:	:	:	:	:
Pension reserve fund assets	:	:	:	:	:	:	:
<i>of which:</i> consolidated public pension fund assets (assets other than government liabilities)	:	:	:	:	:	:	:
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: General government guarantees

% of GDP	2019	2020
Public guaranties	2.4	2.4
<i>Of which: linked to the financial sector</i>	:	:

Table 8: Basic assumptions on the external economic environment underlying the programme framework

	Dimension	2018	2019	2020	2021	2022
1. Short-term interest rate	Annual average	-0.3	-0.4	-0.6	-0.6	n/a
2. Long-term interest rate	Annual average	1.1	0.4	0.1	0.2	n/a
3. USD/EUR exchange rate	Annual average	1.18	1.12	1.12	1.12	n/a
4. Nominal effective exchange rate	Annual average	5.2	-0.6	0.5	0.0	n/a
5. Exchange rate vis-à-vis the EUR	Annual average	1.96	1.96	1.96	1.96	1.96
6. Global GDP growth. excluding EU	Annual average	3.8	3.1	3.4	3.5	n/a
7. EU GDP growth	Annual average	1.9	1.1	1.2	1.2	n/a
8. Growth of relevant foreign markets	Annual average	n/a	n/a	n/a	n/a	n/a
9. World import volumes. excluding EU	Annual average	4.6	0.4	2.2	2.9	n/a
10. Oil prices (Brent, USD/barrel)	Annual average	71.1	62.5	57	56.3	n/a

Source for items 1, 2, 3, 4, 6, 10:

https://www.ecb.europa.eu/pub/projections/html/ecb.projections201909_ecbstaff~0ac7cbcf7a.en.html

Source for items 7 and 9:

https://ec.europa.eu/info/sites/info/files/economy-finance/ip115_en_0.pdf

Table 10a**MINISTRY OF DEVELOPMENT, ENTREPRENEURSHIP AND CRAFTS OF THE FEDERATION OF BiH****Table 10a: Costing of structural reform measure:** (Facilitated access to favourable financing for SMEs with the aim of increasing investment, profit and jobs) (in EUR)

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
Year X	0	0	1,750,000	0	1,750,000
Year X+1	0	0	2,500,000	0	2,500,000
Year X+2	0	0	4,000,000	0	4,000,000

Table 10a: Costing of structural reform measure: (Increasing the economic activity of SMEs through removing administrative barriers) (in EUR)

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
Year X	0	0	1,250,000	0	1,250,000
Year X+1	0	0	2,250,000	0	2,250,000
Year X+2	0	0	3,250,000	0	3,250,000

Table 10b: Financing of structural reform measure: (Facilitated access to favourable financing for SMEs with the aim of increasing investment, profit and jobs) (in EUR)

Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
Year X	1,750,000	0	0	0	0	0	0	1,750,000
Year X+1	2,500,000	0	0	0	0	0	0	2,500,000
Year X+2	4,000,000	0	0	0	0	0	0	4,000,000

Table 10b: Financing of structural reform measure: (Increasing the economic activity of SMEs through removing administrative barriers) (in EUR)

Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
Year X	1,250,000	0	0	0	0	0	0	1,250,000
Year X+1	2,250,000	0	0	0	0	0	0	2,250,000
Year X+2	3,250,000	0	0	0	0	0	0	3,250,000

MINISTRY OF AGRICULTURE, WATER MANAGEMENT AND FORESTRY OF THE FEDERATION OF BiH

Table 10a: Costing of structural reform measure: Reforming the system of financial support in agriculture (in EUR)

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
Year 2020	30,000.00	306,775.12	0	0	336,775.12
Year 2021	30,000.00	0	0	0	30,000.00
Year 2022	30,000.00	0	0	3,000,000.00	3,030,000.00

Table 10b: Financing of structural reform measure: Reforming the system of financial support in agriculture (in EUR)

Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
Year 2020	30,000.00	0	0	0	0			30,000.00
Year 2021	30,000.00	0	0	0	0			30,000.00
Year 2022	30,000.00	0	0	0	0		3,000,000.00	3,030,000.00

MINISTRY OF ENVIRONMENT AND TOURISM OF THE FEDERATION OF BiH

Table 10a: Costing of structural reform measure: Improving the legal framework governing tourism, tourist guides, tourist boards, tourist tax and catering. (in EUR)

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
Year 2020	20,000		20,000		20,000
Year 2021	Need for employment of one civil servant	100,000	Need for employment of one civil servant	100,000	Need for employment of one civil servant
Year 2022	Training, Expertise, travel	0	Training, Expertise, travel	0	Training, Expertise, travel

Table 10a: Costing of structural reform measure: Establishing a legal framework to regulate the fundamental principles with the goal of moving towards circular economy and creating the infrastructure for adequate management of specific types of waste, i.e. adoption of implementation regulations which will contribute to the establishment and strengthening of mechanisms of circular economy, as well as a monitoring system of the use of economic instruments in the field of waste management (in EUR)

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
Year X	20,000	6,000	400,000		426,000
Year X+1	20,000	6,000 +100,000 Information	400,000		526,000

		system (UNDP)			
Year X+2	20,000	6,000 +100,000 Information system (UNDP)	400,000		526,000

Table 10a: Costing of structural reform measure: Adoption of the Law on the Environment Protection and Energy Efficiency Fund, establishment and strengthening of a monitoring system of the use of economic instruments in the field of environment and energy efficiency, (in EUR)

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
Year 2020	20,000		Through the Fund		20,000
Year 2021	20,000		Through the Fund		20,000
Year 2022	20,000		Through the Fund		20,000

MINISTRY OF FINANCE OF THE FEDERATION OF BiH

Table 10a: Costing of structural reform measure: Improving the system of non-tax revenues (in EUR)

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 grey economy (in EUR)

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
Year X	0	0	0	250,000	250,000
Year X+1	0	0	0	250,000	250,000
Year X+2	0	0	0	250,000	250,000

Table 10a: Costing of structural reform measure: Reducing the tax burden on labour (in EUR)

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
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Table 10a: Costing of structural reform measure: Restructuring of the tax burden (in EUR)

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

Table 10b: Financing of structural reform measure: Improving the system of non-tax revenues (in EUR)

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 grey economy (in EUR)

Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
Year X	250,000	0	0	0	0	0	0	250,000
Year X+1	250,000	0	0	0	0	0	0	250,000
Year X+2	250,000	0	0	0	0	0	0	250,000

Table 10b: Financing of structural reform measure: Reducing the tax burden on labour (in EUR)

Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
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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 the tax burden (in EUR)

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

MINISTRY OF TRADE OF THE FEDERATION OF BiH

Table 10a: Costing of structural reform measure: (Improving the legal framework in the Federation of BiH) (in EUR) (Fill out reforms one by one)

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
Year X					
Year X+1					
Year X+2					

The implementation of these activities is planned within the plan of regular expenditures on the staff salaries of the Ministry of Trade of the Federation of BiH. Also, considering the fact that all activities related to technological, technical and software solutions for the Register are yet to be determined, the implementation costs of these activities can only be estimated later and additional funds will need to be ensured within the Budget of the Federation of Bosnia and Herzegovina or another source of financing. As a result of the adoption and implementation of the Law, we expect an increase in the number of the formally employed in the sector of real estate brokerage services. There are no legal limitations in terms of neutrality of impact on gender.

Table 10b: Financing of structural reform measure: (NAME OF MEASURE) (in EUR) (Fill out reforms one by one)

Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
Year X								
Year X+1								
Year X+2								

Table 11: Reporting on the implementation of the structural reform measures of the ERP 2019-2021

Council of Ministers of BiH

	Name and number of reform measure	Stage of reform implementation (1-5) ⁴⁴
Activities planned for 2019	1.Improving the strategic and legislative framework in accordance with the Treaty establishing the Energy Community	
	2. Developing an organised market of electricity and gas	
	3. Adopt state-level legislation in the field of renewable energy and energy efficiency in accordance with the obligations under Treaty establishing the Energy Community	
Description of implementation and explanation if partial or no implementation	1.	

	Name and number of reform measure: Fulfilling the prerequisites for using IPA(RD) funds	Stage of reform implementation (1-5) ⁴⁴
Activities planned for 2019	1. Implementation of the Strategic Plan for Rural Development	3
Description of implementation and explanation if partial or no implementation	1. Partially implemented due to the extremely complex structure of the competent institutions that are implementing measures for rural development in the entire territory of Bosnia and Herzegovina	

	Name and number of reform measure: Establishing the efficient food safety and quality system in Bosnia and Herzegovina	Stage of reform implementation (1-5) ⁴⁴
Activities planned for 2019	1. Drafting and adoption of amendments to the set of three Laws in the field of food safety, agriculture and veterinary	0
	2. Continuing the activities on the transposition and alignment of standards with the	0

	requirements of the acquis.	
	3. 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	0
Description of implementation and explanation if partial or no implementation	1. There has been no full implementation due to inconsistency of views	
	2. There has been no full implementation due to inconsistency of views	
	3. There has been no full implementation due to inconsistency of views	

	Name and number of reform measure	Stage of reform implementation (1-5) ⁴⁴
Activities planned for 2019	1. Reform in the area of research in BiH	1
Description of implementation and explanation if partial or no implementation	1. Allocating more finances to support projects in the field of science – In accordance with the Law on the Budget of the Institutions of BiH and BiH's international liabilities for 2019. The Budget Plan predicted financing of projects in the field of science on the same level as in the previous year – KM 561,000.00. The Budget was not adopted, the Council of Ministers was not formed, and this activity was not implemented accordingly. In the process of development of the draft Budget for each following year, an increase is requested of allocations to support projects in the field of science – with the justification that the Budget of the Ministry of Civil Affairs of BiH is not developmental and offers no possibility for increasing allocations for this purpose, the allocated finances remain on the same level as in previous years.	
	2. Strategies for smart specialisation; 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 (The Information on the process of Strategies for smart specialisation – S3 was adopted by the Decision of the Council of Ministers from its 173 rd session held on 10 June 2019, with the proposal that BiH should become officially included in the process of developing smart specialisation. The Directorate for Economic Planning is tasked with implementing the Information in cooperation with the Ministry of Foreign Trade and Economic Relations and the Ministry of Civil Affairs of Bosnia and Herzegovina.)	

3. Promotion and presentation of the EU programmes with the aim of strengthening the capacities and greater success rate

Being awarded the status of associated country to the Horizon 2020 Framework Programme has strengthened the position of BiH in terms of the negotiations about the status of candidate country for full-fledged membership in the EU because, with the fulfilment of this condition, BiH became a member of the EU in the field of science and technology. In terms of politics, the importance of association to Framework Programmes is great because the interest of BiH in participating in these programmes is the result of its strategic orientation towards European Integration, with the final goal of full-fledged membership in the EU, and the field of science and research is usually the first chapter that is opened in negotiations with candidate countries. In the meantime, BiH also accessed other EU Programmes, such as Creative Europe, Erasmus +, and others.

By associating to Horizon 2020, the following opportunities opened up for the research and academic community from Bosnia and Herzegovina:

1. Full participation in all horizontal and vertical activities within the Programme, including JRC (Joint Research Centre) and the Marie Curie actions (researcher mobility programme);
2. To become actively included in the implementation of EU policies in this field and ascend to the European Research Area and Innovation Union and build a structure that meets the European standards;
3. To get financing from EU funds for science and research activities of research institutions and SMEs, as well as public companies, and to initiate the mobility of BiH researchers;
4. To intensify international cooperation in the field of science with the signing of the Agreement for scientific and technological cooperation with the European Community;
5. With BiH's association to H2020, to become more involved with Euro-Atlantic Integration and the fulfilment of obligations from the Roadmap and Stabilisation and Association Agreement, since the field of science and research has been specially emphasized in BiH Progress Reports as one of the rare fields where some progress has been made.

According to our data, a total of 356 project proposals were submitted from Bosnia and Herzegovina by September of 2019 with 465 applicants, of which 334 full and credible applications have been evaluated with 412 applicants, and 45 projects have been approved including the participation of 76 institutions. The total amount received until now is over EUR 6.1 million (6,120,686 EUR), with the average success rate of 17.5%, relative to the EU average which is 15.3%.

The Ministry of Civil Affairs of Bosnia and Herzegovina is the competent institution in relation to Horizon 2020, and it is also responsible for the operation of the so-called National Contact Point System (NCP System), the system of country-wide contact points promoting the Programme, organising info-days and workshops, and mediating all activities related to the participation of BiH institutions in Horizon 2020. The National Contact Points System comprises the national coordinator and contact persons for the thematic priorities of Horizon, and all these persons have experience and expertise on the Framework Programmes, actively speak English and went through education and training, and were actively involved in the development of project proposals and the implementation of projects.

The Ministry has also appointed expert representatives of BiH in various configurations, so-called Programme Committees, who

take part in the work of these bodies and contribute to the promotion and popularisation of the Programme. The main job of members of Programme Committees is to represent the interests of their countries on all issues pertaining to the announcement of new calls for project application, to monitor data related to the participation of institutions from their countries in H2020, to forward the data to line ministries and the NCP network, and to work together with other stakeholders on raising awareness about the importance of international cooperation in the field of science through EU programmes in this field.

During the past year, over 50 info-days, workshops, and seminars have been organised in cooperation with universities, development agencies, foreign trade chambers, with the participation of national contact points and members of Programme Committees. The Horizon 2020 Guide was published within the NCP structure, whose development and printing was financed through grant funds of the Ministry of Civil Affairs of BiH.

The following activities are currently being implemented to increase the success of the participation of Bosnia and Herzegovina in this programme:

- a) Organising promotional events which will, in cooperation with the European Commission and other relevant institutions, focus on promoting the importance of science and research work and international cooperation in the field of science;
- b) Updating of the website and database;
- c) Organising training programmes for National Contact Points and members of Programme Committees;
- d) Continuous attendance of BiH representatives in all meetings, conferences, workshops and other events organised by the European Commission in Brussels;
- e) Identifying and working with the institutions that have potential to participate in Horizon 2020;
- f) Assisting local stakeholders find partners outside of Bosnia and Herzegovina for cross-border projects;
- g) Promoting the research capacities of BiH in cooperation with the Mission of Bosnia and Herzegovina in Brussels, European Union;
- h) Continuous activities on monitoring and analysing the participation of BiH institutions in Horizon 2020;
- i) Promoting institutions from BiH that are successful in the H2020 Framework Programme.

4. Decision on Adoption of Roadmap for Coordination of Activities on Implementation of ERA Priorities,

In January of 2019, representative of Bosnia and Herzegovina attended the meeting of the Work group of EU member countries and countries of the Western Balkans Region in relation to open science (so-called « Open Science/Open Data/Open Access») in Brussels; In April, we participated in the workshop “Research Infrastructure Mapping” organised by the RCC in Montenegro, together with a meetings.

In March and July, two preparation meetings were organised within the Steering Platform on Research and Innovation for the Western Balkans, with the goal of preparing for the Science Ministerial Meeting with the EU Commissioner for Research, Innovation and Science Carlos Moedas. In the meeting, the Joint Statement of Countries of the Western Balkans on the new EU Framework Programme for Research and Innovation Horizon Europe was presented, which specifically emphasises the

	<p>importance of mobility schemes (within the Marie Skłodowska Curie and COST programmes).</p> <p>At the meeting of the Steering Platform on Research and Innovation for the Western Balkans, which was held on 23 September at the RCC Liaison Office in Brussels, the Joint Statement of Countries of the Western Balkans on the new EU Framework Programme for Research and Innovation Horizon Europe was finalised, and we also had the opportunity to hear the latest information from different Directorates-General/Services of the European Commission in relation to Open Science approach to science, EU expansion, and rural development.</p> <p>The meeting of countries from the Western Balkans on science and innovation with the EU Commissioner for Research, Innovation and Science mostly focused on activities undertaken within the framework of preparations for the new EU Framework Programme for Research and Innovation Horizon Europe, including the Joint Statement of Countries of the Western Balkans, Strategy of Smart Specialisation and an open approach to scientific content and research mobility, while the BiH delegation presented to the Commission all the activities that BiH has initiated in the past year in these fields.</p>
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	Name and number of reform measure 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	Stage of reform implementation (1-5) ⁴⁴
Activities planned for 2019	1. Broadband Access Strategy	4
	2. Strategy for information society development	3
	3. Law on Electronic Communications and Electronic Media	4
Description of implementation and explanation if partial or no implementation	1.	
	2. CoM adopted the Policy for information society development	

	Name and number of reform measure	Stage of reform implementation (1-5) ⁴⁴
Activities planned for 2019	1. Strengthening the capacities of labour market institutions through improving the methodology of labour market research in Bosnia and Herzegovina	1
Description of implementation and	1. Project tender procedure is ongoing.	

explanation if partial or no implementation	2. Start of implementation is planned in the fourth quarter of 2019.
	3. Duration of the project will be 24 months.

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

4.3.1.2. Increasing energy efficiency and use of renewable energy sources

MINISTRY OF ENERGY, MINING AND INDUSTRY OF THE FEDERATION OF BiH

	4.3.1.2. Increasing energy efficiency and use of renewable energy sources
Activities planned for 2019	1. Amendments to (or the adoption of new) Law on Electricity in the Federation of Bosnia and Herzegovina (Ministry of energy, mining and industry of the Federation of BiH – development; Government of the Federation of Bosnia and Herzegovina – proposal; Parliament of the Federation of Bosnia and Herzegovina - adoption)
	2. Electricity Sector Restructuring Program in the Federation of Bosnia and Herzegovina (Ministry of energy, mining and industry of the Federation of BiH – develops; Government of the Federation of Bosnia and Herzegovina – adopts; Parliament of the Federation of Bosnia and Herzegovina – gives consent, while JP Elektroprivreda BiH d.d. Sarajevo and PC Elektroprivreda HZHB d.d. Mostar are responsible for the implementation)
	3. Development of a Draft Law on Gas of the Federation of Bosnia and Herzegovina (prepared by the Ministry of energy, mining and industry of the Federation of BiH)
	4. Activities focused on defining new mechanisms of supporting the production of electricity from renewable energy sources and activities on the preparation of the Action Plan for the Use of Renewable Energy Sources in the Federation of Bosnia and Herzegovina for the period 2020-2030 (implemented by the Ministry of energy, mining and industry of the Federation of BiH in cooperation with GIZ)
	5. Activities for defining financial mechanisms for the implementation of energy efficiency measures defined by the Energy Efficiency Action Plan of the Federation of Bosnia and Herzegovina and defining the necessary amendments to the Law on Energy Efficiency in the Federation of Bosnia and Herzegovina (implemented by the Ministry of energy, mining and industry of the Federation of BiH in cooperation with USAID – EIA project)
	6. Adoption of the Action Plan for the Use of Renewable Energy Sources in the Federation of Bosnia and Herzegovina for the period 2019-2021 (Ministry of energy, mining and industry of the Federation of BiH in cooperation with other relevant institutions of the Federation of BiH - develops; Government of the Federation of Bosnia and Herzegovina – adopts)
	7. Development and adoption of unadopted subordinate legislation and implementation acts from the Law on Energy Efficiency in the Federation of Bosnia and Herzegovina (developed by the Ministry of energy, mining and industry of the Federation of BiH)
	8. Report on the implementation of the Action Plan for Renewable Sources of Energy in the Federation of Bosnia and Herzegovina 2010-2020 for 2018 (Ministry of energy, mining and industry of the Federation of BiH in cooperation with the Renewable Energy

	Sources and Efficient Cogeneration Operator, other competent ministries)
	9. Participation in the development and adoption of the Energy Efficiency Action Plan of the Federation of Bosnia and Herzegovina for 2019-2021 (Ministry of Foreign Trade and Economic Relations in cooperation with the competent entity-level ministries, the Brčko District and GIZ)
	10. Preparation and drafting of the Programme of protection of vulnerable energy buyers (relevant ministries and the Government of the Federation of Bosnia and Herzegovina)
	11. Preparation of the Energy Strategy of the Federation of Bosnia and Herzegovina for the period 2015-2035 with the projection in 2050
	12. 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)
	13. 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.
	14. Development of an updated Action Plan for the Use of Renewable Energy Sources in the Federation of Bosnia and Herzegovina
	15. Construction of plants using renewable energy sources
	16. Launching the concession award procedure for: 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 Globarica – 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>
	17. 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
	18. SCADA/DMS/OMS with the accompanying communication system – electronic networking of all energy facilities
	19. 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
	20. 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
	21. Distribution of electricity – "Smart Meters" KM 23.36 million (loan - KM 19.56 million)
	22. The Law on Gas of the Federation of BiH
	23. National Energy Efficiency Action Plan (NEAP) in Bosnia and Herzegovina
Description of implementation and explanation if partial or no implementation	1. Amendments to (or the adoption of new) Law on Electricity in the Federation of Bosnia and Herzegovina will be carried out after the adoption of the Law on Electricity and Natural Gas Regulator, Transmission and Electricity Market in Bosnia and Herzegovina
	2. With Decision No. V. No:933/2019 from 22 August 2019, the Government of the Federation of BiH adopted Electricity Sector Restructuring Program in the Federation of Bosnia and Herzegovina and forwarded it to the Parliament of the Federation of Bosnia and Herzegovina for further procedure.

	3. Development of a Draft Law on Gas of the Federation of Bosnia and Herzegovina will be carried out after the adoption of the Law on Electricity and Natural Gas Regulator, Transmission and Electricity Market in Bosnia and Herzegovina
	4. Activities focused on defining new mechanisms of supporting the production of electricity from renewable energy sources and activities on the preparation of the Action Plan for the Use of Renewable Energy Sources in the Federation of Bosnia and Herzegovina for the period 2020-2030 have been completed, and will be incorporated in the amendments to the Law and subordinate legislation
	5. Activities for defining financial mechanisms for the implementation of energy efficiency measures defined by the Energy Efficiency Action Plan of the Federation of Bosnia and Herzegovina have been completed and will be the subject of necessary amendments to the Law on Energy Efficiency in the Federation of Bosnia and Herzegovina
	6. Activities on the adoption of the Energy Efficiency Action Plan of the Federation of Bosnia and Herzegovina 2019-2021 are in their final stage and will serve as the basis for adopting the NECP BiH.
	7. Activities on the development and adoption of remaining subordinate legislation and implementation acts from the Law on Energy Efficiency in the Federation of Bosnia and Herzegovina are in progress.
	8. Activities in progress.
	9. Activities in progress.
	10. After the development of the social card of socially vulnerable electricity buyers by the line ministry, the preparation and drafting of the Programme of protection of vulnerable energy buyers will start.
	11. 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.
	12. Rulebook on regular energy audits of heating systems and air conditioning systems is in the final stage of development and adoption
	13. A Contract was signed with the selected bidder, HIS Global Ltd. London on 13 May 2019.
	14. Activities in progress.
	15. As of 10 September 2019, a total of 488 energy permits for the construction of plants using renewable energy sources have been issued in the Federation of Bosnia and Herzegovina, of which 203 facilities have been constructed with the total installed power of 172 MW.

	<p>16. Concessions have been awarded to: CHPP Vrilo, 66 MW, based on the self-tendering offer for awarding the concession of <i>JP Elektroprivreda HZHB</i> d.d. Mostar, Decision on the awarding of negotiating powers, activities in progress</p> <p>HPP Begov Han – 9,8 MW; HPP Želeće – 9,8 MW; HPP Globalica – 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>: activities within these projects are in progress and in different stages</p>
	17. Activities in progress.
	18. Activities in progress.
	19. Project nominated for the Public Investment Programme
	20. The Government of the Federation of BiH adopted the Programme of Restructuring of the Energy and Electricity Sector in the Federation of Bosnia and Herzegovina, with special emphasis and priority placed on the establishment a Distribution System Operator, as well as on restructuring of the mines (operational, personnel and financial). The Government of the Federation of Bosnia and Herzegovina forwarded it to the Parliament of the Federation of Bosnia and Herzegovina for consent.
	21. Project in implementation
	22. The Law on Gas of the Federation of Bosnia and Herzegovina was withdrawn from the long Parliamentary procedure for the purpose of alignment with the Third Energy Package and the State Law on Electricity and Natural Gas Regulator, Transmission and Electricity Market in Bosnia and Herzegovina.
	23. National Energy Efficiency Action Plan (NEAP) in Bosnia and Herzegovina for the period 2019-2021 is in final stages of development and will serve as the basis for the adoption of NECP BIH for the period 2021-2030.

MINISTRY OF TRANSPORT AND COMMUNICATIONS OF THE FEDERATION OF BiH

4.3.1.3. *Creating a sustainable rail infrastructure financing system*

4.3.1.4. *Improving the transport infrastructure in the Federation of BiH*

4.3.1.5. *Improving the model of financing motorways and roads with an emphasis on concessions and public-private partnership*

	4.3.1.4. Improving the transport infrastructure in the Federation of BiH????	Stage of reform implementation (1-5) ⁴⁴
Activities planned for 2019	1. Implementation of the Investment Programme Capital transfers to public companies - transfer for the construction of motorways and express roads in the Federation of BiH/implemented by FMTC, FMF, JP Autoceste FBiH, JP Ceste FBiH, cantons	3
	2. Implementation of the Investment Programme Current and Capital Transfers for the Airport Infrastructure in the Federation of BiH for 2019/ implemented by FMTC, FMF, airports in the Federation of BiH	4
	3. Implementation of the Contract on the Financing of Maintenance of the Railway Infrastructure for 2019/ implemented by FMTC, FMF, JP Željeznice FBiH	5
Description of implementation and explanation if partial or no implementation	1. Some of the approved projects are in the implementation and construction stage, whereas others are in the stage of preparation of the technical-investment documentation	
	2. Some of the approved projects are in the implementation and construction stage, whereas others are in the stage of preparation of the technical-investment documentation	
	3. This activity has been implemented in full	

MINISTRY OF AGRICULTURE, WATER MANAGEMENT AND FORESTRY OF THE FEDERATION OF BiH

4.3.2. Sectoral development

4.3.2.1. Agriculture

4.3.2.1.1. Improving agricultural production

	4.3.2.1.1. Reforming the system of cash incentives in agriculture	Stage of reform implementation (1-5) ⁴⁴
Activities planned for 2019	1. Development and adoption of legislation to regulate the field of agriculture and rural development and financial support harmonised within BiH and with the EU legislation, which will have the most significant impact on <u>improving agricultural production</u>	2
	2. Improve and update the information system, registers and databases in agriculture in compliance with the EU requirements	3
	3. Improve the quality of public services – expert and advisory services, organise trainings of farmers	3
Description of implementation and explanation if partial or no implementation	1. The draft laws have been drafted, but due to the number of laws proposed for development, the planned adoption of the Draft Law has not been implemented.	
	2. The Ministry of Agriculture, Water Management and Forestry of the Federation of BiH completed the development and implementation of the software for processing cash incentives in agriculture and rural development, based on the existing Register of Agricultural Farms and Register of Clients of the Federation of BiH. The software covers the complete process of processing cash incentives, from the first registration of production, i.e. the submission of requests, to processing the requests and payments. It covers all institutions on the local, cantonal and Federal level working on processing of requests. As of 2019, the functionality of all software in the segment of registering payment orders, processing, refunds and report generation have been significantly improved. In terms of land parcels, the Ministry established an alphanumeric database containing all data on each parcel, including intended use, but lacking orthophoto mapping, and the cross-controls in the payments system have been established.	
	3. During 2019, the training and certification of agricultural advisors was carried out, which lead to the fulfilment of the legal condition for the establishment of public and private advisory services in the Federation of BiH and establishment and updating of the Register of agricultural advisors and Register of agricultural advisory services. The implementation of this activity created the conditions for carrying out the agricultural advisory activity in the Federation of BiH in accordance with the needs of farmers and provision of free advisory services.	

MINISTRY OF ENVIRONMENT AND TOURISM OF THE FEDERATION OF BiH

4.3.2.2. Tourism

4.3.2.2.1. Improving the existing legal framework regulating the field of tourism, tourist guides, tourist communities, tourist fees and catering

4.3.2.2.2. Improving the business climate and reduction of the informal economy

4.3.2.2.3. 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

	4.3.2.2.2 Improving the business climate and reduction of the informal economy 4.3.2.2.3 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 2019	1. Adoption of the Law on Tourism of the Federation of BiH	2
	2. Adoption of the Law on Tourist Fees of the Federation of BiH	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	1
Description of implementation and explanation if partial or no implementation	1. The Draft Law on Tourism of the Federation of BiH has been returned to the processor in 2019 to be updated by the Parliament of the Federation of BiH	
	2. The Draft Law on Tourist Fees of the Federation of BiH has been returned to the processor in 2019 to be updated by the Parliament of the Federation of BiH	
	3. The Draft Law on Catering of the Federation of BiH has been submitted for public debate by the Parliament of the Federation of BiH	
	4. Activities on the development of this strategic document have been initiated	

4.3.2.3. Waste

4.3.2.3.1. Improving the waste management system

4.3.2.3.2. 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

	4.3.2.3.2. 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 2019	1. Development of subordinate legislation for the adequate management of specific types of waste, with the establishment of financial mechanisms necessary to build the adequate infrastructure. The activity is assigned to the Ministry of Environment and Tourism of the Federation of BiH as the legislator, the Government of FBiH is the adopter, coordination in cooperation with the FBiH Environment Protection Fund and competent cantonal ministries.	3

	2. Adoption of implementing regulations (Decrees and rulebooks) Authority – the Government of FBiH and Ministry of Environment and Tourism of the Federation of BiH.	3
	3. Adoption of the Law on the Environmental Protection in Parliamentary procedure. Working on improving the regulations in the field of horizontal EU legislation. Parliament of FBiH, Government of the Federation of BiH, Ministry of Environment and Tourism of the Federation of BiH, competent cantonal ministries in the field of environment.	2
	4. Monitoring of the establishment of the waste management information system. The activity is assigned to the Ministry of Environment and Tourism of the Federation of BiH, the FBiH Environment Protection Fund, competent cantonal ministries in the field of environment, FBiH Administration for Inspection Affairs.	
Description of implementation and explanation if partial or no implementation	1. Completed draft of the Decree on the criteria for the calculation and payment method for products that become special categories of waste after use. According to the Decree, special categories of waste are: waste batteries and accumulators, waste tires, waste oils and waste vehicles. Preliminary drafts have been developed of the rulebook on waste batteries and accumulators, waste tires, waste oils and waste vehicles. The work material for the Rulebook on construction waste management has been developed in cooperation with the Ministry of Spatial Planning of the Federation of BiH.	
	2. Completed draft of the Decree on the allocation and investment methods of collected feed for special categories of waste Completed draft of the Decree on amendments to the Decree on fees for plastic bags.	
	3. In Parliamentary procedure.	
	4. Developed and approved Programme of the establishment of the waste management information system for FBiH. The FBiH Environment Protection Fund signed a contract with the selected consulting firm to implement the establishment of the Information System. Field interviews are being carried out with chosen groups of subjects to collect current data.	

4.3.2.4. Environment

4.3.2.4.1. Conserving, protecting and improving environmental quality

	4.3.2.4.1. Conserving, protecting and improving environmental quality	Stage of reform implementation (1-5) ⁴⁴
Activities planned for 2019	1. Adoption of the draft Law on Air Protection	2
	2. Adoption of the Law on Environmental Protection and Energy Efficiency Fund	2
	3. Development of the Environment Protection Strategy of the Federation of BiH	2
	4. Establishment of new protected areas of nature under the authority of the Federation of BiH (procedural activities on the development and adoption of legislation for the establishment of new protected areas);	2
Description of implementation and explanation if partial or no implementation	1. The draft Law on Air Protection has been placed on the agenda of the session of the House of Representatives of the Parliament of the Federation of BiH, 10-11 September 2019.	
	2. The proposal of the Law on Environmental Protection and Energy Efficiency Fund was approved by the Government of FBiH in its 146 th session held on 07 June 2018. The proposal was submitted for parliamentary procedure with the Act of the Government of the	

	Federation of BiH from 14 June 2018, with the goal of discussing and adopting it – summary procedure.
	3. Project goal defined; project proposal prepared
	4. Scope of future protected areas agreed

4.3.3. Business environment and reduction of the informal economy

FBiH MINISTRY OF DEVELOPMENT, ENTREPRENEURSHIP AND CRAFTS

Entrepreneurship

4.3.3.1. Creating a favourable entrepreneurial environment with particular emphasis on reducing administrative and financial barriers to small business growth and development,

4.3.3.2. Improvement of entrepreneurial infrastructure in the Federation of BiH

4.3.3.3. Support projects for the SME sector to strengthen competitiveness and preserve and increase employment in the SME sector

	Name and number of reform measure	Stage of reform implementation (1-5) ⁴⁴
Activities planned for 2019	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	2
	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 adopted by the Government of the Federation of FBiH .	
	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. A preliminary version of the draft law was prepared, and activities are underway to obtain opinions with a view to referring the law to the Government of the Federation of BiH..	
	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 .	
	5. The final activities on the implementation of this project are ongoing.	

FBiH MINISTRY OF FINANCE

Finances

4.3.3.4. *Publication and implementation of the Register of Fees and Taxes in the Federation of BiH - Adoption of a comprehensive regulation on Fees and Taxes in the Federation of BiH*

4.3.3.5. *Improving the system of fiscalisation in the Federation of BiH*

4.3.3.6. *Reducing the tax burden on labour*

4.3.3.7. *Tax burden restructuring*

4.3.3.8 *Restructuring the old tax debt*

	4.3.3. Business environment and reduction of the informal economy 4.3.3.4. Publication and implementation of the Register of Fees and Taxes in the Federation of BiH - Adoption of a comprehensive regulation on Fees and Taxes in the Federation of BiH	Stage of reform implementation (1-5)44
Activities planned for 2019	1. Preparation of a draft umbrella law on fees and taxes in the Federation of BiH (actor: FBiH Ministry of Finance) 2. Consideration and establishment of the draft / proposal of the umbrella law on fees and taxes in the Federation of BiH and referral to the parliamentary procedure (actor: FBiH Government BiH) 3. Consideration and adoption of the umbrella law on fees and taxes in the Federation of BiH (actor: Parliament of the Federation of BiH)	0
Description of implementation and explanation if partial or no implementation	The determination of the Government of the Federation of Bosnia and Herzegovina, with the cooperation of lower levels of government and full respect for constitutional competencies, is to regulate the area of non-tax revenue and create a simpler and more unified business space throughout the Federation of BiH. Following the establishment of the Register of Fees and Taxes in the Federation of BiH, to which all levels of government in the Federation of BiH have made an active contribution, with a view to full implementation, the continuation of activities focused on establishing a harmonized legal framework for the introduction, collection and abolition of fees and charges, that is the adoption of comprehensive regulations in this field at the level of the Federation of BiH. Considering that, in accordance with the constitutional competencies, the lower levels of government in the Federation of BiH are independent in creating most policies that determine the obligation, base, amount and method of payment of fees and taxes, meetings with their representatives have been initiated, where a plan of activities has been presented. As the consultation process has not yet been fully concluded with individual parties, and because unanimous agreement has not yet been reached by representatives of all lower levels of government to start drafting such a regulation, in 2019 no planned activities for the preparation, identification and adoption of the umbrella law on fees and taxes in the Federation of BiH have been implemented.	

	4.3.3. Business environment and reduction of the informal economy 4.3.3.5. Improving the system of fiscalisation in the Federation of BiH	Stage of reform implementation (1-5) ⁴⁴
Activities planned for 2019	1. Activities to gather proposals and suggestions from all stakeholders in the process of fiscalisation	4
	2. Organization of workshops on the subject	4
	3. Analysis of proposals and their harmonization by the Ministry, the FBiH Tax Administration and experts of the technical part of the commission of the Federal Ministry of Finance	4
Description of implementation and explanation if partial or no implementation	The implementation proceeds in accordance with the plan, implementation of activities is going on until full implementation.	

	4.3.3. Business environment and reduction of the informal economy 4.3.3.6. Reducing the tax burden on labour	Stage of reform implementation (1-5) ⁴⁴
Activities planned for 2019	Consideration and adoption of the Draft Law on Personal Income Tax and the Draft Law on Contributions	0
Description of implementation and explanation if partial or no implementation	The Federation of BiH Parliament did not consider the regulations.	

	4.3.3. Business environment and reduction of the informal economy 4.3.3.7. Tax burden restructuring	Stage of reform implementation (1-5) ⁴⁴
Activities planned for 2019	Analyze the process of taxation of property at the Cantonal level, and submit the Analysis made with the Proposal to the FBiH Government for consideration	0
	Adoption of conclusions by the FBiH Government on submitted Analysis of property taxation process	0
Description of implementation and explanation if partial or no implementation	The current regulations governing the taxation of the possession and sale of property are regulated at the level of ten cantons and at the level of local self-government units, and there are over 20 laws regulating the same matter. Therefore, it is planned to make an analysis of property tax regulations, which would precede the adoption of a single law, in order to simplify the business environment. Given the shortage of employees in the Federal Ministry of Finance, implementation has not been completed	

	4.3.3. Business environment and reduction of the informal economy 4.3.3.8. Restructuring the old tax debt	Stage of reform implementation (1-5) ⁴⁴
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Activities planned for 2019	Collect information on the status and structure of tax debt (FBIH Tax Administration and Federal Ministry of Finance)	0
Description of implementation and explanation if partial or no implementation	The primary objective is to look at the overall situation of the tax debt in the Federation of Bosnia and Herzegovina, taking into account the difficult economic situation in the country affecting the economy, and to propose solutions that should prevent further growth of the tax debt and lead to the restructuring of the existing one. Delayed submission of data on total tax debt by the Tax Administration.	

Comment: each country can on a voluntary basis provide additional tables and heat maps reporting on the implementation of *country-wide*⁴⁵ reform measures, although these should not be part of the ERP itself. These could be based on those included in the *OECD ERP Monitoring Tool*.

Research

Trade

FBIH MINISTRY OF TRADE

	Name and number of reform measure	Stage of reform implementation (1-5) ⁴⁴
	1. Draft Law on Real Estate Brokerage	
	2. Draft Law on Free Zones in the Federation of BiH in cooperation with other bodies	3
	3. Draft Law on Amendments to the Law on Special Conditions for Performing International Freight Forwarding Services in relation to Customs Clearance	2
	4. Support to the work of the FBIH Foreign Investors Council (2018-2020)	5
Activities planned for 2019	1. Information on request of BH GAS company d.o.o. Sarajevo (Conclusion of the Government of the Federation of BiH No. V. 208/2019 of 13 March 2019)	5
	1. Information on implementation of the Electronic Price and Margin Change Notification Project - eOPC.fmt.gov.ba (Conclusion of the Government of the Federation of BiH No. V.:359/2019 of 18 April 2019).	5
	2. Information about the decision to increase the price of gas (Conclusion of the Government of the Federation of BiH No. V: 690/2019 of 20 June 2019), joint information with the Federal Ministry of Energy, Mining and Industry.	5
	3. Decision not to approve the wholesale price of natural gas (Official Gazette of the Federation of BiH , 16/19).	
	4. Decision to approve the wholesale price of natural gas (Official Gazette of the Federation of BiH , 33/19).	
Description of implementation and explanation if partial or no	1. Draft Law on Real Estate Brokerage, drafted by the FBIH Government in August 2018 and forwarded to the FBIH Parliament for further consideration	
	2. Draft Law on Free Zones in the FBIH the Government of the FBIH adopted at its 139th session held on 26 April 2019. It was adopted by the House of Representatives of the FBIH Parliament on 29 May 22, 2018, and submitted for consideration and adoption	

implementation	by the House of Peoples of the FBiH Parliament. The draft Law on Free Zones has not yet been discussed at the session of the House of Peoples of the FBiH Parliament
	3. Reform Measure The Draft Law on Amendments to the Law on Special Conditions for Performing International Freight Forwarding Services in relation to Customs Clearance has not been implemented for the reason that it was planned for the said period, i.e. it was proposed by the Act of the Federal Ministry of Trade No. 01-49-271 /19 of 12 February, 2019, when the work plans for 2019 have already been established, that is, they could possibly be foreseen in the Work Plan for 2020.

5.3.6 Education and skills

FBiH MINISTRY OF EDUCATION AND SCIENCE

4.3.4.1. Improving competences of inter-university, regional and international cooperation

	Name and number of reform measure 4.3.4.1. Improving competences of inter-university, regional and international cooperation	Stage of reform implementation (1-5)44
Activities planned for 2019	In 2019, the Foundation for Student and Teacher Mobility of the Federation of Bosnia and Herzegovina operates at its full capacity, within its own transfer, in accordance with the Decision on the Establishment of the Foundation for Student and Teacher Mobility of the Federation of Bosnia and Herzegovina (Official Gazette of the Federation of Bosnia and Herzegovina, 34 / 17), the Statute and other adopted acts. The role of the Ministry is to exercise oversight in accordance with the law.	5
Description of implementation and explanation if partial or no implementation	Planned measures have been fully implemented. The work of the Foundation can be followed on www.mobilnost.ba	

5.3.7. Employment and labour markets

5.3.7.1. Improving the labour market efficiency

5.3.7.2. Creating a stimulating legal environment to strengthen the role of employment mediation and effective employment policy

5.3.8. Social protection and inclusion

FBiH MINISTRY OF LABOUR AND SOCIAL POLICY

5.3.8.1. Improving the functioning of the social protection system in FBiH

	Name and number of reform measure Improvement of effective system of protection, rehabilitation and social inclusion of persons with disabilities in FBiH in accordance with EU legislation - 4.3.9.1.	Stage of reform implementation (1-5) ⁴⁴
Activities planned for 2019	1. Law on Single Registry of Non-Contributing Cash Benefits in the Federation of BiH	4
	2. Law on the Organizations of Persons with Disabilities and Representative Organizations of Persons with Disabilities in the Federation of BiH	2
	3. Law on the Protection of Civilian Victims of War in the Federation of BiH	3
	4. The strategy for improving the rights and status of persons with disabilities in the Federation of BiH for the period 2016-2021	1
	5. Law on common principles and the framework of material support for persons with disabilities in the Federation of BiH	1
Description of implementation and explanation if partial or no implementation	1. Implementation of the Law on Single Registry of Non-Contributing Cash Benefits in the Federation of BiH.	
	2. Draft Law on Organizations of Persons with Disabilities adopted by the Government of the Federation of BiH and submitted to parliamentary procedure for further consideration and adoption.	
	3. Working version of the Law on the Protection of Civilian Victims of War submitted for public discussion.	
	4. Preparation has started of a report on the implementation of the Strategy for Improving the Rights and Status of Persons with Disabilities in the Federation of Bosnia and Herzegovina for 2016-2021.	
	5. Activities began on the preparation of the working version of the Law on common principles and the framework of material support for persons with disabilities.	

REPUBLIKA SRPSKA

	Name and number of reform measure	Stage of reform implementation (1-5)
	4.3.1 Energy and transport market reform: 1) The improvement of the legal framework in compliance with the Energy Community Treaty	
Activities planned for 2019	1. 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)	4
	2. 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)	Implementation of the segment of limiting incentive system 5 Implementation of introduction of auction system, i.e. new incentive schemes 2
	3. Improving the regulatory framework in the field of energy efficiency: Adoption of the Law on Amendments to the Law on Energy Efficiency	1
	4. 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)	4
Description of implementation and explanation if partial or no implementation	1. The draft Law on Electricity adopted by the Government and submitted to the procedure in the National Assembly of RS. Draft Law was adopted by the NARS in September 2019, whereas the proposal of the Law is due for consideration on the NARS in the first quarter of 2020.	
	2. The Law on Amendments to the Law on Renewable Energy and Efficient Cogeneration, adopted in 2019, excluded wind farms from the incentive system in order to limit the increase of the renewable energy fee paid by electricity consumers. The introduction of an auction system, i.e. new incentive schemes, will be defined by the new Law on Renewable Energy and Efficient Cogeneration, which is planned for adoption in 2020.	
	3. Amendments to the Law on Energy Efficiency are not planned in 2019.	
	4. 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%. The percentage of technical completion of the FGD project at the TPP Ugljevik by the time of preparation of this report was about 97%. According to the established plan, completion of the implementation is expected in December 2019, bringing the degree of implementation of this measure to 5.	

	4.3.1 Energy and transport market reform: 1) The improvement of the legal framework in compliance with the Energy Community Treaty	Stage of reform implementation (0-5)
Activities planned for 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),	3
Description of implementation and explanation if partial or no implementation	1. At its 32nd regular session held on 12 August 2019, the Government of Republika Srpska adopted the text of the Proposal for the Law on Amendments to the Law on Spatial Planning and Construction. The amendments to the aforementioned Law create the legal basis for the adoption of the Strategy for the Long-Term Incentives for the Renovation of Buildings in Republika Srpska, as well as the Rulebook on Regular Audits of Technical Systems for Heating, Ventilation and Air Conditioning of Buildings. Also, after the adoption of amendments to the Law on Spatial Planning and Construction, the existing Rulebooks governing the field of energy efficiency, which have already been adopted in accordance with the said Law, will be amended.	

	4.3.1. Energy and transport market reform 2) Restructuring of the Railways of Republika Srpska (Željeznice RS, ad Doboј)	Stage of reform implementation (1-5)
Activities planned for 2019	1. Financial restructuring, downsizing the number of employees by 200	5
	2. Ownership restructuring of the company through conversion of debt into shares, and buy out of the shares from minority shareholders	1
Description of implementation and explanation if partial or no implementation	1. The restructuring project foresees downsizing the number of employees by 1000, of which 500 in 2018, 200 in 2019, and another 300 by the end of 2021. On 31 July 2019, there were 2390 employees in the Railways of RS, which is by 708 employees less, while another 72 employees will be retired by the end of 2019. 2. The preparation of the Restructuring Plan is underway, which, once adopted by the Republika Srpska Government, will be the court document for the restructuring of the Railways of RS under the Bankruptcy Law. The plan also envisages the conversion of debt into shares, i.e. the buy out of the shares from minority shareholders. The Restructuring Plan was adopted on 18 December 2019 at the 51st session of the Government of Republika Srpska.	

	4.3.2. Sectoral development 4.3.2.1 Agriculture 3) Improving agriculture, forestry and water management	Stage of reform implementation (1-5)
Activities planned for 2019	<p>1. 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.</p>	2
	2. Setting up a land parcel identification system	0
	3. Implementing the animal identification process through development of the animal movement control system	0
	4. Improvement of foreign trade and protection of domestic agricultural production is an activity that will be carried out on a continuous basis	2
	5. Creating IPARD Operational structure	0
Description of implementation and explanation if partial or no implementation	<p>1. Dynamics of the implementation: Based on the completed project task, the deadline for the preparation of the IS has been foreseen. Public procurement for IS development worth KM 17.05 million was announced (initial estimate was KM 5.5 million) .</p> <p>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 rest of the necessary funds will be provided by the Ministry of Finance in the budgetary 2020 and 2021 from the special purpose funds for forests.</p> <p>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.</p> <p>2. There was no implementation. No funds from the domestic budget were planned for implementation of this activity at the level of Republika Srpska. Also, there is still no IPA project planned from which this activity could be funded, as is the usual practice in other countries in the pre-accession period, in a way to include all the relevant institutions in BiH. Given that there has been no progress for many years in initiating and implementing this activity, and given the amount of costs and the usual way of establishing a system of identifying land parcels, we propose that this specific measure be deleted from the Economic Reform Program until the conditions for its implementation are met.</p> <p>3. There was no implementation due to lack of financial resources. The measure will be implemented when financial resources are secured.</p> <p>4. Foreign trade and protection of domestic production are the responsibility of the joint institutions of BiH. This area is regulated by the Law on Foreign Trade Policy (Official Gazette of BiH, No. 7/98) and the Decisions on Measures to Protect Domestic Production from Excessive</p>	

	<p>Imports (Official Gazette of BiH, 30/02) and the Decision on Procedure the method of determining the anti-dumping and countervailing duties (Official Gazette of BiH, 77/05 and 16/10). In view of the above, the Ministry of Agriculture, within its line of competence, undertook activities and initiated the integration of primary agricultural production and the food industry, and the creation of more favorable financing models for the purchase of domestic agricultural products and for capital investments in agriculture, through the use of IDB credit lines, a, through certain financial intermediaries (commercial banks). Accordingly, the Ministry initiated the organization of a conference to improve the financing of the purchase of domestic agricultural products by food processing and trade capacities of Republika Srpska, attended by representatives of financial institutions, representatives of primary agricultural production and representatives of food processing and trade capacities in the Republika Srpska. The Ministry has initiated a change in the rules for placement of credit lines and loans of the Investment and Development Bank for providing working capital for the purchase of domestic agricultural products and the procurement of fixed assets (capital investments in agriculture), through the Microbusiness Credit Line and the Credit Line for Agriculture. In addition, the ministry, in order to increase the competitiveness of domestic agricultural producers increased financial support to startup, expansion and modernization of the business of family farms (capital investments), so the redistribution of funds increased financial support in relation to the previous year, as follows: for the purchase of agricultural machinery an increase of 21.23%, for investments in livestock production an increase of 76, 94%, for investments in plant production an increase of 68.22% etc. It is also important to emphasize that access to IPA funds has been made possible for farms and food processing facilities. We believe that these are all activities that indirectly influence the promotion of foreign trade and the protection of domestic production. Undertaking direct measures to protect domestic production and improve foreign trade, in line with competencies, remains to be implemented by institutions on the BiH level.</p> <p>5. Since, in the earlier period, consultations on the creation of the IPARD Operating Structure in BiH (IPARD Payments Agency and Managing Authority) were carried out with the participation of both Entity Ministries and the Department of Agriculture of the Brčko District, the BiH Ministry of Foreign Trade and Economic Relations was an institution that coordinated these activities. Following the termination of EU IPA projects in 2013, activity on the IPARD Operating Structure has not been restarted, although its long-term impact on competitiveness and employment would be positive. Considering that the Ministry of Agriculture, Forestry and Water Management of Republika Srpska is not able to implement the planned activity without the participation of other involved institutions in BiH, knowing the current situation in Bosnia and Herzegovina related to the creation of the IPARD Operating Structure and the length of the process of creating this structure which, according to the experience of other countries, has been going on for many years, it is not realistic to expect any recent positive developments in this direction, and it would be good to exclude specific activity from the Economic Reform Program for the coming programming period, until these positive developments happen.</p>
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	4.3.2. Sectoral development 4.3.2.3. Services	Stage of reform implementation (1-5)
	4) Introducing a model of gradual deregulation and liberalization of auto liability insurance prices.	
Activities planned for 2019	1. Drafting the Law on Amendments to the Law on Insurance Companies - smaller scope of amendments in order to harmonize the most important issues between the entities (MFRS);	5
	2. Preparatory activities for the new Law on Insurance Companies - drafting a comprehensive law (MFRS);	1

	3. Adoption of the Guidelines for the Development of an Automobile Liability Insurance Premium Tariff (RS Insurance Agency);	2
	4. Activities to improve the financial literacy of the population on the role and importance of auto liability insurance (RS Insurance Agency);	4
	5. Education of insurance companies for the application of the Guidelines for the development of an automobile liability insurance premium tariff (RS Insurance Agency);	3
	6. Development of actuarial function with emphasis on the role of actuaries in the formation of tariffs and auto liability insurance premiums (RS Insurance Agency and RS Association of Actuaries);	1
Description of implementation and explanation if partial or no implementation	1. The Law on Amendments to the Law on Insurance Companies (Official Gazette of the Republika Srpska, 58/19) was adopted by the RS National Assembly at its 5th regular session, held on 27 June 2019. The law provides for the gradual capital strengthening of insurance companies so that companies can respond to greater market risks and readily anticipate the forthcoming liberalization of auto liability insurance plans, which is planned for the next four years. Based on the analysis of capital in the companies, it is proposed to gradually increase the amount of the founding capital, i.e. the first increase in 2020 and the second after 2022, with the amounts substantially in line with the amounts prescribed in the Federation of BiH and the European Union.	
	2. The RS Ministry of Finance is currently in the process of analyzing the regulatory framework of the insurance market and determining directions for further improvement, and in 2020, together with the RS Insurance Agency and insurance market participants, will begin drafting a new, comprehensive text of the law on insurance companies in which it will also implement the provisions of EU regulation, respecting the degree of development of the RS insurance market.	
	3. A draft text of the Guidelines for Preparation of the Tariff for the Insurance of Premiums for Auto Liability Insurance has been prepared, which should be discussed in the next public debate, that is, it will be published on the website of the RS Insurance Agency, so that insurance companies can express their opinion and proposals, and its adoption is planned by the end of the year.	
	4. RS Insurance Agency has prepared a new, up-to-date Auto Liability Insurance Informant, which will be printed and distributed in September 2019. Previously, the Agency published a comprehensive informant on insurance services in order to raise public awareness of the role and importance of property insurance, and to advise consumers in insurance, while the new informant addressed in more detail the issues of auto liability insurance and news regarding the upcoming liberalization.	
	5. Prior to the adoption of the aforementioned Guidelines, the RS Insurance Agency initiated extraordinary controls of databases on insurance contracts and adverse events arising from auto liability insurance contracts that will be used in the preparation of tariffs for compulsory auto liability insurance premiums in the conditions of free determination of premium. The controls themselves are educational in nature, but once the controls are over, RS Insurance Agency also plans to maintain education of insurance companies on the importance of databases for developing their own premium rates. We would like to remind you that in order to gradually prepare insurance companies for their operations in full market liberalization, RS Insurance Agency adopted in 2018 a Decision on amendments to the Decision on	

	Common Premium Tariff and Price List for Motor Vehicles Liability Insurance in Republika Srpska, which reduced the single basis used to calculate the basic premium for all types of motor vehicles by 10%, thereby reducing the liability insurance premium for all types of motor vehicles.	
	6. After the adoption of the Guidelines for the preparation of the tariff for auto liability insurance premiums, an actuarial training is planned..	

	4.3.3 Business environment and reduction of the informal economy 5. Health system reform 5.1. Stocktaking and analysis of all liabilities in the health care sector, with particular attention to arrears	Stage of reform implementation (1-5)
Activities planned for 2019	1. Collecting data from all public health institutions and the Health Insurance Fund on the status of liabilities as on 31 August 2019	5
	2. Preparation of report on the state of arrears in the health sector	5
	3. Adoption of the report by the Government of Republika Srpska	5
Description of implementation and explanation if partial or no implementation	1. All activities regarding this measure completed	
	2. The Government of the Republika Srpska has accepted the Information and Report on the State of Liabilities of the Public Health Institutions and the Republika Srpska Health Insurance Fund as on 31 December 2018, Conclusion No. 04/1-012-2-1237/ 19 of 25 April 2019	

	4.3.3. Business environment and reduction of the informal economy 5. Health system reform 5.2. Defining a clear responsibility of all stakeholders in the health system	Stage of reform implementation (1-5)
Activities planned for 2019	1. Formation of a working group for drafting a document on responsibilities of health system actors	5
	2. Drafting a document proposal	4
	3. Adoption of the document by the Government of Republika Srpska	1
Description of implementation and explanation if partial or no implementation	1. Working group formed and completed its work	
	2. Final version of the document submitted to the Minister for approval	

	4.3.3. Business environment and reduction of the informal economy 5. Health system reform 5.3. Defining and implementing measures to stop the further growth of arrears in each healthcare institution	Stage of reform implementation (1-5)
Activities planned for 2019	1. Development of an Action Plan for the Sustainability of the Republika Srpska Health System	5
Description of implementation and explanation if partial or no implementation	1. At its 14th session held on 28 March 2019, the Government of the Republika Srpska adopted the Action Plan for the Sustainability of the Health Sector of the Republika Srpska, Conclusion No. 04 / 1-012-2-823 / 19 of 28 March 2019	
	2. The Action Plan contains 98 (ninety-eight) measures and is divided into 6 (six) priorities, which are planned to be implemented during the period 2019-2021.	
	3. The primary objective of the Action Plan, in addition to stopping the further growth of arrears in the health sector in the Republika Srpska, is to establish a financially sustainable health system that improves population health and improves working productivity by providing health care more effectively.	

	4.3.3. Business environment and reduction of the informal economy 5. Health system reform 5.4. Identify models for the settlement of arrears in the health system, which will create preconditions for the completion of the process of introducing health institutions and the Republika Srpska Health Insurance Fund into the treasury system of operations	Stage of reform implementation (1-5)
Activities planned for 2019	1. Identify models for the settlement of arrears in health system	0
	2. Prioritize healthcare institutions' arrears with respect to the type of liabilities, maturity and possible dynamics of settlement	0
	3. Prepare a debt settlement plan	0
	4. Start implementing new models to settle arrears	0
	5. Establish mechanisms to ensure the proper use of funds invested to settle certain types of liabilities	0
Description of implementation and explanation if partial or no implementation	1. By the Action Plan of the Government of the Republika Srpska for the Sustainability of the Health Sector of the Republika Srpska, this entire activity has been placed under the jurisdiction and responsibility of the Ministry of Finance. Activity no. 5 is a joint responsibility of the Ministry of Health and Social Welfare and the Ministry of Finance.	
	2. To date, the Ministry of Health and Social Welfare has not received feedback from the Ministry of Finance on the status of	

	implementation of these activities.
	3.

	4.3.3. Business environment and reduction of the informal economy 5. Health system reform 5.5. Introducing health institutions and the Republika Srpska Health Insurance Fund into the treasury system of operations	Stage of reform implementation (1-5)
Activities planned for 2019	1. Develop a plan for the successive introduction of PHIs into the treasury system of operations	5
	2. Initiate procedures for the education of selected public health institutions whose transition to the treasury system of operations is scheduled to start from 1 January 2020	3
	3.	
Description of implementation and explanation if partial or no implementation	1. A list of 19 (nineteen) PHIs that should be transferred to the treasury system of operations from 1 January 2020, has been established	
	2. A working group of the Government of Republika Srpska formed to implement the activities has established communication with all selected institutions and local communities, and planned for September 2019 to hold training in the HC Čelinac , which as a pilot institution has been included in the treasury system of operations since 1 January 2018.	
	3. The Ministry of Finance also has its representatives in the working group, which primarily provides technical support when it comes to certain specifics related to the SUFI and SOFI system.	

	4.3.3. Business environment and reduction of the informal economy 5. Health system reform 5.6. Perform standardization of Republika Srpska health care system network	Stage of reform implementation (1-5)
Activities planned for 2019	1. Preparation of the Draft Law on Health Protection	3
	2. Development of the Draft Plan of the Network of Healthcare Institutions	3
	3.	
Description of implementation and explanation if partial or no implementation	1. Drafted working version of the Plan of the network of health care institutions that did not cover all health care institutions defined in the Law on Health Protection, for example: Outpatient clinic for treatment, health care and rehabilitation, Home for health care, laboratories, specialist centers, etc.	

	2. The draft Law on Health Protection defines which health care institutions are covered by the Healthcare Institutions Network Plan.
	3. The network plan defines the type, number and distribution of health care institutions in Republika Srpska and defines criteria in the new Law on Health Protection.

	4.3.3. Business environment and reduction of the informal economy	Stage of reform implementation
	6. Register of incentives for the economy	4
Activities planned for 2019	1. Mapping of all available incentives and their sources	5
	2. Preparation and finalization of the software solution for the register and its testing (part in 2019, and a part in 2020)	3
	3. Drafting, harmonizing and adopting the legal framework for the development of the register of incentives	5
Description of implementation and explanation if partial or no implementation	<p>All available incentives in the economy have been mapped; A working group was created to draft the legal framework and the Decree on the Register of Incentives was adopted (the Law on Incentives also regulates the legal basis for its enactment) with all supporting forms as the basis for software development - the legal framework was finalized.</p> <p>Given that the software solution requires greater financial resources, an initiative was sent to the donors to fund it and a positive response was received from one of the foreign donors. Awaiting donor activity to allocate funding and select a software solution implementer.</p>	

	Name and number of reform measure	Stage of reform implementation
	Develop a register of employees in budget users and adopt an Operational Plan to reduce overall spending	(1-5)
Activities planned for 2019	1. Instructions on keeping the Register of Employees in Budget Users adopted	2
	2. Register of Employees in Budget Users established	1
Description of implementation and explanation if partial or no implementation	<p>1. Adoption of the Law on the Register of Employees in the Budget Users of the Republika Srpska in 2017 created the preconditions for the implementation of the envisaged reform measure. In accordance with the Economic Reform Program for the period 2019-2021, the financing of this measure has been planned from the World Bank funds and at the parallel adoption of the Law at the level of the Federation of BiH. In this regard, for the purpose of realization of the above activities, after the World Bank has provided the funds for their financing and after the adoption of the relevant law at the level of the Federation of BiH, preconditions will be created for the further course of implementation of the said measure.</p>	

	2. After the adoption of the Instructions on keeping the register of employees in budget users and providing material and technical preconditions, the activities related to the establishment of the Register of employees in budget users will start.
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	Name and number of reform measure 8. Reduce the share of expenditures for public spending by changing the organization of public administration and increasing its efficiency	Stage of reform implementation (1-5)
Activities planned for 2019	1. Law on Civil Servants adopted	2
	1. Eligibility criteria determined and competency tests prepared for each job in the recruitment of civil servants and non-civil service employees	1
	2. Analysis of each individual job in the administrative bodies of Republika Srpska carried out	1
	3. The Law on Salaries of Employees in the administrative bodies of Republika Srpska adopted	1
Description of implementation and explanation if partial or no implementation	1. Initial steps have been taken to implement this measure. The Ministry of Administration and Local Self-Government, 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, organized a two-day workshop, held on 14 and 15 May 2019, on the topic of reviewing the working material of the Law on Civil Servants. Adoption of the Law on Civil Servants is foreseen in the 4th quarter.	
	2. This activity will be implemented after the Law on Civil Servants is passed.	
	3. This activity will be implemented after the Law on Civil Servants is passed.	
	4. This activity will be implemented after the Law on Civil Servants is passed.	

	4.3.3. Business environment and reduction of the informal economy 8. Reduce the share of expenditures for public spending by changing the organization of public administration and increasing its efficiency	Stage of reform implementation (1-5)
Activities planned for 2019	2. Law on Civil Servants adopted	2
	4. Eligibility criteria determined and competency tests prepared for each job in the recruitment of civil servants and non-civil service employees	1

	5. Analysis of each individual job in the administrative bodies of Republika Srpska carried out	1
	6. The Law on Salaries of Employees in the administrative bodies of Republika Srpska adopted	3
Description of implementation and explanation if partial or no implementation	5. Initial steps have been taken to implement this measure. The Ministry of Administration and Local Self-Government, 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, organized a two-day workshop, held on 14 and 15 May 2019, on the topic of reviewing the working material of the Law on Civil Servants. Adoption of the Law on Civil Servants is foreseen in the 4th quarter.	
	6. This activity will be implemented after the Law on Civil Servants is passed.	
	7. This activity will be implemented after the Law on Civil Servants is passed.	
	8. This activity will be implemented after the Law on Civil Servants is passed.	

	4.3.3. Business environment and reduction of the informal economy 8. Reduce the share of expenditures for public spending by changing the organization of public administration and increasing its efficiency 8.5. Develop a register of employees in budget users and adopt an Operational Plan to reduce overall spending	Stage of reform implementation (1-5)
Activities planned for 2019	3. Instructions on keeping the Register of Employees in Budget Users adopted	2
	4. Register of Employees in Budget Users established	1
Description of implementation and explanation if partial or no implementation	3. Adoption of the Law on the Register of Employees in the Budget Users of the Republika Srpska in 2017 created the preconditions for the implementation of the envisaged reform measure. In accordance with the Economic Reform Program for the period 2019-2021, the financing of this measure has been planned from the World Bank funds and at the parallel adoption of the Law at the level of the Federation of BiH. In this regard, for the purpose of realization of the above activities, after the World Bank has provided the funds for their financing and after the adoption of the relevant law at the level of the Federation of BiH, preconditions will be created for the further course of implementation of the said measure.	
	4. After the adoption of the Instructions on keeping the register of employees in budget users and providing material and technical preconditions, the activities related to the establishment of the Register of employees in budget users will start.	

	4.3.3. Business environment and reduction of the informal economy Reform measure 9: Development of the legal and planning framework in the free movement of goods sector, in the area Business environment and reduction of the informal economy	Stage of reform implementation (1-5)
Activities planned for 2019	1. Update of the List of applicable regulations of the Republika Srpska defining technical and other requirements for products and services (ongoing)	5
	2. Adoption of the Lawl on Amendments to the Law on Technical Regulations of the Republika Srpska (Q4)	1
	3. Adoption of the "Strategy for Infrastructure Quality of the Products and Services of the Republika Srpska for the Period 2019-2023" and the accompanying "Action Plan for the Implementation of the Strategy and the Transposition of the EU Regulations in the Area of Free Movement of Goods into the Legal System of the RS" (Q4)	5
	4. Analysis of regulations in terms of impact or obstacles to free movement of goods as well as the adoption of the Action Plan for meeting the requirements of Art. 34, 35 and 36 of the Treaty on the Functioning of the European Union in Republika Srpska for the period 2020–2023“ (Q4)	3
Description of implementation and explanation if partial or no implementation	1. The Ministry of European Integration and International Cooperation regularly monitors and updates the database of the applicable legal framework of the Republic of Srpska in the area of Chapter 1. Free movement of goods (on a monthly basis), and updated <i>List of valid applicable regulations of the Republic of Srpska defining technical and other requirements for products and services and the regulations</i> are publicly available on the ministry's website (http://www.vladars.net/sr-SP-Cyrl/Vlada/Ministarstva/meoi/vazecipropisi/Pages/default.aspx). As of 31 July 2019, the Regulations database contains a total of 1,181 valid regulations and they are all publicly available on the website of the RS Bureau of Standardization and Metrology (http://rzsm.org/tehprop). Also, in order to facilitate the implementation of the applicable technical regulations in practice, the " <i>List of mandatory JUS standards that are no longer mandatory for application in Republika Srpska</i> " and " <i>List of mandatory JUS standards for which corresponding BAS standards have been adopted</i> ", is publicly available and updated on the Institute's website.	
	2. The Ministry of Economy and Entrepreneurship, in accordance with the Conclusion of the Government of Republika Srpska No. 04 / 1-012-2-49 / 17 of 12 January 2017, prepared the initial version of the Law on Amendments to the Law on Technical Regulations of the Republika Srpska and in a letter No. 18.03-020-2796719 of 8 August 2019 requested the competent institutions to appoint members of the working group for drafting amendments to this law. According to the Work Program of the National Assembly of Republika Srpska for 2019, the adoption of this law is planned for the 4th quarter of 2019.	
	3. Strategy for Infrastructure Quality of the Products and Services of the Republika Srpska for the Period 2019-2023 and the accompanying Action Plan was adopted at the seventh regular session of the NARS held on 31 October 2019. The Decision on the adoption of the Strategy for Infrastructure Quality of the Products and Services of the Republika Srpska for the Period 2019-2023 was published in the Official Gazette of Republika Srpska, 95/19.	
	4. The condition for implementation of this activity is implementation of the activity set by the Strategy for Infrastructure Quality of the	

	Products and Services of the Republika Srpska for the Period 2019-2023, adopted on 31 October 2019 (the strategy defines the framework and obligations for this activity). An analysis of over 1800 regulations in force in Republika Srpska is underway in terms of identifying possible provisions that could have an impact or impediment to the free movement of goods and in terms of the requirements of Articles 34-36 of the Treaty on the Functioning of the EU.
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	4.3.3. Business environment and reduction of the informal economy Reform measure 10: Improving the free provision of services sector in the area Business environment and reduction of the informal economy	Stage of reform implementation (1-5)
Activities planned for 2019	Establishing a List of legal regulations governing the area of services in Republika Srpska (Q3)	2
	2. Updating information contained in the electronic single point of contact in the section relating to the free provision of services (Q4)	1
	3. Analysis of legal regulations governing the services sector in the Republika Srpska and proposing measures to comply with the requirements of the Law on Services (ongoing),	0
Description of implementation and explanation if partial or no implementation	1. The list of legal regulations governing the area of services in the Republika Srpska is in progress. In order to continue this activity, it is necessary to draft a new/ amend the Decision on the appointment of members of the Coordinating Body for the Free Provision of Services in the Republika Srpska, because with the new Law on the RS Administration (Official Gazette of RS, 119/18), the governing body was reorganized, and thereby the members of this body too.	
	2. The Decree on the Registration, Analysis, Testing and Evaluation of Procedures and Formalities for Business in Republika Srpska (Official Gazette of the RS, 84/18) the Electronic Single Contact Point for Business in the RS is in place. (https://pscsrpska.vladars.net/sr), as an Internet portal covering procedures, administrative procedures and formalities for starting and conducting business activities, including the provision of services. The part of the portal related to services is not yet operational, and the condition for the above is the creation of the List of legal regulations governing the area of services in the Republika Srpska. In addition, according to the aforementioned Regulation, the Ministry of Economic Relations and Regional Cooperation maintained a database - Contact Point. Due to the reorganization of the administrative bodies, these jobs fall under the jurisdiction of the Ministry of Economy and Entrepreneurship, which administers the database. The improvement of the free service sector remained within the competence of the Ministry of European Integration and International Cooperation, and in the coming period it is necessary to find a solution for accessing and managing this part of the database.	
	3. The condition for the analysis of legal regulations governing the service sector in Republika Srpska is the activity under no. 1 - Establishment of the List of legal regulations governing the area of services in Republika Srpska	

	4.3.4. Research, development and innovation and the digital economy 12) 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 2019	1. Law on the Science and Innovation Fund of Republika Srpska	1
	2. 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	2
	3. Establishing an electronic service for connecting young scientific research staff, educational institutions and businesses	0
	4. Establish regional cooperation with the goal of internationalizing science and innovation through the scholarship policy for young scientific research staff	1
	5. Establishing an efficient system in the field of scientometrics and bibliometrics through the formation of a team of consultants in this field	2
Description of implementation and explanation if partial or no implementation	1. Established cooperation with the Science Fund of the Republic of Serbia, whose experience we will use in the preparation of the draft Law on the Science and Innovation Fund of the Republic of Srpska. The Draft Law on the Science and Innovation Fund of the Republika Srpska will be submitted to the procedure during 2020.	
	2. A pilot programme “Synergy” has been designed, which will be supported by a decision of the Government of Republika Srpska with the aim of co-financing five projects for which consortia composed of scientific research teams/ organizations and companies must apply. The aim of the pilot programme “Synergy” is to establish a model of active collaboration between scientists and businessmen to address the specific problems / challenges facing businessmen, so that scientists can prove that the economy can benefit tangibly from such cooperation. In addition, by publishing project results in international scientific publications, scientists will become more visible and recognized as credible partners. In the foreseeable future, the best performing science teams will be able to compete to gain the status of centers of scientific excellence.	
	4. The cooperation of the <i>Dr Milan Jelic Fund</i> with the <i>Dositeja</i> Fund from the Republic of Serbia has already been established. In addition, in cooperation with the Ministry of Education, Science and Technological Development of the Republic of Serbia, we have been organizing for 13 years the Competition for the best technological innovation in Republika Srpska.	
	5. Following the analysis the <i>Scientific Impact of Republika Srpska and its Place</i> , the role and importance of Scientometry in its improvement from 2015, the Ministry requested additional analysis for the previous period to determine the status of our scientists in the international context. From 2018 our team of experts regularly analyzes the scientometric/ bibliometric indicators of our researchers according to individual requirements.	

	4.3.4. Research, development and innovation and the digital economy 13. 1. Digital society development	Stage of reform implementation (1-5)
Activities planned for 2019	1. Establishment of CA – a certification body that will issue qualified electronic certificates	4
Description of implementation and explanation if partial or no implementation	<p>1. The technical implementation of the certification body itself was completed on 6 June 2019, making the certification body operational. Preparation of internal acts and procedures is underway, which must be adopted in order for the certification body to start issuing certificates formally and legally. The establishment of CA – a certification body that will issue qualified electronic certificates is in the final stage and finalization of activities is expected in the first quarter of 2020.</p> <p>The Agency for Intermediary, IT and Financial Services - APIF will perform the function of the registration body, that is, the task of receiving applications and delivering certificates.</p>	

	4.3.4. Research, development and innovation and the digital economy 13.2. "Digital society development –on-line registration"	Stage of reform implementation
		4
Activities planned for 2019	1. Make changes to existing legislation.	5
	2. Establishing a certification body to issue qualified electronic signatures.	4
	3. Procurement, production and enabling of software and registration prerequisites for online registration	3
Description of implementation and explanation if partial or no implementation	<p>Adopted Law on Amendments to the Law on Registration of Business Entities (Official Gazette of Republika Srpska, 84/19); Adopted Law on Amendments to the Law on Crafts and Entrepreneurship (Official Gazette of Republika Srpska, 84/19) Adopted); Adopted Law on Amendments to the Law on Companies Official Gazette of Republika Srpska, 82/19).</p> <p>At the beginning of 2019, the Government of the Republika Srpska established the National Center for Digital Identity Management as an organizational unit of the Ministry of Science, Technology, Higher Education and the Information Society. The technical implementation of the certification body was completed in July 2019, making this body technically operational. Preparation of internal acts and procedures is underway, which must be adopted in order for the certification body to start issuing certificates, both formally and legally.</p> <p>Funding for the procurement of the software and hardware solution has been secured from donations from the UK Government, and the World Bank is the implementer. A public call for the selection of the best contractor is underway.</p>	

	4.3.5. Trade-related reforms 14. Regulation of real estate brokerage area	Stage of reform implementation (1-5)
Activities planned for 2019	Development and adoption of the Law on Real Estate Brokerage	4

Description of implementation and explanation if partial or no implementation	<p>In the Republika Srpska's Economic Reform Program for the period 2019-2021, within the framework of trade related reforms, on behalf of the Ministry of Trade and Tourism, the activity "Regulation of real estate brokerage area" was identified, within which the drafting and adoption of the Law on Real Estate Brokerage is planned for 2019. The aim of the mentioned legislation is to strengthen the competitiveness of the business entities in the services sector, suppress the informal economy while creating conditions for the development of the real estate market in Republika Srpska, which is in line with the set goals in the field of internal market regulation, protection of fair competition and consumer protection.</p> <p>The draft law has been submitted for adoption to the NARS, and so far three expert discussions have been held on the topic of this law in cooperation with the World Bank and regional chambers of commerce in Banja Luka, Bijeljina and Trebinje (Banja Luka-6 August, Bijeljina- 7 August and Trebinje – 9 August 2019).</p>
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	4.3.6. Education and skills Improving links between education and the labour market (ref. measure 15)	Stage of reform implementation (1-5)
Activities planned for 2019	1. Better quality creation of enrolment policies in higher education institutions and innovating study programmes	1
Description of implementation and explanation if partial or no implementation	<p>1. Enrolment policy for the 2019/20 academic year has been created, based on cooperation with all relevant institutions in Republika Srpska, in accordance with strategic directions of higher education development, on the basis of official data on employers' expressed needs for employment of university graduates, 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 Republika Srpska.</p> <p>The Republika Srpska Government adopted on 17 July 2019 the Information on the situation in higher education, and adopted an appropriate Conclusion, which, among other things, insists on accelerated innovation of existing study programmes, improvement of quality control in higher education, opening of research activities for citizens, strengthening of cooperation between higher education institutions and industry, etc.</p> <p>Also, comprehensive activities are underway to develop new laws and by-laws in the field of higher education that aim at creating all the preconditions for accelerated development of the higher education system in Republika Srpska, and thus for the effective implementation of this measure.</p> <p>Considering that this measure foresees that it will be implemented through the innovation of study programmes so that they are oriented towards the practical and research part of the study, and through the cooperation of higher education institutions and the economy, which will increase the participation of vocational study programs to 7% for a period of up to five years, it was concluded that this was the first phase of its implementation..</p>	

	4.3.6. Education and skills 15. Improving links between education and the labour market	Stage of reform implementation (1-5)
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Activities planned for 2019	1. First quarter: Develop 20 occupational standards;	2
	2. Third quarter: develop flexible curricula with up to 20% of curricula created by teachers, pupils and schools in cooperation with the local community	4
	3. Fourth quarter: In cooperation with the competent institutions, develop an Action Plan on the development of revised modular curricula, in accordance with the needs of the labour market and start drafting it	1
Description of implementation and explanation if partial or no implementation	1. The Ministry of Education and Culture has appointed expert teams that have begun activities to revise curricula for all professions and occupations, as well as to develop occupational standards, with a deadline of 1 November. Decree on occupational standards adopted at the 52nd session of the Government of Republika Srpska, held on 26 December 2019. Bearing in mind that this activity implies a number of measures that need to be implemented in order to improve practical education, the Ministry, in cooperation with the Chamber of Commerce of Republika Srpska, the Union of Employers' Association of Republika Srpska and the Chamber of Crafts and Entrepreneurship of Republika Srpska, has signed cooperation agreements on the project of improving practical training with the employer, with a view of greater integration with the labour market, and to involve more students in the said project. In this regard, 14 businessmen have so far signed contracts on teaching with 10 schools. These agreements, for the first time in this way, provide for paid student practice, as well as employment opportunities for students in companies where they have performed practice.	
	2. This activity is being implemented in vocational secondary schools, with the possibility of changing curricula up to 30% in accordance with the needs of the labour market. Changes of up to 20% relate to general education, and given that reform processes are ongoing, guidance from expert teams will be followed.	
	3. After submission of the report of the expert team, the implementation of the mentioned activity will be started. At the request of the labour market, the Ministry of Education and Culture introduced a new occupation of the fourth degree of complexity from the school year 2019-2020, in the field of Economics Law and Commerce, business-IT technician, with the aim of applying modern information technologies in the field of economics.	

	4.3.8. Social protection 17. Improving the targeting of social benefits	Stage of reform implementation (1-5)
Activities planned for 2019	1. Mapping of all social benefits in Republika Srpska, which are granted at all levels of government	2
Description of implementation and explanation if partial or no implementation	1. A working group was formed from different ministries dealing with this topic, three meetings were held to agree on a plan of work and activities in the coming period, and for the purpose of mapping social benefits in Republika Srpska..	

	4.3.8. Social protection 17. 2. Improving the targeting of social benefits – better targeting of social protection	Stage of reform implementation (1-5)
Activities planned for 2019	1. Law on Amendments to the Law on Social Protection	5
	2. Law on Amendments to the Law on Child Welfare	4
	3. Strategy for the improvement of the social status of older persons in Republika Srpska for the period 2019-2027	5
Description of implementation and explanation if partial or no implementation	1. Law on Amendments to the Law on Social Protection adopted	
	2. Law on Amendments to the Law on Child Welfare adopted	
	3. Strategy for the improvement of the social status of older persons in Republika Srpska for the period 2019-2027 adopted.	

ANNEX 2

External contributions to the ERP BiH 2020-2022

There are no external contributions to the ERP BiH 2020-2022 because of the delay in the submission of the inputs for the structural reforms. Public consultations are planned after the submission of the ERP BiH 2020-2022.