



BOSNIA AND HERZEGOVINA

Economic Reform Programme  
2021-2023  
**(ERP BiH 2021-2023)**

**Sarajevo, January 2021**

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# **1. OVERALL POLICY FRAMEWORK AND OBJECTIVES**

Despite the extraordinary circumstances caused by the Covid-19 pandemic, Bosnia and Herzegovina maintained macroeconomic and fiscal stability in 2020. At the urgent sessions of the House of Representatives and the House of Peoples, held from 27 to 29 July 2020, although with a delay, the BiH Parliamentary Assembly adopted the Law on the Budget of BiH Institutions and International Obligations of BiH for 2020. In the period preceding the adoption of the budget, the stability of the financing of public services was ensured in such a way that the Council of Ministers, in its capacity, adopted Decisions on temporary financing in a timely manner.

At the same time, the fiscal stability of Bosnia and Herzegovina in the previous year was supported by the timely adoption of the budget of the Federation of BiH for 2020 (adopted in December 2019, in the amount of KM 4,954.4 billion), as well as the Budget of Republika Srpska for 2020 (adopted in December 2019, in the amount of KM 3,425 billion). However, in order to cope with the challenges of the negative consequences of the Covid-19 pandemic, in April 2020, the Federation of BiH adopted amendments to the FBiH budget for 2020, which was soon after endorsed by the FBiH Parliament. Also, for the same reasons, in May 2020, the Government and the National Assembly of Republika Srpska adopted the revised budget for 2020 in the amount of KM 3,613 billion, and in December 2020 the second budget revision in the amount of KM 3,636 billion.

The budget of the Brčko District for 2020 was adopted in March 2020, in the amount of about KM 256 million.

The draft budget of BiH institutions for 2021 was prepared on the basis of the Global Framework of Fiscal Balance and Policies in Bosnia and Herzegovina for the period 2021-2023. The document was adopted on 18 September 2020 and represents the financial framework for the institutions of Bosnia and Herzegovina, for the stated period in the total amount of KM 1,027.1 million. At its 22nd session, on 16 December 2020, the Council of Ministers of BiH adopted the Framework Budget Document of the Institutions of Bosnia and Herzegovina for the period 2021 - 2023 in the amount of KM 1,027.1 million as well as the Decision on Temporary Financing of BiH Institutions and International Obligations for the period January-March 2021.

The fiscal target of Bosnia and Herzegovina remains to be the realization of the primary surplus, i.e. the reduction of the primary deficit in 2021, with the control of public spending so that consolidated public spending at the level of Bosnia and Herzegovina would not exceed 40% of GDP. After several years, the Fiscal Council of BiH has made a decision to increase the Budget of BiH institutions by KM 30 million.

The adoption of the Global Framework of Fiscal Balance and Policies in BiH ensures the coherence of the underlying macroeconomic and fiscal assumptions used in drafting framework budget documents at all levels of government. Fiscal targets defined in this way are the basic precondition for 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 for the three quarters of 2020, Bosnia and Herzegovina achieved an economic decline of about 4.7% compared to the same period of the previous year. If we look at the structure of economic trends in 2020, it can be stated that the fall in GDP of almost 5% is due to the simultaneous decline in both aggregate supply and aggregate demand, which is the main feature of the negative economic impact of the global Covid-19 pandemic.

The budget of Republika Srpska for 2021 was prepared by the Government of the RS and adopted by the National Assembly of the RS on 17 December 2020, in the amount of KM 3,795 billion.

On 15 December 2020, the Government of the Federation of BiH determined and by urgent procedure sent to the Parliament of the Federation of BiH the proposal of the budget of the Federation of BiH for 2021, as well as the Law on its execution in the amount of KM 5,436 billion. The budget proposal was approved in the House

of Representatives of the FBiH Parliament on 29 December 2020, and in the House of Peoples of the Parliament of the Federation of BiH on 11 January 2021.

The Brčko District budget for 2021 has not yet been adopted at the time of writing this document.

In the first part of 2020, the Directorate for Economic Planning prepared the Information for all institutions involved in the development of the Economic Reform Programme. The information contained originals and translations of all documents arising from the process of drafting the Economic Reform Programme of BiH (Assessment of the European Commission, Joint Conclusions, Guidance for the Economic Reform Programmes). The content of the documents was introduced to all relevant institutions involved in the development of the Economic Reform Programme in order to use the suggestions and recommendations from these documents in the preparation of the new Economic Reform Programme 2021-2023. Furthermore, during the preparation of the Economic Reform Programme 2021-2023, the Directorate also had consultations with them in the form of online or live meetings.

In the previous period, within the coordinating role, several meetings and trainings were held with ERP coordinators. The meetings repeatedly emphasized the importance of complying with the EC Guidance when it comes to wording, description, costing, proposing new measures, meeting deadlines and the views of the EC were conveyed from the ERP Launch Event 2020 held on 15 September this year, where the new ERP Guidance Note was presented for 2021-2023 (European Commission Guidance for ERP 2021-2023).

The Directorate for Economic Planning sought to strengthen its coordination role in terms of expanding the scope of coordination in the development of the Economic Reform Programme.

Therefore, we have prepared the Information for the Council of Ministers of Bosnia and Herzegovina on documents and process – Economic Reform Programme of Bosnia and Herzegovina 2020 - 2022, which was adopted by the Council of Ministers on 28 May 2020 together with accompanying documents: 1. Joint conclusions of the economic and financial dialogue between the EU and the Western Balkans and Turkey 2. The European Commission Assessment of the Economic Reform Programme of Bosnia and Herzegovina 2019 - 2021 (ERP). By adopting this Information, the Council of Ministers instructed the ministries to take into account the recommendations from the aforementioned documents.

At its 16th session held on 10 September 2020, the Council of Ministers adopted the Activity Plan for the preparation of the Economic Reform Programme of Bosnia and Herzegovina (ERP BiH) 2021-2023. In the circumstances of various disruptions in the functioning of institutions caused by the consequences of the Covid-19 pandemic, the Activity Plan was implemented in the absence of public consultations that could not be carried out due to delays in certain materials and the fact that the final version of the Economic Reform Programme became available only a few days before the deadline for submission to the European Commission.

Final document Economic Reform Programme 2021-2023 was made on the basis of contributions submitted by the competent institutions according to the then adopted Activity Plan by deadlines and activity holders.

The Entity-level coordinators submitted to the Directorate for Economic Planning their contributions to the Economic Reform Programme 2021-2023, which were adopted by the entity governments.

The Economic Reform Programme of BiH 2021-2023 was adopted by the Council of Ministers of BiH at its \_\_\_\_\_ session held on \_\_\_\_\_ 2021.

## **2. IMPLEMENTATION OF THE POLICY GUIDANCE**

Revised budget plans have been adopted in both entities, increasing their total budget spending in 2020 and adding transfers to local governments. The limit on the amount of new borrowing in the cantons has been increased from 10% to 15% of regular budget revenues, and in most cantons the budget has been revised and/or increased, thus creating fiscal space for crisis response and recovery measures. The redistribution of budget funds was carried out quickly, which contributed to the fiscal response and created fiscal space for expenditures on wage subsidies that were introduced as the most important measure to preserve employment. Public investment expenditures have been reduced.

The FBiH Economic Stabilization Fund was established with a total capacity of KM 200-250 million. The amount of KM 150 million has been allocated for the construction of roads in addition to the existing plan in the amount of KM 800 million, and in any case the actual expenditure on public investment in 2020 is set to be reduced. The remaining funds of the Economic Stabilization Fund have been allocated to labour market interventions.

The Government of the Federation of BiH adopted the second set of measures by adopting the Decree on intervention measures to support vulnerable sectors of the economy of the Federation of BiH in the circumstances of the Covid-19 pandemic. The general objective of this Decree is to provide liquidity support to the most vulnerable sectors/activities, to preserve jobs, and to provide urgently needed support and maintain competitiveness in export-oriented sectors. The envisaged financial assistance through this Decree amounted to KM 90.0 million and was implemented within the FBiH Ministry of Environment and Tourism, the FBiH Ministry of Transport and Communications, the FBiH Ministry of Agriculture, Water Management and Forestry, and the FBiH Ministry of Energy, Mining and Industry. It is important to point out that the Guarantee Fund at the Development Bank of the Federation of BiH is fully functional and that the Budget for 2021 envisages its strengthening. In addition, in order to help the health sector, KM 10.0 million was allocated as financial support to health institutions founded by the Federation of BiH in the circumstances of the COVID-19 pandemic.

It is planned to implement austerity measures in the public sector by restricting the growth in the number of employees, the growth of wage expenditures and wage contributions. To mitigate the negative consequences for the economy, funds are planned for the Economic Stabilization Fund, which will be allocated to the most vulnerable business entities, but also for capital investments and key economic activities. The recovery of the economy will be realized by strengthening the credit potential through the guarantee fund, which, in addition to increasing banking activity, will affect the improvement of liquidity and investment activities of business entities.

Employment projects are also planned with the aim of compensating for lost jobs in the pandemic and restoring the trend of employment growth before the pandemic. This project will be implemented in partnership with the World Bank, which will finance it. The Government of the Federation of BiH will continue to remit funds to lower levels of government to help their budgets, but also to aid the economy, which the cantons will further direct primarily to help crafts, micro and small enterprises.

The Government of Republika Srpska established the Headquarters for monitoring the adverse impact of the coronavirus epidemic on the economy of Republika Srpska, which adopted a set of measures to mitigate the effects of the pandemic on business entities in Republika Srpska, and one of them was the urgent payment of tax refunds and contributions for increase in salaries in 2019. In accordance with the Law on Incentives in the Economy in Republika Srpska, in March 2020, KM 3.2 million were paid for 450 business entities for about 13 thousand workers.

The Government of Republika Srpska also passed a Decree on the allocation of funds to business entities and entrepreneurs in order to remedy the consequences of the coronavirus virus pandemic for April 2020, which

prescribes conditions for granting support to business entities that in April 2020 partially ceased operations or had reduced business volume.

According to the Decree, the Compensation Fund achieves its goal by providing direct support to: 1) entrepreneurs and business entities in Republika Srpska who have suffered or are suffering damage, 2) the Employment Institute of Republika Srpska by subsidizing unemployment contributions, 3) the health sector of Republika Srpska and 4) public sector in the Republika Srpska which performed work under particularly difficult working conditions. One of the intervention measures established by the Government of Republika Srpska with the aim of economic recovery by stabilizing the business of economic entities and preserving jobs is the establishment of the Guarantee Programme to support the economy to mitigate the consequences of the COVID 19 pandemic.

In May 2020, the Law on Amendments to the Law on the Guarantee Fund of Republika Srpska was adopted, which enabled the facilitation of access to finance for small and medium enterprises, as well as entrepreneurs, by issuing a guarantee to secure receivables on a loan approved by a financial organization.

In both entities, the obligation to pay advance income tax was abolished. There were no changes in the obligation to pay VAT at the state level, with extended deadlines for filing tax returns, as well as the deadline for paying income tax until June 30 in the RS, with the possibility of paying obligations in instalments until the end of 2020. FBiH has committed to continue to implement tax reform by introducing a cumulative social contribution rate of 32.5% and increase the non-taxable portion of income to KM 800.00 KM, which is expected to significantly reduce the tax burden that is higher in FBiH than in RS. This will be a positive contribution to fiscal harmonization in BiH. The RS government has committed to reducing parafiscal levies.

Banking regulators in both entities have banned the payment of bonuses and dividends in banks and adjusted prudential regulations to facilitate loan restructuring for all sectors without proposing a new law. The measures included at least one of the following, without fees or changes in interest rates: (1) a moratorium on loan repayments of up to six months without charging statutory default interest, (2) a grace period of up to six months, (3) an extension of the loan repayment period and (4) refinancing of liabilities.

Immediately at the beginning of the pandemic, price and/or margin restrictions were introduced for basic products (foodstuffs and medical equipment). This measure was later gradually abolished.

Certain levels of government have adopted recovery plans that are more comprehensive than mitigating the immediate impact of the COVID-19 pandemic. The FBiH Government has adopted the FBiH Economic Stabilization and Recovery Program for 2020-2021 with the following key objectives: preserving jobs, fiscal stability, export support, reforming state-owned enterprises, strengthening health and social protection, improving the business environment and increasing competitiveness. The Council of Ministers of BiH has formed an advisory group working on the development of the Economic Stabilization Program for the period 2020-2021.

FBiH subsidized the contribution for compulsory insurance (up to KM 244.85 per month) per every employee starting from the calculation of gross salary for April and for each subsequent month, including the calculation and payment of salaries for the month after the termination of the state accident to business entities that have a decrease in turnover of 20% or more compared to turnover in the same month 2019. RS has settled its obligations based on contributions to the full amount of the salary for March and contributions to the minimum wage from April 2020. Tax and insurance liabilities for employees of business entities most affected by the pandemic crisis have also been settled. An EUR 29 million Solidarity Fund/ Compensation Fund has been established in the RS to cover minimum wages and contributions for around 70,000 most affected workers in April and May 2020. After May, the measure was extended only for settling obligations based on taxes and contributions. In June, an additional KM 15 million was allocated from the Solidarity Fund/Compensation Fund of RS for local self-government units. In the FBiH, funds have been allocated to different levels of government too.

In the RS, the deadline for paying income tax has been extended until 30 June 2020. The RS Investment and Development Bank has approved a three-month moratorium on loan repayments and has introduced a credit line for small loans (through banks) to micro and small and medium enterprises, with EUR 25 million guarantee of the Guarantee fund financed by the EBRD. Partial risk coverage of up to 70% was introduced with an expected multiplier effect of up to EUR 122 million. RS has introduced EUR 1.1 million micro-business lending programme in agriculture and 20,000 tourist vouchers worth EUR 50 for domestic tourism.

The FBiH Government has established a Guarantee Fund with the FBiH Development Bank with a guarantee potential of EUR 255 million (with a multiplier effect of EUR 610 million), based on a EUR 50 million stand-by credit line provided by international financial institutions, exclusively to cover the fund's credit losses in order to facilitate lending. The FBiH has abolished the charging of default interest as long as the moratorium is in force.

In 2019, the risks from the domestic macroeconomic environment slightly weakened. External vulnerabilities arising from the country's balance sheet position have been mitigated. The reduction of the total external debt of BiH, as well as the positive developments recorded in the labour and real estate markets had a favourable effect on financial stability. However, weaker growth of real economic activity compared to the previous year, high unemployment rate, low competitive position of the country as well as low purchasing power of the population do not allow significant mitigation of risks from the domestic macroeconomic environment. In 2019, international rating agencies kept BiH's long-term credit rating unchanged, but in 2020, S&P, as part of an extraordinary assessment for most countries, reduced the credit rating outlook from positive to stable due to the negative economic consequences of the pandemic.

Favourable labour market conditions contributed to a slight increase in consumption and an increase in household debt, which is largely due to the growth of household borrowing from banks. The continuation of the downward trend in active lending interest rates had a favourable effect on the growth of demand for loans, and in 2019 banks also largely approved non-purpose and replacement loans with more favourable repayment terms. The quality of the loan portfolio in the retail segment continued to improve slightly, but the intensity of reclassification of loans into non-performing loans was stronger than in previous years. The growth of total household deposits was, as in previous years, largely determined by the growth of funds on transaction accounts and demand deposits, however, after several years of stagnation, there was a slight increase in household savings.

The total indebtedness of the corporate sector in 2019 increased slightly compared to the previous year. Interest rates on loans maintained a declining trend, which allowed companies to borrow on relatively favourable terms. As in previous years, the corporate sector relied mostly on bank credit support to finance its business activities. The decline in non-performing loans in the non-financial corporations sector continued, and a lower default rate was recorded, indicating a weakening of credit risk. Exposure to interest rate risk increased slightly, due to somewhat more intensive credit borrowing with a variable interest rate, while currency risk still does not represent a significant source of risk due to the monetary regime in BiH.

In 2019, the banking sector of BiH recorded the continuation of positive trends from the previous year and the weakening of risks to financial stability arising from the banking sector. All financial health indicators have improved and moderate lending activity has been recorded. The remaining maturity of total liabilities of the banking sector slightly improved compared to the previous year due to the growth of time deposits in 2019. Nevertheless, it can be assessed that the maturity structure of funding sources currently represents one of the key risks to financial stability. The results of top-down stress tests indicate that the banking sector is able to absorb strong macroeconomic shocks.

In 2019, the Central Bank of BiH fulfilled its legal obligation to maintain appropriate payment systems. Payment transactions were uninterrupted through real-time gyro-clearing and gross settlement (RTGS) systems. Activities on the modernization of payment systems in Bosnia and Herzegovina continued, with the aim of adapting them to European standards and integrating them into European trends. The Central Credit



Register of Business Entities and Natural Persons (SRK) was upgraded, as well as the gyro clearing system, thus achieving one of the preconditions for the integration of the CBBH payment systems into payment systems in the EU. The realization of transactions through international clearing of foreign payments also proceeded smoothly.

In 2019 and the first half of 2020, domestic institutions continued to adopt new bylaws, which substantially completed the key set of regulations within the entity banking laws. It is important to point out that with the adoption of the new Law on Deposit Insurance in Banks of BiH, on 17 June 2020, the legal framework for banks' operations was finally completed. It is important to point out that in 2020 the Central Bank of Bosnia and Herzegovina published projections of key macroeconomic aggregates for the period 2020-2022.

One of the structural reform measures implemented in Republika Srpska is to improve the targeting of social benefits, which aims to base-needs rather than status-needs or social benefits based on affiliation of a particular category of society (part 5 of the programme).

By amending the Law on Public-Private Partnership, the procedure for the implementation of public-private partnership projects has been simplified. Accordingly, the concept of public-private partnership is expected to contribute to increasing investment, meeting growing public needs, as well as to better management of public investments and their efficient implementation.

After a comprehensive reform of business registration in Republika Srpska in 2013, through the introduction of a one-stop shop registration system and a single information system, and with a significant reduction in costs, procedures and time for registration, the Government of Republika Srpska launched an online registration project in May 2016 whose development is planned in 4 phases. The first three phases of the project have been fully completed and the last phase is underway. The finalization of the project of e-registration of business entities is scheduled for mid-May 2021.

In January 2019, the Government of Republika Srpska appointed a Working Group to continue and complete the initiated activities on the development of the Public Finance Management Strategy of Republika Srpska for the period 2020-2025. In June 2020, the IMF's Fiscal Affairs Department (FAD) approved technical assistance to Republika Srpska Ministry of Finance regarding the advice on updating and finalizing the Republika Srpska Public Finance Management Strategy. These activities resulted in the development of a comprehensive reform document, which will serve as the main guideline for the period from 2021 to 2025 to strengthen the legal and institutional framework and public finance management system of Republika Srpska in accordance with EU requirements and international standards. The adoption of the Strategy will clearly define the directions of reforms in the field of public finances and complete the system of improving the fiscal responsibility and long-term fiscal stability of Republika Srpska. The Public Finance Management Strategy of Republika Srpska includes six areas of action, i.e. pillars: 1) Fiscal framework, 2) Public revenues, 3) Planning and budgeting, 4) Budget execution, 5) Internal control and 6) External audit.

The goal of the Public Finance Management Reform Strategy in the institutions of the Federation of BiH is to improve the management of budget funds by introducing fiscal rules, introducing measures to increase efficiency, transparency and control over public spending. In order to achieve long-term stability, the Federation of BiH adopted the Debt Management Strategy, which is a summary of the main principles and guidelines for debt management policies of the Federation of BiH.

With the Law on Amendments to the Law on Mediation in Employment and Rights during Unemployment, as of 31 December 2019, public employment services are completely exempted from administrative obligations related to health insurance for registered unemployed persons. In this way, the Employment Institute of Republika Srpska is enabled to perform activities under its registered jurisdiction and direct its capacity to activities and work with unemployed active job seekers, i.e. the mediating role of the Employment Institute of Republika Srpska. Also, in this way, better planning, determination of target groups and implementation of active measures on the labour market are enabled.

In December 2020, the National Assembly of Republika Srpska adopted the Law on Factoring. The aim of enacting this law is to regulate factoring as a non-banking financial service, in order to increase financial inclusion, i.e. to ensure greater availability of financial resources to small and medium-sized enterprises through the purchase of overdue short-term receivables. In this way, among other things, it contributes to increasing the liquidity and solvency of business entities and increasing their competitiveness.

### 3. MACROECONOMIC FRAMEWORK

Macroeconomic indicators 2018-2023\*

Indicator	Official data		Projections			
	2018	2019	2020	2021	2022	2023
Nominal GDP in Million KM	34,264	35,753	34,644	35,888	37,569	39,291
Nominal growth in %	5.1	4.3	-3.1	3.6	4.7	4.6
GDP deflator (previous year = 100)	101.9	101.9	99.9	101.1	101.5	101.2
Real GDP in million KM (previous year = 100)	33,633	35,100	34,696	35,508	37,009	38,836
Real growth in %	3.2	2.4	-3.0	2.5	3.1	3.4
Inflation measured by Consumer Price Index in %	1.4	0.6	-0.8	1.2	1.3	1.4
Consumption in million KM	32,049	33,477	32,889	33,784	34,984	36,258
Real growth in %	2.1	2.3	-1.7	1.5	1.8	1.9
Government consumption in million KM	6,612	6,862	7,061	7,096	7,324	7,543
Real growth in %	1.0	0.9	2.5	-0.2	0.7	0.5
Private consumption in million KM	25,437	26,615	25,827	26,688	27,661	28,715
Real growth in %	2.3	2.7	-2.8	1.9	2.1	2.2
Investment (Gross) fixed capital formation in million KM	6,550	6,863	6,088	6,508	7,146	7,799
Real growth in %	8.1	3.8	-9.5	5.7	8.7	7.7
Government investments in million KM	884	929	836	916	1,033	1,149
Real growth in %	18.8	4.1	-8.3	7.9	10.8	9.0
Private investments in million KM	5,666	5,934	5,251	5,593	6,113	6,651
Real growth in %	6.6	3.7	-9.7	5.3	8.3	7.5
Imports in million KM	19,097	19,448	17,663	18,681	19,976	21,597
Nominal growth in %	6.7	1.8	-9.2	5.8	6.9	8.1
Real growth in %	3.7	1.4	-7.4	4.0	4.5	5.1
Exports in million KM	14,087	14,111	12,561	13,468	14,611	15,978
Nominal growth in %	10.0	0.2	-11.0	7.2	8.5	9.4
Real growth in %	6.1	0.1	-9.2	5.5	5.9	7.1
National Gross savings in % of GDP	17.5	17.8	15.3	15.8	16.4	17.0
Current account balance in million KM	-1,236	-1,254	-1,543	-1,653	-1,779	-1,986
Growth in %	-9.1	1.4	23.1	7.1	7.6	11.7
Current account balance in % of GDP	-3.6	-3.5	-4.5	-4.6	-4.7	-5.1

\*In accordance with the previous agreement between the representatives of Bosnia and Herzegovina and the European Commission, during the preparation of this Programme, the baseline scenario used for the development of the BiH FBD in September 2020 was retained. This approach was used to ensure consistency and compatibility of the macroeconomic and fiscal framework. On the other hand, an alternative scenario for the needs of the ERP was done in November 2020 on the basis of available data.

### 3.1. Recent economic developments in 2020

#### *Real sector*

The downward trend in economic activity both worldwide and in Bosnia and Herzegovina was visible even before the outbreak of the global Covid-19 pandemic. Namely, according to the official data of the Agency for Statistics of Bosnia and Herzegovina (hereinafter BHAS) for 2019, real GDP growth registered in Bosnia and Herzegovina stood at 2.4%, which is a slightly lower rate of economic growth compared to the previous few years when the average rate of economic growth was about 3.5% on an annual basis.<sup>1</sup> If we look more closely at the structure of GDP growth over the previous year, it can be seen that it was achieved thanks to the strengthening of domestic demand (in the ratio: consumption 2/3 and investment 1/3), while the external sector had a negative contribution to economic growth in Bosnia and Herzegovina due to stagnation of exports and growth of imports. The slowdown in economic growth in Bosnia and Herzegovina in 2019 was largely a consequence of the slowdown in economic activity in the international economic environment, i.e. the weakening of economic growth, primarily in some EU countries such as Germany and Italy.

The beginning of 2020 was marked by further complication of international economic conditions and the outbreak of the Covid-2019 pandemic, which would have very negative implications on economic developments in the world, the region and ultimately in Bosnia and Herzegovina too. The intensity and duration of the new circumstances will essentially determine the movement of economic growth both in the short and medium term. Prior to the analysis of economic developments in Bosnia and Herzegovina, it is worth noting that all international reference institutions (International Monetary Fund - IMF, World Bank, European Commission - EC) have revised their economic growth projections several times this year, which was an additional handicap in preparation of this report. Thus, in the most current reference document "*World Economic Outlook, June 2020, A Crisis Like No Other, An Uncertain Recovery*", the IMF predicts a drastic decline of the world economy by almost 5% in 2020, depending on the duration and intensity of the Covid-19 pandemic. According to these projections, the expected decline in GDP in developed countries is forecast at 8%, while in developing countries GDP is expected to decrease by 3%.<sup>2</sup> On the other hand, the EC in its July 2020 summer edition "*European Economic Forecast Summer 2020*" forecast GDP in EU countries to contract by 8.3%, with expected GDP contraction by countries as follows: Germany 6.3%, Italy 11.2%, Austria 7.1%, Croatia 10.8% and Slovenia 7.0%.<sup>3</sup> If we bear in mind that in the past economic developments in the EU and these countries were the main structural determinant of economic developments in Bosnia and Herzegovina (output, consumption and foreign trade), it can be stated that the consequences of these events on overall economic developments in the country will be very unfavourable. It is also worth noting that this global economic crisis is by its nature quite different from the global financial crisis of 2009 as it is characterized by a simultaneous aggregate supply-side shock and aggregate demand-side shock, hence the projected rates of economic growth by country are much more negative compared to 2009.

Currently available economic indicators suggest that these developments in the international economic environment had a very negative impact on Bosnia and Herzegovina in the first half of 2020. Although Bosnia and Herzegovina, according to BHAS data, recorded economic growth of 2%<sup>4</sup> in Q1 2020, the escalation of the global Covid-19 pandemic and the introduction of a complete lockdown in April led to an almost complete standstill in economic activity in the country. Although official data on economic growth developments in Bosnia and Herzegovina in Q2 2020 were not available at the time of preparation of this report, it can be said with certainty that during this period there was a significant slowdown in economic activity, i.e., GDP decline. Currently available short-term indicators for the first half of 2020 almost explicitly confirm this statement. During this period, Bosnia and Herzegovina recorded a contraction in the physical volume of industrial production of almost 9.1%, while the export-oriented manufacturing fell by 13%. This decline in production combined with the effect of extremely weakened export demand due to

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<sup>1</sup>BHAS, Release, Gross Domestic Product for Bosnia and Herzegovina, expenditure approach, preliminary results", 20/07/2020

<sup>2</sup>IMF, World Economic Outlook, June 2020, A Crisis Like No Other, An Uncertain Recovery, June 2020.

<sup>3</sup>DG ECFIN, Institutional Paper 132, European Economic Forecast Summer 2020 (interim), July 2020

<sup>4</sup>BHAS, Release, Gross Domestic Product for Bosnia and Herzegovina, expenditure approach, quarterly data", 02/04/2020

total lockdown (Covid 19) led to a drop in total foreign trade by about 1/5, with rates of decline in exports and imports of goods being 15.1% and 18%, respectively. These negative developments within the aggregate supply of Bosnia and Herzegovina had a very negative impact on aggregate demand in the period January-June 2020. The fall in the number of employed, the reduced inflow of remittances from abroad, as well as the decline in retail turnover by 7.3%, and imports of consumer goods (durable and non-durable) of about 15% undoubtedly point to a drastic decline in private consumption in Bosnia and Herzegovina in Q2 2020. On the other hand, data from the domain of public finances for the period January-June 2020 also indicate that there has been a drastic fall in the collection of public revenues in Bosnia and Herzegovina. Namely, total public revenues in Bosnia and Herzegovina in the first half of the year decreased by about 8%, where indirect taxes were reduced by 9.7% and direct taxes by 6%. On the other hand, if tax revenues are observed only for the period Q2, we can see double-digit contraction rates. Thus, in Q2 2020, Bosnia and Herzegovina recorded a decline in revenues from indirect taxes of 20.1%, direct taxes of 12.1% while contributions decreased by 7.4%. In the context of the analysis of the developments in private consumption in Bosnia and Herzegovina, the data on the reduction of VAT revenues, which fell by about 17.8% in Q2 2020, is very indicative, which undoubtedly points to their decline in the structure of GDP. On the other hand, the new circumstances due to the Covid-19 pandemic required stronger involvement of institutions in Bosnia and Herzegovina through increased public health expenditures, remediation of economic effects of the crisis and support to the economy, which will undoubtedly lead to increased public consumption.<sup>5</sup> However, this increase is far from enough to compensate for losses incurred in private consumption, so it can be concluded that in Bosnia and Herzegovina there was a decline in final consumption (the share of final consumption in GDP is around 90%), which essentially implies a contraction of GDP in H1 2020. On the other hand, although the level of investments represented in Bosnia and Herzegovina is slightly lower, it is very likely that they will turn downwards due to the present uncertainty in the market, limited sources of financing and pessimistic expectations when it comes to prospects in both domestic and export markets. This statement is confirmed by specific statistical data for Q1 2020 such as fall in Gross capital formation by 2.7%, contraction of foreign direct investment by 3.5%, and reduction of executed construction works by around 2% as well as drastic weakening of lending activity, particularly to non-financial corporations by – 1.2% relative to H1 of the previous year.

Having in mind all the above circumstances and some short-term indicators of economic developments in the country and abroad, DEP BiH has drastically revised its projection of total exports in 2020 to -9.2% compared to the previous year, which is conditioned by the stabilization of economic conditions in our major trading partners in the second half of the current year.<sup>6</sup> This period, in addition to the projected contraction in exports of goods, is expected to see a somewhat more pronounced decline in exports of services (tourism and catering sector, etc.) due to the complex epidemiological situation. On the other hand, the expected weakening of domestic demand through a decline in consumption and investment prompted a revision of the import projection in 2020 to -7.4%. This foreign trade downturn should narrow the foreign trade deficit by 2.7% so the end of the year is expected to see a slightly positive contribution of the trade balance to economic growth at 0.4 pp. If we bear in mind that the imbalance characterises foreign trade in Bosnia and Herzegovina, in 2020, viewed as a share of GDP, the share of exports would amount to 36.3%, imports 51%, while the foreign trade balance would be about 14.7%.

On the other hand, if we take into account the structural composition and economic growth developments in Bosnia and Herzegovina, it is worth noting that in the past years, domestic demand or more precisely private consumption was a key determinant of economic developments. However, in line with the expected contraction of total economic activity in the country due to the outbreak of the Covid-19 pandemic in 2020, private consumption is expected to drop by 2.8% in real terms compared to the previous year. The main determinant of this reduction in private consumption is already a certain decline in the number of employees, wage cuts and remittances of citizens from abroad, which will significantly weaken the disposable income of citizens. The fall in remittances of BiH citizens from abroad is very likely to have implications on the country's external sustainability, which could be manifested by an increase in the current account deficit within GDP to 4.5%, which is an increase of over 1 percentage point compared to the

<sup>5</sup>On the other hand, it is worth noting that the decline in public revenues with the expected increase in public expenditures due to Covid 19 is very likely to result in a budget deficit, and weaken the fiscal position of Bosnia and Herzegovina in 2020.

<sup>6</sup>DEP Projections, September 2020

previous year. On the other hand, during the pandemic, institutions are expected to stronger enagage in the fight for the protection of public health, as well as to repair the economic consequences of Covid-19. Accordingly, during 2020, public consumption is expected to see much stronger growth compared to the multi-year average and amount to 2.5% compared to the previous year, so this category would have a positive contribution to economic growth. However, this increase in public consumption is not even close enough to compensate for losses within private consumption, so the expected decline in final consumption at the end of 2020 is set to 1.7% compared to the previous year. The share of investments in the structure of GDP is about 18.5%, with private investments amounting to over 4/5 and the rest relates to public investments in Bosnia and Herzegovina. Uncertainty and turbulence in both the international and domestic markets could have a rather negative impact on investment trends in 2020. This primarily relates to private investments, which expect a fall of almost 10% compared to the previous year. On the other hand, the increase in public consumption through public health and economic support allocations is very likely to be reflected in public investment, which is expected to drop by about 8.3%. Given such international circumstances and the current state of the economy of Bosnia and Herzegovina, assuming the stabilization of circumstances related to Covid-19 at the end of 2020 Bosnia and Herzegovina can be expected to see a real decline in GDP by 3% compared to the previous year.

### *Industrial production*

BHAS statistics for 2019 indicate that Bosnia and Herzegovina, after many years, recorded an extremely unfavourable result when it comes to the movement of the physical volume of industrial production. Namely, according to the preliminary data of BHAS for 2019, Bosnia and Herzegovina recorded a 5.5% decrease in the physical volume of industrial production compared to the previous year.<sup>7</sup> This decrease in the physical volume of industrial production represents the most significant decline in production since the time of the global economic crisis. The key reasons for such trends in industrial production in Bosnia and Herzegovina are the slowdown in economic activity in major trading partners as well as the challenges faced by domestic companies in some industries. Namely, according to EUROSTAT data, in 2019 there was a decrease in the physical volume of industrial production in the EU28 countries by 0.8%, which had a very negative impact on the manufacturing sector in Bosnia and Herzegovina. The overview of developments in industrial production by sectors does not differ significantly from the developments in total industrial production in Bosnia and Herzegovina, since the decline in production was recorded within all sectors. The manufacturing industry in Bosnia and Herzegovina, which accounts for over 2/3 of total industrial production and is largely export-oriented, has been particularly affected.

Developments in industrial production in Bosnia and Herzegovina in 2020 are currently very difficult to predict, given that it also showed visible weaknesses during the previous year, which were manifested by a decline in the physical volume of production. In addition, the uncertainty caused by the new circumstances - the outbreak of the Covid-19 epidemic further complicates the preparation of projections of the physical volume of industrial production in Bosnia and Herzegovina. The technological structure of the production base, as well as its high dependence on developments in the markets of major trading partners in the previous period showed all the vulnerabilities of industry and especially the manufacturing industry in Bosnia and Herzegovina. Therefore, economic developments within the main trading partners in 2020 will largely determine the movement of physical volume of production, number of employees and the level of investment within the industrial sector in Bosnia and Herzegovina. Currently available statistics on the movement of the physical volume of industrial production in H1 2020 point to an intensification of the negative trend from the previous year due to the spread of the global Covid-19 pandemic. Namely, according to the preliminary data of BHAS for H1 2020, Bosnia and Herzegovina recorded a decline in the physical volume of industrial production by 9.1% compared to the same period last year.<sup>8</sup> If the movement of the physical volume of industrial production is observed by sectors, it is evident that the decline in production is a consequence of a double-digit decrease in production within the manufacturing industry by 13% compared to the same period last year. This decline in production is quite understandable given the

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<sup>7</sup>Agency for Statistics of Bosnia and Herzegovina, Release, Index of Industrial Production Volume in Bosnia and Herzegovina for December 2019 – preliminary data, 28/01/2020.

<sup>8</sup>Agency for Statistics of Bosnia and Herzegovina, Release, Index of Industrial Production Volume in Bosnia and Herzegovina for June 2019, preliminary data, 20/07/2020.

structure of the manufacturing industry in Bosnia and Herzegovina, which is quite export-oriented and has been directly affected by the spread of the Covid-19 pandemic. Thus, the most significant contractions in production were registered within export-oriented industries that registered double-digit rates of production decline. In addition to the contraction of production in the manufacturing industry during H1 2020, the decline in production was also recorded within the electricity generation sector, which amounted to about 4% compared to the same period last year, while the mining sector recorded a growth by 3.9%. In view of the above-mentioned international developments and structural composition of industrial production in Bosnia and Herzegovina, the end of 2020 can be expected to see a decline in the physical volume of industrial production.

### *Labour market*

Based on the available data on the number of employed persons in Bosnia and Herzegovina, it is evident that the COVID-19 pandemic had an impact on the labour market. The number of employed persons in Bosnia and Herzegovina in the period January - June 2020 amounted to about 812.1<sup>9</sup> thousand and is lower by 0.8% compared to the same period in 2019. On the other hand, the average number of registered unemployed persons in the period January - June 2020 / January - June 2019 decreased by about 1.7% and amounted to 411.6 thousand, which is a consequence of the decrease in the number of unemployed in Q1 2020. However, in Q2 2020, the average number of unemployed persons in Bosnia and Herzegovina begins to increase (3% y-o-y). The survey unemployment rate was not published for 2020 during the ERP development period. Due to the decrease in the number of visits and overnight stays in the field of tourism, the number of persons employed in the activity of providing accommodation and food preparation and serving decreased by 7.6% y-o-y. In addition, with a contraction of the volume of production in the manufacturing industry, a decrease in the number of employed persons was registered (-1.7%), which is important given that this activity and trade employ the largest number of persons in Bosnia and Herzegovina (about 39%). In the activity of wholesale and retail trade, repair of motor vehicles and motorcycles, the number of employees lowered by 1.2% y-o-y, which was possibly influenced by the decrease in the turnover of distributive trade in Bosnia and Herzegovina. All these changes could have a negative impact on the average number of employed persons in Bosnia and Herzegovina, which in 2020 could be lower by about 1.5% y-o-y with an increase in the unemployment rate. The average net salary in Bosnia and Herzegovina in the period January - June 2020 amounted to 945 KM and is nominally higher by 3.8%<sup>10</sup> compared to January - June 2019 with faster real growth due to deflation (4.4%).

### *Prices*

In the period January – July 2020/January-July 2019, Bosnia and Herzegovina registered a 0.7% deflation. The most significant drop in prices was in the section of transport followed by the sections of clothing and footwear, furniture, household appliances and routine house maintenance, and contributed to the reduction of the overall price level in Bosnia and Herzegovina. In the transport section, prices decreased by 7.2% y-o-y in the observed period. The decrease in world crude oil prices has significantly affected the lower prices in this section. On the other hand, prices in the section of housing, water, electricity, gas and other energy products remained unchanged, while prices in the section of food and non-alcoholic beverages prices increased by 1.1% y-o-y. The fastest growth of prices in the observed period was in the section of alcoholic beverages and tobacco (5.2% y-o-y) due to the continued harmonization of the excise policy on cigarettes and tobacco in Bosnia and Herzegovina with the excise policy in the EU. Price developments by the end of the year are subject to great uncertainty arising from the COVID-19 epidemic. In the EC projections (summer projections), significantly lower crude oil prices are expected in 2020 compared to 2019 (-34.8% y-o-y)<sup>11</sup> and overall inflation in the EU could be significantly lower and amount to about 0.6% (compared to 1.4% in 2019). According to ECB projections (September 2020), global crude oil prices in 2020 could

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<sup>9</sup>Source: BHAS, provisional data.

<sup>10</sup>The projected nominal growth rate of the average net salary in Bosnia and Herzegovina for 2020 is about 3.5%. During the pandemic, a significant number of people in Bosnia and Herzegovina lost their jobs (especially in industries with lower average wages). With their outflow, the basis for calculating the average net salary has changed, which may be one of the reasons why the net salary in 2020 compared to last year recorded the aforementioned nominal growth..

<sup>11</sup>According to these projections, the price of crude oil in 2020 would be \$ 41.8 / barrel, compared to 2019 when it was \$ 64.1 / barrel.

also be lower by around 33% y-o-y. Taking into account all of these developments in the world as well as domestic factors, in Bosnia and Herzegovina in 2020 we can expect deflation to stand at 0.8%<sup>12</sup>.

### *Bank loans and deposits*

According to the latest available data for July 2020 by the Central Bank of Bosnia and Herzegovina (hereinafter CBBH), the total loan amount with a growth rate of 0.9% y-o-y reached KM 20.43 billion, which points to a slowdown in growth of lending activity by 5.7 pp. relative to the end of previous year. The slowdown in the growth rate of loans in July compared to the end of 2019 was recorded in the sectors of households (lower by 6.49 pp.) and non-financial corporations (lower by 6.53 pp.), while growth rate of loans to the government sector recorded an increase (higher by 6.4 pp.).

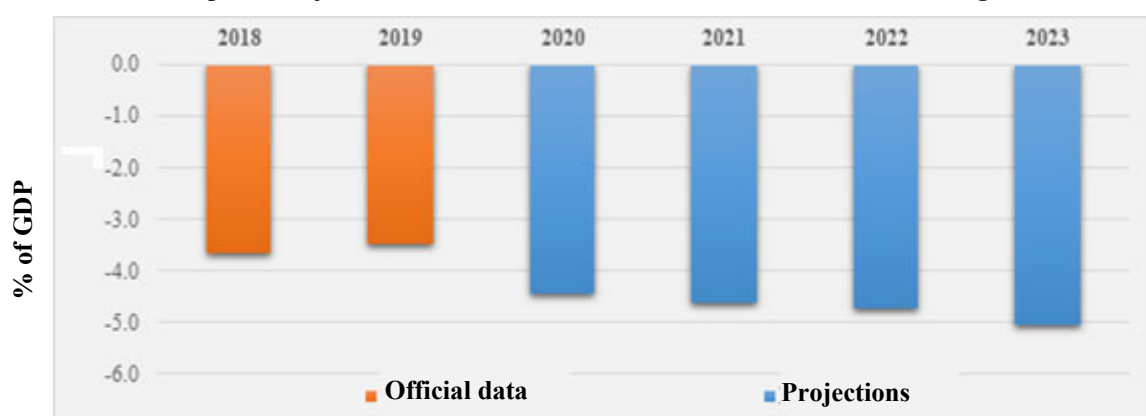
According to the latest available data, at the end of July 2020, there was also a slowdown in the growth of deposits, which with a growth rate of 4.8% y-o-y (down 4.74 pp. compared to the end of 2019) reached KM 23.92 billion. It is interesting that compared to the end of 2019, there was a slowdown in the growth rate of deposits in all sectors except in the sector of non-financial corporations, which achieved a minimal growth rate of 0.65 percentage points. In the same period, the household sector recorded a lower growth rate by 5.37 pp., while the general government deposit sector recorded a lower rate by 11.25 percentage points. It is estimated that total loans could grow at a rate of 0.9% y-o-y by the end of 2020, while the growth of the total amount of deposits in 2020 would slow down at a rate of 4.8% y-o-y.

### *External sector*

#### *Balance of payments*

Data from the balance of payments of Bosnia and Herzegovina indicate that in 2019, more unfavorable trends in foreign trade and the country's balance of payments were recorded, which was largely caused by the slowdown in economic activities of our main foreign trade partners. According to the official data for 2019<sup>13</sup> the current account deficit within the balance of payments of Bosnia and Herzegovina amounted to KM 1.2 billion (i.e., 3.5 of GDP). The increase in nominal imports of goods and services in the observed period amounted to 1.8%, while the growth of nominal exports of goods and services amounted to 0.2%. Current net inflows of money from abroad increased by 6.6% in 2019, largely due to the growth of remittances from abroad of 9.3%. According to currently available data for the first two quarters of 2020, the current account deficit amounted to KM 616 million, which is a decrease by 14% compared to the same period last year (at the time of preparation of the baseline scenario, CBBH data for the third and fourth quarters of 2020 were not available).

**Graph 1: Projections of the current account deficit of Bosnia and Herzegovina**



Source: CBBiH and DEP projections

#### *Foreign trade in goods*

Unlike in 2018, when Bosnia and Herzegovina, thanks to favourable business conditions in its main trading partners, achieved a very good foreign trade result, this was not the case in 2019. Namely, according to the current BHAS data for 2019, there has been a significant weakening of foreign trade with the world in

<sup>12</sup>In the extreme case, the level of deflation could be higher depending on the extent to which lower oil prices on the global energy market will affect the overall CPI index in Bosnia and Herzegovina.

<sup>13</sup> Source of data: CBBiH



Bosnia and Herzegovina, which was further intensified at the very end of the year. It is a well-known fact that in foreign trade terms Bosnia and Herzegovina is quite dependent on economic developments in EU countries, given that almost 75% of exports of goods are placed on the markets of EU countries, while on the other hand about 60% of imports come from the EU. Therefore, economic developments within these countries along with the level of production within the domestic production sector almost completely determine the developments in foreign trade with the world. Thus, the weakening of economic activity in EU countries led to a weakening of export demand, which was manifested by a decrease in production in the manufacturing industry and a weakening of Bosnia and Herzegovina's exports of goods in 2019. According to BHAS data (national accounts statistics) for 2019, Bosnia and Herzegovina recorded a stagnation of exports with a registered growth rate of 0.1% and a slight growth of imports of goods by 1.4%, which resulted in widening of the trade deficit of 5% in real terms, while the coverage of imports by exports was about 73%.

On the other hand, currently available BHAS data (foreign trade statistics) for H1 2020 indicate that the weakening trend of foreign trade persisted and was further intensified due to the outbreak of the global Covid-19 pandemic in 2020. Namely, according to these data, in the first 6 months of 2020, Bosnia and Herzegovina recorded a 15.1% fall in exports of goods.<sup>14</sup> This decline in exports of goods in the first half of 2020 is an evident example of the negative effects of the global Covid-19 pandemic on economic developments in Bosnia and Herzegovina. On the other hand, the slowdown in economic activity in the country and the weakening of domestic demand (contraction in private consumption and investment) resulted in a decrease in imports of goods by 18% compared to the first half of the previous year. These developments in exports and imports and the generally lower level of economic activity in the country have to some extent led to narrowing of the foreign trade deficit. Given the current trend of weakening foreign trade in the world, as well as the new circumstances with the outbreak of the global Covid-2019 epidemic, then it is not difficult to conclude that 2020 will be particularly challenging when it comes to foreign trade of Bosnia and Herzegovina. Even if foreign trade is to stabilize by the end of the current year, a significant weakening of exports and imports of goods can be expected in Bosnia and Herzegovina. In addition to the expected decline in exports of goods, during 2020 Bosnia and Herzegovina is expected to see a collapse in exports of services (tourism and hospitality sector, etc ...) which will further weaken its foreign trade. In the baseline scenario according to which there should be a certain stabilization of foreign trade by the end of 2020 in Bosnia and Herzegovina, DEP BiH in its projections expects total exports to fall by 9.2% compared to the previous year. If we bear in mind that three quarters of exports of goods from Bosnia and Herzegovina relate to the market of EU countries, then it can be concluded that the main stronghold of such trends are projections of imports of some European countries, which are very unfavourable. Thus, the available projections at the level of the total EU, forecast a decline in total imports of -10%, while the rates of expected fall in imports by country are as follows: Italy -14%, Croatia -22%, Austria -9.4% and Slovenia -12.4%. Observed by products, the most significant rates of decline are expected within those industries that have a higher level of integration in European markets, such as base metals, spare parts for cars, furniture, chemical products, etc.

On the other hand, it is quite certain that the escalation of the Covid 19 pandemic will lead to a significant weakening of domestic demand, which will most likely be manifested by a decline in consumption, production and investment. If we bear in mind that Bosnia and Herzegovina is highly dependant on imports, and that about 60% of its imports come from the markets of EU countries, imports in real terms are realistically expected to fall by about 7.5% by the end of 2020.<sup>15</sup>

### *Foreign direct investments*

The global economic crisis caused by the pandemic continued in a somewhat milder form in the second half of 2020 (after the easing of restrictive measures at the end of the first half of the year). One of the indicators of the state of the global economy is certainly the values of the world's leading indices, which after a record contraction at the end of the first quarter began to recover their values. If this can be seen as a hint of a gradual exit from the economic crisis, it should be borne in mind that there is still a high degree

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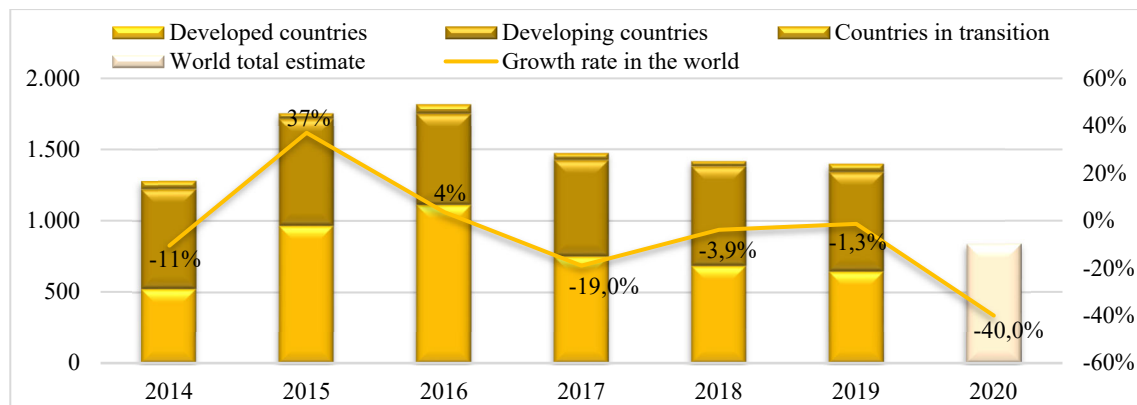
<sup>14</sup>Agency for Statistics of Bosnia and Herzegovina, Release, BiH Foreign Trade in Goods Statistics, January-June 2020, 20/07/2020.

<sup>15</sup> DEP Projections, September 2020

of uncertainty regarding the further spread, duration and complete cessation of the impact of the pandemic in the world.

According to the latest available special report from UNCTAD<sup>16</sup> (The United Nations Conference on Trade and Development) foreign direct investments (hereinafter FDIs) will shrink globally this year between 30% and 40%. As a result of declining profits of companies around the world, reinvested earnings, which often amounted to up to 50% of the FDIs in the world, will be the first to shrink in further investments.

**Graph 2: Total FDI in the world in billion USD**



Source: UNCTAD

According to the latest available data of the CBBiH<sup>17</sup> the total foreign investments in the first quarter of 2020 amounted to KM 243.2 million (net financial liabilities) and went down by 3.4% y-o-y. In support of previous estimates (UNCTAD) is the fact that reinvested earnings<sup>18</sup> in the first quarter of 2020 decreased by 58.5% y-o-y, i.e., that their share in net financial liabilities was only 3.1%. It should be noted that the total foreign investments in 2019 amounted to KM 898.6 million (net financial liabilities), within which the share of reinvested earnings with KM 479.7 million was more than half, more precisely 53.4%. With this amount, the share of FDIs in 2019 reached 2.5% of GDP.

These developments in the world and the EU will have a negative impact on investments in Bosnia and Herzegovina. Although there has been a gradual opening of borders to the flow of goods and people, a number of restrictions remain in place that slow down and hamper economic recovery. Uncertainty about the duration of the pandemic certainly contributes to this. According to a new estimate, the FDIs in 2020 would stand around 1.5% of GDP.

### 3.2. Medium-term macroeconomic scenario

#### *Real sector*

The key stronghold for economic developments in Bosnia and Herzegovina in the period 2021-2023 will be the trends of economic activity in the external environment and the development of the situation related to the global Covid-19 pandemic. However, as noted earlier, the World Health Organization (hereinafter WHO) as the only relevant international institution has not yet formally issued a statement on the duration of the Covid-19 global pandemic. On the other hand, some international financial institutions such as the IMF expect a gradual and very uncertain recovery of the world economy in 2021, with an expected economic growth rate of 5.4%. On the other hand, the EC expects a 5.8% economic growth for the EU countries in 2021, which seems quite optimistic at the moment. When it comes to Bosnia and Herzegovina's main trading partners, the projected economic growth rates in 2021 are: Germany 5.3%, Italy 6.1%, Austria 5.6%, Croatia 7.5% and Slovenia 6.1%. In this regard, the main stronghold of the DEP medium-term projections are forecasts of these international institutions and are based on the assumption that epidemiological situation will improve, which would stabilize the economic situation in the country and abroad in the coming period. Therefore, the precondition for the materialization of these projections is overcoming the new circumstances as soon as possible, improving the international economic environment

<sup>16</sup> Global Investment Trend Monitor, No. 35 [Special Coronavirus Edition] (UNCTAD/DIAE/IA/INF/2020/3)

<sup>17</sup>CBBH - BPM6\_Q1\_2015\_Q1\_2020.

<sup>18</sup> It shows the ratio of investments in already existing capacities in relation to investments in new projects.

and implementing both emergency and structural reforms in the country so as to strengthen the contribution of internal dynamics in economic growth in Bosnia and Herzegovina. Assuming the materialization of these circumstances according to the DEP projections, a gradual recovery is expected in Bosnia and Herzegovina in the period 2021-2023 with an average economic growth rate of about 3% on an annual level (2021: 2.5%, 2022: 3.1% and 2023: 3.4%). It is assumed that the key pillar of economic growth during this period should be domestic demand through an increase in private consumption and investment. Namely, the expansion of overall economic activity in the country with the expected rise in industrial production and construction works accompanied by an increase in the number of employed persons and export revenues (goods and services) should result in an increase in disposable income of citizens and thereby an increase in private consumption which will, the same as in previous years, represent the key pillar of economic growth. Thus, in the period 2021-2023, an average growth rate of private consumption is set to about 2% (2021: 1.9%, 2022: 2.1%, 2023: 2.2%). 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. A significant burden on public finances in Bosnia and Herzegovina could be a very likely increase in public debt, which is a direct consequence of Covid-19 and will be more visible in the medium term. Thus, in the period 2021-2023, public consumption is expected to see only a slight rise of 0.3% on an annual level (2021: -0.2%, 2022: 0.7% and 2023: 0.5%). If we keep in mind that during this period the projected rate of economic growth would be higher than the growth of public consumption, its share in GDP would partially decrease to below 20% at the end of 2023. In this period, it is expected that part of the savings on the basis of current expenditure should be channeled through fiscal policy measures in order to strengthen investment spending in Bosnia and Herzegovina. Therefore, with the improvement of the business environment, investments, unlike in previous years, could have a significant growth and thus give a greater contribution to the expected GDP growth. In the period 2021-2023, overall investment in Bosnia and Herzegovina is expected to increase at an average annual growth rate of about 7.5% (2021: 5.7%, 2022: 8.7%, 2023: 7.7%). Within this time frame, in addition to the increase in private investment, which makes up the majority of total investment (about 85% of total investment) as mentioned earlier, a more significant contribution of public investment is expected too. It is believed that progress in the European integration process combined with the improvement of the business environment through reform processes could increase the interest of both domestic and foreign investors in investing in Bosnia and Herzegovina. On the other hand, given the structure and position of the economy of Bosnia and Herzegovina, it is considered that public investment will be a somewhat more important lever to stimulate 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 around 10%. Thus, in the medium term, the share of public investment in GDP in Bosnia and Herzegovina would increase to about 3% of GDP.

A stable external environment with the improvement of the industrial base and raising competitiveness in the country are a prerequisite for improving foreign trade with the world. Only under the condition of materialization of the mentioned external assumptions the period 2021-2023 can expect an increase in foreign trade with the world. In that case, an average annual export growth of over 6% can be expected in Bosnia and Herzegovina, with the projected growth of goods and services being fairly even. Thus, during this period, thanks to this export growth, the share of exports in GDP would increase to about 41% at the end of 2023. On the other hand, imports are expected to move at a slightly slower annual growth rate of 4.5% over this time period. Growth of imports of goods and imports of services is expected to be fairly balanced during this period. The effect of this development in the import growth would be the stabilization of the share of imports in GDP to about 55% of GDP at the end of 2023. A slightly stronger growth of exports compared to the growth of imports in the medium term would result in a gradual stabilization of the foreign trade balance as a share of GDP to below 15% i.e., a neutral contribution to economic growth, while the coverage of imports by exports should be around 75% by the end of 2023.

## *Industrial production*

The developments in the physical volume of industrial production in the medium term, in addition to internal dynamics - restructuring of the economy, will also depend on economic developments in the markets of our major trading partners, as has been the case so far. If the effects of the new circumstances (Covid-19 pandemic) are remedied in the short term, during this period Bosnia and Herzegovina can expect more significant economic progress in which developments in industrial production should play a central role. In addition to favourable external conditions in this medium-term timeframe, a significant impact of internal dynamics is expected in order to strengthen industrial production in Bosnia and Herzegovina. Namely, during this period, the reform measures to improve the business environment implemented by the competent institutions in Bosnia and Herzegovina are expected to yield measurable results. Improving the business environment should result in increased investment (domestic and foreign), greater utilisation of existing and launching new capacities, increase the number of employed persons and strengthen the competitive position of producers in Bosnia and Herzegovina in both domestic and foreign markets. 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 in the period 2021-2023.

## *Labour market*

DEP developed the medium-term scenario 2021-2023 in the area of labour market based on the expected economic growth and its basic components in the observed period, i.e., at the level of demand, trade and investment (described in more detail in the chapter on economic growth). After the reduction of the number of employed persons in 2020, the European Commission (hereinafter EC) in its Spring<sup>19</sup> Forecast predicts that in 2021 the number of employed persons in EU will rise by 3.3% y-o-y while the unemployment rate would stand at 7.9%.

According to DEP projections, Bosnia and Herzegovina is expected to see positive economic growth in 2021. In addition, the 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 largest number of people in Bosnia and Herzegovina in previous years. With better business opportunities in the field of industry, trade and some service activities, realistic conditions would be created for a new (gradual) increase in the number of employees in the observed activities. Like in the previous years before the crisis, the contribution to the growth of the number of employed persons is expected to be more modest in the public<sup>20</sup> sector compared to other areas of activity. In addition, the number of employees in the service sector affected by the crisis in the previous year could gradually increase. In general terms, with positive business climate, both in Bosnia and Herzegovina, the region and the EU countries, the number of employed persons in the period 2021-2023 is expected to go up by 1.7-2.5% y-o-y along with a simultaneous decrease in unemployment, as well as nominal growth of net wages around 3% y-o-y.<sup>21</sup> However, the assumed risks in the alternative scenario will significantly determine the growth in the number of employees as well as net wages in the period covered by the projections, which is presented in the alternative scenario.

## *Monetary and exchange rate policy and inflation*

The Central Bank of Bosnia and Herzegovina, as the institution responsible for conducting monetary policy, functions as a Currency Board. Currency Board rules stipulate that reserve money (monetary base) should always be 100% covered by foreign exchange reserves, which has been complied with based on available data in 2020. According to such an arrangement, the CBBH is obliged to maintain a fixed exchange rate of the convertible mark against the euro (1KM = 0.51129 EUR) while policies common to central banks such as setting inflation targets, monetary aggregates (so-called inflation targeting or monetary aggregates) and etc. are not conducted by the CBBH. In such conditions, the only monetary policy instrument used by the CBBH is the determination of required reserves by commercial banks. The required reserves policy has not changed since last year's Economic Reform Program, so in 2020 the required reserve rate was 10%.

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<sup>19</sup>In the period of preparation of the baseline scenario, the autumn projections for the basic indicators on the labour market were not published.

<sup>20</sup>The analysis refers to the activities of public administration, health and education.

<sup>21</sup>It is important to note that the real growth of the average net salary is significantly lower due to inflation in the observed period. In addition, if the recovery of the business environment is slower, the growth of the average net salary in the specified period could be more modest than expected. (1-1.5 pp.).

As in previous years, inflation projections in Bosnia and Herzegovina in the period 2021-2023 are based on changes in crude oil prices on the world market, food prices, excises on certain products, utility prices, etc. EC in its Summer Forecast expects a 1.3% (1.1% in the euro area) inflation growth in the EU in 2021. At the same time, the price of crude oil could be higher by 3.1% y-o-y and amount to \$ 43.1/barrel. Similar projections on inflation and crude oil prices were presented by the IMF<sup>22</sup> (3.8% rise in crude oil prices). Also, according to the World Bank projections, the food price index could slightly grow in 2021.<sup>23</sup> In addition, inflation projections in Bosnia and Herzegovina have taken into account the possible continuation of the excise policy on cigarettes and tobacco for 2021. Assuming stable utility and food prices in Bosnia and Herzegovina, inflation of around 1.2% can be expected in 2021. However, the assumed level of inflation will be determined by the identified risks presented in the alternative scenario.<sup>24</sup>

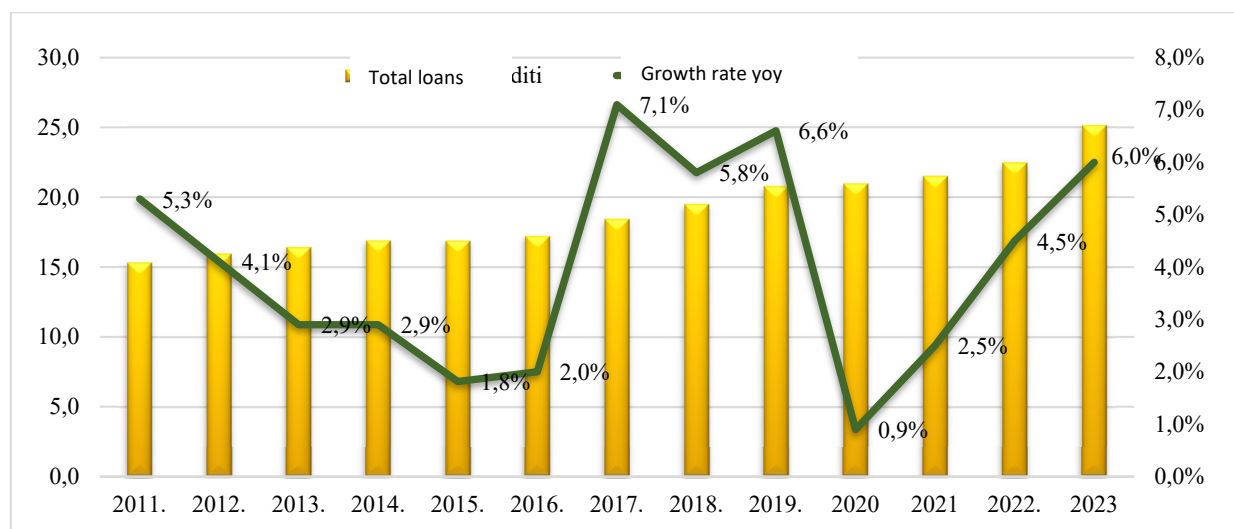
Inflation projections for the period 2022-2023 are based on available data from relevant institutions on world price developments that could affect prices in Bosnia and Herzegovina. According to the baseline scenario of the European Central Bank (September projections) in 2022, a slightly faster growth of inflation of 1.3% in the euro area can be expected (compared to the previous year), while the price of crude oil could be higher by 3.6% y-o-y and amount to \$ 49.2/barrel. In addition to external factors, moderate food and utility prices have been taken into account for inflation projections, so inflation in Bosnia and Herzegovina in the period 2022-2023 is expected to stand at 1.3% -1.4%.

### *Financial sector*

Uncertainty in estimating the strength and duration of the pandemic in the world (it is likely to persist in the coming year) is reflected in the assessment of the further operations of the banking sector, both placements and loan repayments. It should be taken into account that the introduction of a moratorium on loan repayment by the entity banking agencies will certainly bring about weaker financial results, i.e., a reduction in the liquidity and efficiency of banks' operations.

In 2021, due to the extension of the pandemic, there would be a somewhat slower recovery of lending activity at a projected rate of 2.5% y-o-y. In 2022, lending activity would accelerate again at a rate of 4.5% y-o-y, while in 2023 this growth rate is set to 6.0% y-o-y.

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



Source: DEP estimates

Deceleration of economic activity in the world and neighboring countries with the containment and restriction of activity and the consequent reduction in employment will affect the withdrawal of deposits, primarily by households. In 2021, the negative impact of the pandemic on economic developments is also expected to persist, so that moderate growth in deposits can be expected, at a rate of 5.8% y-o-y. In the coming years, after the end of the pandemic, the stabilization of economic conditions and significant

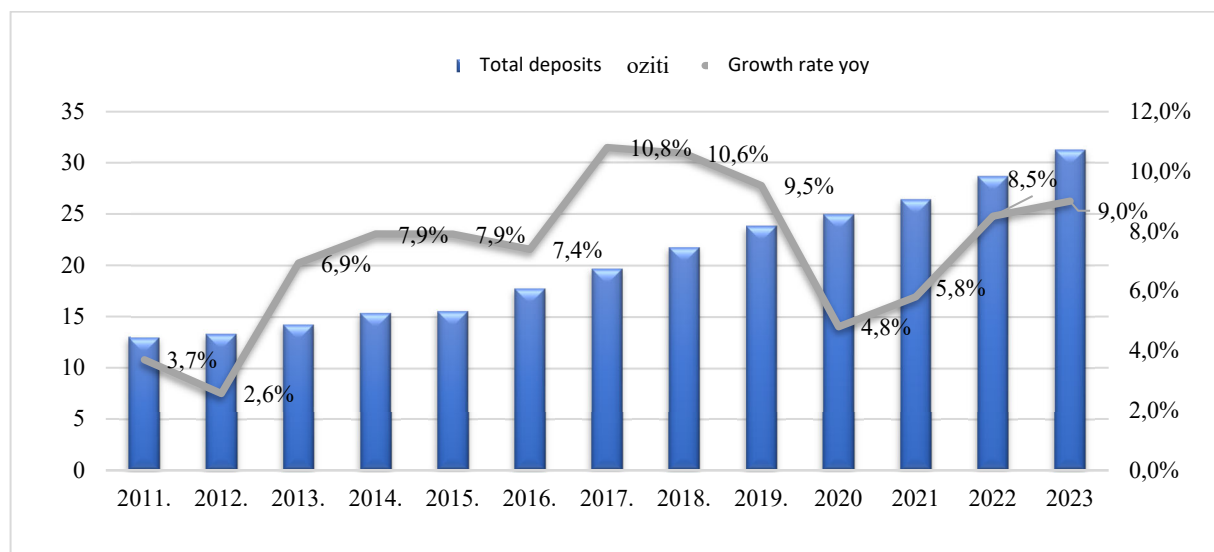
<sup>22</sup> WEO update, June 2020.

<sup>23</sup> Around 1.9% y-o-y. Source: World Bank Commodities Price Forecast (nominal US dollars), April 2020.

<sup>24</sup> If the rise in crude oil prices were lower, as well as utility prices, inflation in Bosnia and Herzegovina could be below 1%.

economic growth is expected, which will be reflected in better performance of the banking sector (with the improvement of financial indicators CAR<sup>25</sup>, NPL<sup>26</sup>). The total amount of deposits would grow at a rate of 8.5% y-o-y in 2022 and at a rate of 9.0% y-o-y in 2023.

**Graph 4: Total deposits (in KM billion, end of period) and annual change rate**



Source: DEP estimates

## External sector

### Balance of payments of Bosnia and Herzegovina

Based on DEP projections, a nominal decline in the foreign trade deficit of 4.4% could be expected in 2020 (with a 9% drop in imports and an 11% drop in exports). In the period 2021-2023, the expected nominal growth of the foreign trade deficit would be in the range of 2.2-4.7%, as a result of the increase in the import rate (5.8-8.1%) and the growth of the export rate (7.2- 9.4%).

As a share of GDP, the current account deficit for 2020, according to DEP projections, would amount to about -4.5%, while for the period 2021-2023 it could be expected to remain at approximately the same level (in the interval from -4.6% to -5.1% of GDP). Current net inflows from abroad in 2020 are expected to be nominally reduced by 12.8% while in the period 2021-2023, the nominal growth rate would be between 0.7% and 1.3%.

Given that it is very difficult to estimate the sources of financing the current account deficit, it can be expected that, as has been the case so far, the current account deficit will continue to be financed by financial inflows from abroad (through foreign direct investment, trade loans and possible new borrowing on the international financial market).

### Foreign trade in goods

Developments in economic activity and the epidemiological situation in the country and the external environment in the medium term will certainly be the main determinant of the developments in foreign trade in Bosnia and Herzegovina. Only under the assumption of improving economic activity and addressing the emerging global economic challenges of Covid-19 facing the world economy can we expect an improvement in foreign trade in Bosnia and Herzegovina. Therefore, in the event these circumstances are overcome, the DEP projection is that in the period 2021-2023 Bosnia and Herzegovina can expect an increase in total exports at annual growth rates of 5.5%, 5.9% and 7.1 % respectively in real terms. This increase in exports is conditioned by stable export demand, expansion of the production base and raising competitiveness in the country. Projections of an increase in imports in the EU during this period of around 6% also support these expectations. Observed by countries during the program period, the expected increase in imports on an annual basis is as follows: Germany 5.5%, Italy 10%, Croatia 22%, Austria 4.8% and

<sup>25</sup> CAR- Capital Adequacy ratio.

<sup>26</sup> NPL-Non performing loans.

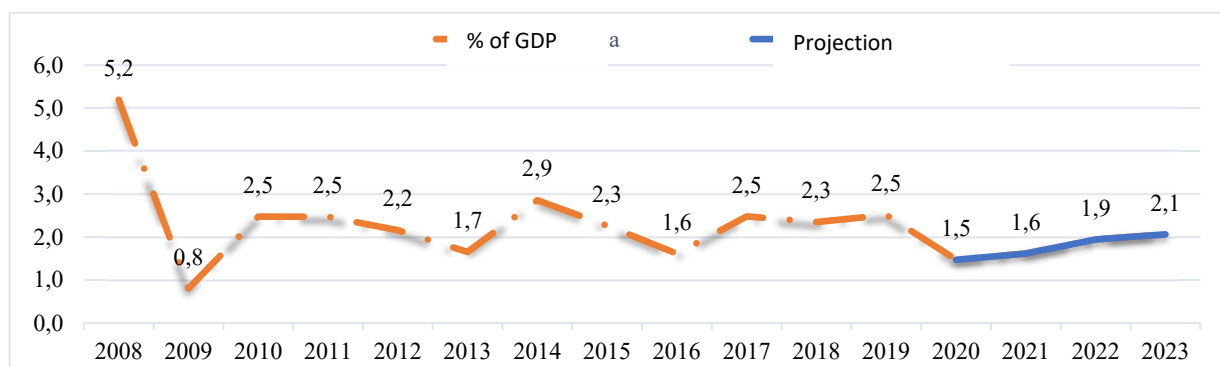
Slovenia about 8%. On the other hand, the increase in economic activity in the country, i.e., the growth of domestic demand within the household and corporate sectors through a somewhat faster growth of consumption and investment should result in an increase in imports of Bosnia and Herzegovina. According to DEP projections, import growth rates are expected to be slightly lower than export rates and should range from 4.0% in 2021, 4.5% in 2022, to 5.1% in 2023. Higher export growth rates than those of imports in the medium term should result in an increase in the export share in GDP to over 40% by the end of 2023. On the other hand, given the somewhat slower growth of imports, it is expected that by the end of 2023, imports within GDP should remain at around 55% of GDP. The result of such trends in exports and imports would be a gradual stabilization of the foreign trade deficit to below 15% of GDP, at least a neutral contribution to economic growth and improved coverage of imports by exports to almost 75% by the end of 2023.

### *Foreign direct investments*

It is expected that the negative impact of the pandemic will persist in the coming period, which will lead to a possible withdrawal of investments or delays in the implementation by companies (especially from China as one of the main investors in energy projects and infrastructure). Thus, the implementation of the projects announced for the coming period TPP Gacko 2<sup>27</sup>, the highway Doboj-Vukosavlje-Brčko<sup>28</sup> and the highway Banja Luka-Prijedor<sup>29</sup> would be prolonged. The negative impact of the continuation of the pandemic, i.e., partial or complete delay in the implementation of the aforementioned projects will affect the FDIs in 2021 to reach 1.6% of GDP.

The application of the newly discovered vaccine with the mass acquisition of immunity of the population in the world could finally encourage a more significant growth of global economic flows in the coming years. This would lead to a significant activation and implementation of numerous projects in the field of energy, mining, infrastructure, and especially in the field of tourism and services (which are currently most affected by the crisis). Thus, in 2022 the FDIs would reach about 1.9% of GDP and finally 2.1% of GDP in 2023.

**Graph 5: FDI projection per year as a percentage of the GDP**



Source: BHAS, CBBiH and DEP estimate

<sup>27</sup><http://www.vladars.net/sr-SP-Cyrl/Vlada/Ministarstva/mper/media/vijesti/Pages/Potpisan-sporazum-o-izgradnji-TE-Gacko-2.aspx>

<sup>28</sup><http://privrednastampa.ba/tag/autoputevi-republike-srpske/>

<sup>29</sup><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. veza RS.



### 3.3. Alternative scenario and risks

Indicator	Official data		Projections			
	2018	2019	2020	2021	2022	2023
Nominal GDP in million KM	34,264	35,753	34,594	35,512	36,896	38,324
Nominal growth in %	5.1	4.3	-3.2	2.7	3.9	3.9
GDP deflator (previous year = 100)	101.9	101.9	100.9	101.1	101.5	101.2
Real GDP in million KM (previous year = 100)	33,633	35,100	34,284	35,133	36,338	37,869
Real growth in %	3.2	2.4	-4.1	1.6	2.3	2.6
Inflation measured by CPI index in %	1.4	0.6	-1	0.7	0.8	1
Consumption in million KM	32,049	33,477	32,779	33,484	34,510	35,686
Real growth in %	2.1	2.3	-1.9	0.9	1.3	1.6
Government consumption in million KM	6,612	6,862	7,061	7,096	7,324	7,543
Real growth in %	1.0	0.9	2.5	-0.2	0.7	0.5
Private consumption in million KM	25,437	26,615	25,718	26,387	27,186	28,143
Real growth in %	2.3	2.7	-3.0	1.2	1.5	1.9
Investment (Gross) fixed capital formation in million KM	6,550	6,863	5,939	6,350	6,860	7,430
Real growth in %	8.1	3.8	-11.7	5.7	6.9	6.9
Government investments in million KM	884	929	836	916	1,012	1,120
Real growth in %	18.8	4.1	-8.3	7.9	8.5	8.5
Private investments in million KM	5,666	5,934	5,103	5,435	5,848	6,310
Real growth in %	6.6	3.7	-12.2	5.3	6.6	6.6
Imports in million KM	19,097	19,448	16,585	17,540	18,771	20,260
Nominal growth in %	6.7	1.8	-14.7	5.8	7.0	7.9
Real growth in %	3.7	1.4	-10.8	4.0	4.6	4.9
Exports in million KM	14,087	14,111	11,906	12,652	13,734	14,870
Nominal growth in %	10.0	0.2	-15.6	6.3	8.6	8.3
Real growth in %	6.1	0.1	-13.8	4.6	6.0	6.0
National Gross savings in % of GDP	17.6	17.8	15.5	15.7	16.2	16.3
Current account balance in million KM	-1,121	-1,088	-1,134	-1,332	-1,457	-1,764
Growth in %	-25.7	-3.0	4.2	17.5	9.3	21.1
Current account balance in % of GDP	-3.3	-3.0	-3.3	-3.8	-3.9	-4.6

The risks to the materialisation of these projections are mostly negative and can be classified into two groups (external and internal), with external risks being much more likely and more influential on the development of economic growth in Bosnia and Herzegovina. In addition to the fact that available reports from international institutions have previously announced a weakening of economic activity in the external environment, the outbreak of the global epidemic of the Covid-2019 disease has imposed itself as the ultimate primary risk for the materialisation of these projections from the baseline scenario. Before presenting the alternative scenario, it should be borne in mind that during the previous years the external environment (primarily EU countries) through trade and capital flows were the main structural determinant of most economic developments in Bosnia and Herzegovina. A high level of trade integration (concentration) with insufficiently diversified export supply for a country such as Bosnia and Herzegovina may also represent a potential source of risk for economic developments in the medium term. Namely, a possible prolongation of the Covid 19 crisis and further weakening of economic activity in EU countries,



most notably in countries such as Germany and Italy, would directly affect economic growth both in 2020 and during the entire programme period. Namely, deterioration of economic conditions in the external environment would very likely lead to an additional fall in GDP from the baseline scenario of over 1 pp. in 2020.<sup>30</sup> On the other hand, these developments in the international environment would slow down and prolong the country's planned economic recovery in the medium term. It is assumed that Bosnia and Herzegovina would have a much harder time achieving economic growth from before the outbreak of the Covid 19 pandemic (about 3% annually), while approaching the potential level of GDP would be prolonged. Due to the high level of trade integration with EU countries, a lower level of export demand would lead to a slower recovery of exports, lower levels of production and thus affect the aggregate supply of Bosnia and Herzegovina. On the other hand, weakening of economic activity in the external environment would undoubtedly lead to a slower recovery of domestic aggregate demand, because a lower level of production would slow down planned increases in employment and wages, which, along with slower growth of remittances from abroad, would weaken disposable income of citizens, i.e., private consumption. A lower level of overall economic activity in the country would undoubtedly lead to a slowdown in expected investment by both the private and public sectors.

On the other hand, the threat to the materialization of the projections from the baseline scenario is also posed by internal challenges, i.e., internal risks in Bosnia and Herzegovina. Internal risks are a complex decision-making system and a slow pace of economic reforms in the country. Possible delays in the implementation of emergency measures due to the Covid-19 pandemic as well as the implementation of general structural reforms could have a negative impact on overall economic growth. Partial implementation of the structural reforms envisaged by the programme (business environment, labour market, education, energy markets, transport and social protection), as well as migration of young and educated population would undoubtedly result in reduced productivity and slower GDP growth than projected in the baseline scenario.

The technological structure and the high level of export orientation of **industrial production** in Bosnia and Herzegovina, especially the manufacturing industry, at the same time make it susceptible to economic developments in the international economic environment. A possible prolongation of the economic recovery in the main trading partners would have a negative impact on physical volume, employment, investment and productivity within the industrial sector in Bosnia and Herzegovina. After the previous year's collapse of the physical volume of production within the BiH industry, the outbreak of the Covid-19 pandemic further affected it, so the assumption from the alternative scenario is that BiH would record a double-digit decline in the physical volume of industrial production, followed by reduction of the number of employees. The weaker economic recovery in major trading partners, the challenging business environment, as well as the low level of implementation of the product market reforms (digital transformation, research, development and innovation) could be a burden and slow down the planned recovery of industrial production in Bosnia and Herzegovina in the medium term.

**Labour market** projections are determined by developments in our environment, i.e., the business environment in both Bosnia and Herzegovina, the region and the EU. These developments also represent the basic risks for labour market projections. Therefore, the extension of the COVID-19 pandemic in 2021, in terms of health (vaccination of the population) and economic developments, could further slow down the economic activity of Bosnia and Herzegovina, and thus delay the recovery of the labour market. With slower economic growth, investment, trade and a worse business environment in general (than assumed in the baseline scenario), the number of employees as well as wage growth would be worse than assumed in the baseline scenario. Reduced business activity of companies could make it difficult to retain the current number of employees and delay the creation of new jobs, and the unemployment rate could remain high. In addition to the uncertainty brought by the pandemic, the reduction of labour force (migration) and the scope of implementation of structural reforms as well as measures by the BiH authorities in the coming period could also significantly determine the movement of basic labour market indicators.

**Inflation** projections in the alternative scenario are based on data on the possible deviation of crude oil prices on the world market from those assumed in the baseline scenario, as an external factor that

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<sup>30</sup>DEP projections (Alternative scenario), November 2020

significantly determines price developments in Bosnia and Herzegovina. According to the latest ECB projections (December 2020), two alternative scenarios have been presented, a “mild” and a “severe” scenario, related to inflation projections. Inflation trends vary between the two scenarios due to differences in the balance of supply and demand. Downward demand and upward supply effects on inflation are both expected to be larger in the severe scenario than in the mild scenario, but excess supply is envisaged to be higher in the severe scenario than in the mild one, depressing inflation. Thus, inflation in the euro area is expected to be around 0.7% in the severe scenario over the projection horizon, which is lower than in the baseline scenario. In addition, the projection of inflation in Bosnia and Herzegovina should take into account domestic factors (possible changes in utility prices<sup>31</sup>, excise duties on cigarettes<sup>32</sup> etc.) so the main risks to inflation projections are related to changes in prices of these domestic and external factors. Accordingly, the overall price level in Bosnia and Herzegovina in the alternative scenario is lower compared to the baseline scenario.

Uncertainty regarding the duration of pandemic-related measures, deteriorating economic conditions in the EU, especially among Bosnia and Herzegovina's main trading partners, creates high uncertainty for households and non-financial corporations as well as banks themselves, which can greatly affect projected **loan and deposit** rates. The reduction and greater slowdown in credit growth could potentially be affected by tighter bank conditions of lending to households and non-financial corporations, reduced demand for loans by companies that can opt for greater caution and the use of deposits to finance operations without launching major investment projects and negative business growth of export-oriented companies. The duration and economic impact of counter-pandemic measures in force in EU Member States will also affect the consumption and economic behavior of the population, which could reduce their deposits and credit activity due to losses of jobs and other sources of income.

The main risks for changes in the **balance of payments** of Bosnia and Herzegovina are in the foreign trade deficit of goods and services (since its share in the current account deficit is 75%). The outbreak of the Covid-19 pandemic has led to significant disruptions and negative implications for the economies of the EU and neighboring countries. As a result, the employment rate of the diaspora of Bosnia and Herzegovina is declining, and current transfers from abroad could fall, and thus the disposable income may decrease. Based on partial data for 2020 related to the FDIs, it could be anticipated that they will be halved compared to the previous year, and that the FDIs are very uncertain in the coming years (recovery could depend on the period of slowing of the Covid-19 epidemic and normalization of economic activities). With the contraction of FDIs, problems with financing the current account deficit can also be expected (given that FDIs accounted for financing of 50% -70% of the deficit in recent years). Thus, it could be expected that in the coming years the current account deficit will be largely financed from short-term trade loans and through additional external borrowing. What could be identified as potential risks in Bosnia and Herzegovina's external borrowing in the medium term are the following: negative economic growth, negative budget balance (deficit), increase in total public debt, rise in the share of entity-level direct debt in total external debt, increase in public debt service (especially domestic), interest burden, interest rates, exchange rate risks, refinancing risk, as well as credit rating.

The greatest risks in the coming years could be in the reduced inflow of foreign direct investment, difficult access to trade loans as well as the impossibility (or difficulty) of borrowing on the international financial market.

Further complications of the epidemiological situation related to Covid 19, and the introduction of partial "lockdown" in some EU countries such as Germany and Austria pose the most significant risk for the materialisation of **foreign trade** projections presented in the baseline scenario. If these lockdown announcements are implemented, it is very likely that there will be a further weakening of export demand,

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<sup>31</sup>At its 246th session (03/12/2020), the Government of the Federation of Bosnia and Herzegovina approved the wholesale price of natural gas for distribution companies in the territory of the Federation of Bosnia and Herzegovina, starting from 1/1/2021, reducing it by 8.5% compared to the previous price. Source: [www.fbihvlada.gov.ba/bosanski/sjednica\\_v2.php?sjed\\_id=900&col=sjed\\_saopcenje](http://www.fbihvlada.gov.ba/bosanski/sjednica_v2.php?sjed_id=900&col=sjed_saopcenje)

<sup>32</sup>In the period of alternative scenario development, the Governing Board of the Indirect Taxation Authority issued a Decision on establishing special and the minimum excise duty on cigarettes and the amount of excise duty on smoking tobacco for 2021. The minimum excise duty for a pack of cigarettes containing 20 pcs is KM 3.25 while a special excise duty amounts KM 1.65 for the same package. 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 and amounts to KM 130 per kilogram. Source: Decision on establishing special and the minimum excise duty on cigarettes and the amount of excise duty on smoking tobacco for 2021.

which would further weaken both the overall economic activity in the country and the movement of foreign trade during 2020. Thus, according to the projections of the DEP BiH, the rates of decline in exports and imports would further decline by about 4 percentage points, so they would turn double digit. Such a starting point, along with the prolongation of the crisis related to Covid 19, would weaken and prolong the planned recovery of foreign trade in the period 2021-2023. An additional risk when it comes to the external environment is the possible unfavourable trends in world prices of certain products. On the other hand, in addition to these risks arising from the external environment and resulting from cyclical developments in export markets, a significant risk to Bosnia and Herzegovina's foreign trade is posed by domestic, i.e., structural challenges. The complex overall business environment in the case of Bosnia and Herzegovina in terms of foreign trade is manifested in a modest aggregate supply of a small number of products to a limited number of markets. In addition to raising the overall level of competitiveness in the country, the implementation of the baseline scenario will depend on the implementation of structural reforms and the improvement of procedures in foreign trade operations during the programme period.

The global economic crisis caused by the pandemic is expected to persist in the coming period as well. The slow implementation of the currently still unavailable vaccine, and the continuing escalation of global economic situation (geopolitical and trade tensions between China and the United States) will further have negative effects on Bosnia and Herzegovina. A negative outcome in terms of trade negotiations between the EU and the UK will inevitably result in a reduction in overall trade and investment. The possible introduction of sanctions by the Energy Community (hereinafter EC) for alleged non-compliance with the international agreement will further jeopardize the construction of energy projects in Bosnia and Herzegovina. The negative impact of these events (on the **FDIs**) will be strongest in 2020 and 2021, and then gradually weaken in the coming period.

## 4. FISCAL FRAMEWORK

### 4.1. Policy strategy and medium-term objectives

Given the specificity of this crisis and uncertainty in terms of its intensity and duration, based on the submitted inputs, it can be summarized that the main objective of fiscal policy in Bosnia and Herzegovina in the period 2021-2023 is fiscal stabilization at all levels of government as a major factor in overall macroeconomic stability, with the strengthening of economic activity and competitiveness of the economy.

The institutions of Bosnia and Herzegovina will, in accordance with their competencies, continue to 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 current trend of stable economic growth of the Federation of BiH** in 2020 has been disrupted by the emergence of a global COVID-19 pandemic, still leaving economic losses on a global scale. For Bosnia and Herzegovina, as a small economy, primarily relying on international economic partners, whose economies are now also significantly weakened, such an event has posed a particular challenge to the implementation of fiscal policy measures. Such a pandemic in macroeconomic practice represents a relatively rare situation of negative economic shock to the world economy, which, according to the IMF outlook from June 2020, will lead to a drop in world gross domestic product of as much as 4.9%. The pandemic has negatively affected all economic activities, but also social and other segments of life.

Preventing the spread of the virus involved the introduction of a series of measures and activities that had positive effects in the fight against the Covid-19 virus on the one hand, and on the other hand significantly worsened economic trends. In order to mitigate the negative effects during the so-called "first impact of the pandemic on the economy", the intervention law on mitigation of negative economic consequences was adopted in the Federation of BiH, which introduced temporary measures to subsidize contributions for compulsory insurance, suspension of calculation and payment of default interest on public revenues, suspensions of advance payment of income tax for 2020, and suspensions of advance payment of income tax for self-employment for 2020, for those persons whose business activity is endangered by the consequences of the pandemic. The mentioned law also presupposed the postponement of the application of certain regulations during the state of natural disaster, and enabled the establishment of the Guarantee Fund at the Development Bank of the Federation of BiH.

In addition to the measures prescribed by this Law, the Government of the Federation of BiH has adopted a Decision on measures of direct control of prices of basic foodstuffs and basic hygiene items whose price may not exceed the price ending on 5 March 2020. A decision was also made to prescribe measures for direct price control, which established a fairer margin for oil prices. Following all developments, Amendments to the Budget for 2020 were adopted in the Federation of BiH. The above measures in combination with the Amendments to the Budget of the Federation of BiH for 2020 formed only the first set of measures, aimed at mitigating the first wave of the pandemic and stabilize the country's economy.

The Government of the Federation of BiH adopted the second set of measures at its 240<sup>th</sup> session, held on 16 October 2020, with the enactment of the Decree on intervention measures to support vulnerable sectors of the economy of the Federation of BiH in the circumstances of the Covid-19 pandemic. The general objective of this Decree is to provide liquidity support to the most vulnerable sectors/activities, to preserve jobs, and to provide urgently needed support and maintain competitiveness in export-oriented sectors. The envisaged financial assistance through this Decree amounted to KM 90.0 million and was implemented within the FBiH Ministry of Environment and Tourism, the FBiH Ministry of Transport and Communications, the FBiH Ministry of Agriculture, Water Management and Forestry, and the FBiH Ministry of Energy, Mining and Industry. It is important to point out that the Guarantee Fund at the Development Bank of the Federation of BiH is fully functional and that the Budget for 2021 envisages its strengthening. In addition, in order to help the health sector, KM 10.0 million was allocated as financial

support to health institutions founded by the Federation of BiH in the circumstances of the COVID-19 virus pandemic.

The cantons and local self-government units, in accordance with their constitutional competencies in adopting fiscal policy measures and their fiscal capacity, also provided support to the affected business entities. The implementation of these measures sought to preserve as much as possible the stability of operations, jobs and the level of income of employees, while preserving budget stability and socially sensitive budget payments.

At its 239<sup>th</sup> session held on 8 October 2020, the Government of the Federation BiH, by Conclusion No. 1371/20, adopted the Framework Budget Document 2021-2023, which defines the limits and framework for budget planning for 2021. Furthermore, following the continuation of measures of the Government of the Federation of BiH aimed at stabilization and recovery of the economy, the Proposal of the Budget of the Federation of BiH for 2021 was prepared, which represents a framework for stabilization of public finances in the Federation of BiH. The preparation of the budget for 2021 is marked by double pressure, the expected reduced level of revenues and receipts on the one hand and on the other hand the need to help not only the affected economy but also lower levels of government that do not have the ability or sources of borrowing to remedy their deficits. For this reason, the need to finance expenditures and outlays in 2021 has increased significantly.

Given that the Government of the Federation of BiH is determined to continue with measures to mitigate the negative consequences for the economy, finances for the Economic Stabilization Fund have been re-planned. Funds are also planned for the employment project, in order to at least compensate for the lost number of jobs due to the pandemic and return to the level of employment before the outbreak.

The establishment of a guarantee fund at the Development Bank of the Federation of BiH has enabled business entities to access the capital necessary for working capital and liquidity improvement, as well as for investments. Bearing in mind the expected decrease in tax revenues, especially revenues from income tax and income belonging to cantons and municipalities, financial assistance to lower levels of government is planned in the form of support for the implementation of structural reform measures in the amount of KM 230.0 million of which KM 200.0 million is planned for cantons and KM 30.0 million for cities and municipalities. The intention is to use part of this amount to support cantonal budgets, and part, depending on the specifics of the economy of the given cantons, to implement structural reforms. A significant amount of funds is also planned for the rehabilitation of healthcare facilities in the Federation of Bosnia and Herzegovina, as well as for the procurement of vaccines against COVID-19.

**Table 1: Table of fiscal indicators of FBiH for the period 2019-2023**

<b>Fiscal indicators (% of GDP)*</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
Total income	24.4	22.4	21.9	21.8	21.7
Total spending	22.4	24.2	23.2	22.4	21.8
<b>Fiscal balance</b>	<b>2.0</b>	<b>-1.8</b>	<b>-1.3</b>	<b>-0.6</b>	<b>-0.1</b>
Interest expenditures	0.4	0.3	0.4	0.5	0.4
<b>Primary fiscal balance</b>	<b>2.4</b>	<b>-1.5</b>	<b>-0.9</b>	<b>-0.1</b>	<b>0.3</b>

*\*Note: Data for FBiH GDP taken from DEP, December 2020 – baseline scenario*

In the coming period from 2021 to 2023, the FBiH Government plans to continue implementing measures to mitigate the negative consequences of the pandemic, i.e. measures to recover and stabilize the economy. It is planned to implement austerity measures in the public sector by restricting the growth in the number of employees, the growth of wage expenditures and wage contributions. To mitigate the negative consequences for the economy, funds are planned for the Economic Stabilization Fund, which will be allocated to the most vulnerable business entities, but also for capital investments and key economic activities. The recovery of the economy will be realized by strengthening the credit potential through the guarantee fund, which, in addition to increasing banking activity, will affect the improvement of liquidity and investment activities of business entities.

Employment projects are also planned with the aim of compensating for lost jobs in the pandemic and restoring the trend of employment growth before the pandemic. This project will be implemented in partnership with the World Bank, which will finance it. The Government of the Federation of BiH will continue to remit funds to lower levels of government to help their budgets, but also to aid the economy, which the cantons will further direct primarily to help crafts, micro and small enterprises. In the coming period, the focus will be on development capital projects as key determinants of economic growth, and they will be mostly realized in the field of road construction, energy, airport and railway infrastructure. Although a deficit is expected in the period 2021-2023, the success of the implementation of all planned measures may lead to improved performance or lower deficit than planned. The economic recovery will also be based on the success of implementation of a number of structural reforms. With the aim of economic recovery and accelerated growth after the pandemic, the implementation of previously planned medium-term measures to improve the business environment, relieve the economy and increase the level of competitiveness has been additionally emphasized.

In this Programme period, the activities of implementing the measure of reducing the tax burden on labour will continue, which estimates the reduction of the total fiscal burden on labour, measured by the OECD methodology, as the sum of taxes and contributions in relation to the employer's cost of labour on the basis of work, from the current 36.42% to 35.22%. The proposed legal framework for the establishment of the Single Register of Taxes and Fees in the Federation of BiH, which is expected to be adopted in the first half of 2021, should have an impact on increasing confidence and motivation to start a new or expand the existing volume of business in the Federation of BiH and, in the long run, improving all economic parameters related to investment growth.

The focus of tax policy will continue to be on preventing tax base erosion and profit shifting. For the most adequate management of public finances, we continue with ongoing activities on the establishment of the highest quality reporting system, according to the OECD methodology, as well as on finding solutions for improved vertical and horizontal distribution of indirect tax revenues to users in the Federation of BiH. In order to create additional space for reducing fiscal pressure on existing entities operating within the formal economy, the period 2021-2023 will be marked by the continuation of activities to combat the informal, so-called "gray economy".

Ultimately, the implementation of all presented measures will depend primarily on the political stability and institutional readiness of the stakeholders. Also, a longer duration and a worse picture of the final outcome of the pandemic on the economy than assumed at this moment may pose new challenges to fiscal policy makers, which could lead to possible prolongation of some of the currently planned activities.

**The fiscal policy of Republika Srpska** in the period 2020-2023 is aimed at preventing and mitigating the negative impact of COVID-19. In July 2020, the Framework Budget Document of Republika Srpska for the period 2021-2023<sup>33</sup> was adopted, which defines the planned budget frameworks, financing and debt for all levels of government in Republika Srpska and which is the starting point for drafting the ERP RS 2021-2023.

Data for 2020 are in line with the adopted budgets, i.e. budget revisions. Data for the period 2021–2023 represent budget projections at all levels of government in Republika Srpska.

In the past period, a number of necessary fiscal measures have been adopted in Republika Srpska to alleviate the economic shock caused by the COVID crisis. The enactment of the Decree with the force of law determined tax measures which include extension of the deadline for submitting annual returns, extension of the deadline for settling tax liabilities, abolition of decisions on deferred payment of tax obligations, aimed at helping enterprises facing business difficulties. According to this regulation, the deadline for submitting annual tax returns has been postponed by 30 days, the payment of income tax and all liabilities under the final account for 2019 has been postponed, as well as the liability based on income tax according to the annual income tax return 2019, until 30 June 2020, while the lowest amount of tax for a small entrepreneur on an annual basis is reduced from KM 600 to KM 240 for 2020 compared to the current law.

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<sup>33</sup> 81th session of the Government of Republika Srpska held on 24/07/2020

Also, the deadline for payment of real estate tax has been extended, so that the first instalment of tax is paid by 30 September 2020 at the latest, while the second instalment is paid by 31 December 2020 at the latest. Tax debtors who have been granted deferred payment have been granted an "interest-free moratorium" on the payment of annuities as long as the emergency situation lasts.

Furthermore, the Decree on Tax Measures for Mitigating the Economic Consequences of the SARS-CoV-2 virus caused COVID 19 pandemic provides for a measure to support economic operators who were banned from operating in March and May 2020 in order to maintain employment. These measures referred to the payment of liabilities for taxes and contributions to salaries for March and April 2020, the payment of the lowest salary with contributions. In addition, the Decree on the Allocation of Funds to Business Entities and Entrepreneurs was adopted, which in April 2020 partially ceased to operate or had a smaller volume of business. For the implementation of the mentioned measures for March, April and May, it was necessary to pay KM 66.5 million.

The Government of Republika Srpska established the Headquarters for monitoring the adverse impact of the coronavirus epidemic on the economy of Republika Srpska, which adopted a set of measures to mitigate the effects of the pandemic on business entities in Republika Srpska, and one of them was the urgent payment of tax refunds and contributions for increase in salaries in 2019. In accordance with the Law on Incentives in the Economy in Republika Srpska, in March 2020, KM 3.2 million were paid for 450 business entities for about 13 thousand workers. At the proposal of the Management Board of the Compensation Fund of Republika Srpska, the Government of Republika Srpska passed a Decree in early October 2020 on the procedure for allocating funds to business entities in the field of international road transport and providing airport services to alleviate financial loss due to coronavirus. The aim of this regulation is to provide support to business entities in the field of international transport of persons by road and airport services for the months of June and July 2020, to maintain the liquidity of business entities that have financial losses due to the effects of the coronavirus pandemic.

At the suggestion of the Steering Board of Republika Srpska Compensation Fund, in December 2020 the Government of Republika Srpska passed a Decree on the procedure for allocating funds to caterers who provide accommodation services, travel agencies and artists to alleviate the financial loss due to the coronavirus pandemic. In this regard, it is envisaged that the resources of the Compensation Fund will provide funds to caterers who provide accommodation services, travel agencies and performers for the regular settlement of liabilities to workers for contributions, as well as other tax liabilities.

#### *Reduction of tax and non-tax benefits and simplification of procedures*

In March 2020, the Headquarters for monitoring the impact of the coronavirus epidemic on the economy of Republika Srpska requested that the parafiscal levies be reduced. In this sense, several laws have been amended. The Law on Amendments to the Law on Court Fees abolished certain court fees, the effect of which is a loss of income of KM 0.7 million. The Law on Amendments to the Law on Special Republika Srpska Taxes reduces the obligation of the special Republika Srpska tax in 2021 by 30%, in 2022 by 60%, and finally this tax will be abolished from 2023. By applying the proposed provision of the Law in 2021, relative to 2020, there will be no income of about KM 3.2 million, while in 2022, relative to 2020, there will be no income of about KM 6.4 million. The Law on Amendments to the Law on Communal Taxes abolishes certain communal taxes and exempts small entrepreneurs from the obligation of communal taxes. Also, taxpayers who register for the first time are released from the obligation to pay the communal tax on displaying the business name. The total amount of revenue that will be missing on the above grounds in local self-government units is estimated at KM 1.9 million. The Law on Amendments to the Law on Administrative Fees exempts taxpayers from paying administrative fees (Republika Srpska, city or municipal) for requests, applications, proposals, applications, certificates or confirmations, which were in practice in individual amounts up to KM 10. According to estimates, the loss of revenue from administrative fees in the budget of Republika Srpska will amount to about KM 1.1 million.

#### *Support and incentives to the economy*

The Government of Republika Srpska also passed a Decree on the allocation of funds to business entities and entrepreneurs in order to remedy the consequences of the coronavirus virus pandemic for April 2020, which prescribes conditions for granting support to business entities that in April 2020 partially ceased operations or had reduced business volume.

In order to support and stimulate the economy, burden on labour was partially reduced by increasing the non-taxable income from 200 KM to 500 KM on a monthly basis. From 1 January 2020, the employers were relieved through the refund of the gross salary for employed mothers. By amending the Law on Contributions, the contribution rate for unemployment insurance was reduced by 0.2%, after which the cumulative rate was 32.8%. The Decree with the legal force on the Compensation Fund of Republika Srpska established the Compensation Fund of Republika Srpska with the aim of mitigating the consequences and difficulties caused by the spread of infectious diseases caused by the corona virus (SARS-CoV-2). According to the Decree, the Compensation Fund achieves its goal by providing direct support to: 1) entrepreneurs and business entities in Republika Srpska who have suffered or are suffering damage, 2) the Employment Institute of Republika Srpska by subsidizing unemployment contributions, 3) the health sector of Republika Srpska and 4) public sector in the Republika Srpska who performed work under particularly difficult working conditions.

One of the intervention measures established by the Government of Republika Srpska with the aim of economic recovery by stabilizing the business of economic entities and preserving jobs is the establishment of the Guarantee Programme to support the economy to mitigate the consequences of the SARS-CoV-2 virus caused COVID 19 pandemic. In addition, the Banking Agency of Republika Srpska has adopted temporary measures that allow clients of banks and microcredit organizations to use special measures to mitigate the negative consequences of a pandemic in the form of the possibility to agree on a moratorium, grace period or a combination of other measures to repay loans.

In May 2020, the Law on Amendments to the Law on the Guarantee Fund of Republika Srpska was adopted, which enabled the Guarantee Fund of Republika Srpska to manage guarantee programmes of Republika Srpska, organized in the general economic interest to facilitate access to finance in special circumstances. In July 2020, the Government of Republika Srpska passed the Decision on the Guarantee Programme of Support to the Economy for Mitigating the Consequences of the COVID 19 Pandemic caused by SARS-CoV-2 Virus. The aim of organizing the Guarantee Programme is to facilitate access to finance for small and medium enterprises, as well as entrepreneurs, by issuing a guarantee to secure receivables on a loan approved by a financial organization.

At the proposal of the Management Board of the Compensation Fund of Republika Srpska, in May 2020, the Government of Republika Srpska passed a Decree on the conditions and manner of using tourist vouchers for subsidized payment for accommodation in Republika Srpska. After that, a public invitation was published to hospitality and travel agencies to submit applications for participation in the realization of the scheme of awarding tourist vouchers in hospitality facilities on the territory of Republika Srpska. In August 2020, the Government of Republika Srpska passed the Decree on Amendments to the Decree on the Conditions and Manner of Using Tourist Vouchers in Hospitality Facilities, which changed the conditions and manner of using vouchers in Republika Srpska and continued the subject activity.

#### *Improving the targeting of social benefits*

One of the structural reform measures implemented in Republika Srpska is to improve the targeting of social benefits, which aims to base-needs rather than status-needs or social benefits based on affiliation of a particular category of society (part 5 of the programme).

#### *Public investments*

By amending the Law on Public-Private Partnership, the procedure for the implementation of public-private partnership projects has been simplified. Accordingly, the concept of public-private partnership is expected to contribute to increasing investment, meeting growing public needs, as well as to better management of public investments and their efficient implementation.

*Regarding monitoring the financial stability challenges arising from the coronavirus pandemic and taking appropriate measures, address the issue of non-performing loans and supervisory activities*



The banking sector of Republika Srpska, despite the coronavirus pandemic, has maintained adequate stability and liquidity. The regulatory capital adequacy ratio and the leverage ratio of all banks are above the statutory minimum. The application of the new Decision on credit risk management and determination of expected credit losses for banks from 1 January 2020 led to a decrease in NPLs compared to the end of 2019, mainly due to accounting write-offs in accordance with the new regulations. The share of non-performing loans in total loans as of 30 September 2020 is 5.31% and is lower by 0.59 percentage points compared to the end of 2019. With the help of the FINRA project, supervisory stress testing of banks' resilience to stress was performed in 2019 on a sample of the three largest banks in the banking sector of Republika Srpska. Stress testing in 2021 will be performed on the entire banking sector of Republika Srpska.

#### *Simplifying business registration*

After a comprehensive reform of business entity registration in Republika Srpska in 2013, through the introduction of a one-stop shop registration system and a single information system, and with a significant reduction in costs, procedures and time for registration, in May 2016, the Government of Republika Srpska launched a project of online registration, which is planned to take place in 4 phases. The first three phases of the project have been fully completed and the last phase is underway. The finalization of the project of e-registration of business entities is scheduled for mid-May 2021.

#### *Strategic framework for public financial management*

In January 2019, the Government of Republika Srpska appointed a Working Group to continue and complete the initiated activities on the development of the Public Finance Management Strategy of Republika Srpska for the period 2020-2025. In June 2020, the IMF's Fiscal Affairs Department (FAD) approved technical assistance to Republika Srpska Ministry of Finance regarding the advice on updating and finalizing the Republika Srpska Public Finance Management Strategy. These activities resulted in the development of a comprehensive reform document, which will serve as the main guideline for the period from 2021 to 2025 to strengthen the legal and institutional framework and public finance management system of Republika Srpska in accordance with EU requirements and international standards. The adoption of the Strategy will clearly define the directions of reforms in the field of public finances and complete the system of improving the fiscal responsibility and long-term fiscal stability of Republika Srpska. The Public Finance Management Strategy of Republika Srpska includes six areas of action, i.e. pillars: 1) Fiscal framework, 2) Public revenues, 3) Planning and budgeting, 4) Budget execution, 5) Internal control and 6) External audit.

#### *Measures to preserve employment and institutionally strengthen the Employment Institute*

With the Law on Amendments to the Law on Mediation in Employment and Rights during Unemployment, as of 31 December 2019, public employment services are completely exempted from administrative obligations related to health insurance for registered unemployed persons. In this way, the Employment Institute of Republika Srpska is enabled to perform activities under its registered jurisdiction and direct its capacity to activities and work with unemployed active job seekers, i.e. the mediating role of the Employment Institute of Republika Srpska. Also, in this way, better planning, determination of target groups and implementation of active measures on the labour market are enabled.

#### *Enhancing the business environment*

In December 2020, the National Assembly of Republika Srpska adopted the Law on Factoring. The aim of enacting this law is to regulate factoring as a non-banking financial service, in order to increase financial inclusion, i.e. to ensure greater availability of financial resources to small and medium-sized enterprises through the purchase of overdue short-term receivables. In this way, among other things, it contributes to increasing the liquidity and solvency of business entities and increasing their competitiveness.

According to the budget revisions in 2020, as a consequence of the crisis caused by the COVID-19 pandemic and the implementation of previously described measures a consolidated general government budget deficit of Republika Srpska is set to 5.8% of GDP<sup>34</sup>, higher than 3% as prescribed by fiscal rules.

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<sup>34</sup> GDP of Republika Srpska (in mill. KM): 11,251 (2019), 10,890 (2020), 11,254 (2021), 11,715 (2022), 12,195 (2023)

As a consequence of the gradual recovery and growth of economic activity in the coming 2021, the budget deficit is estimated to amount to 3.0% of GDP, while in the period 2022-2023 it would range between 2.0% and 1.0% of GDP. The general government sector in Republika Srpska encompasses consolidated budgets of sub-sectors: central government, local self-government units and extra-budgetary funds. According to projections, it is expected that in 2020, consumption of observed levels of government is expected to have the highest share of 46.3% in the projected GDP, when the largest budget deficit is planned. In the following period 2021–2023, the projected share of consumption in GDP decreases from 41.8% to 39.1%.

**Table 2: Fiscal framework 2019–2023 in accordance with the baseline scenario**

Fiscal indicators (% of GDP)	2019	2020	2021	2022	2023
	Performance	Rev. plan	Plan	Plan	Plan
Total income	39.7	40.6	38.8	38.3	38.1
Total spending	39.8	46.3	41.8	40.3	39.1
Net borrowing/crediting	-0.1	-5.8	-3.0	-2.0	-1.0
Interest expenditures	1.1	1.2	1.3	1.4	1.5
Primary balance	1.0	-4.6	-1.7	-0.5	0.5

Source: Ministry of Finance of Republika Srpska

When it comes to debt policy, the main goal of Republika Srpska is certainly related to the process of the European Union accession, which means that the long-term commitment of Republika Srpska is to keep public debt below 60% of GDP of Republika Srpska.

Looking at the general government sector, as follows in the period 2020-2023, most of the total revenues are tax revenues (from 52.7% to 54.4%). A significant part of the income is made up of social security contributions (from 37.5% to 38.6%), while a smaller share of property income (from 1.9% to 2.1%) and other revenues (from 5.5% to 7.7%). Revenues from social security contributions by purpose are spent as remittances on behalf of social protection, although social benefits exceed revenues on this basis.

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

Within the planned spending, in the period 2020–2023, total social transfers (45.3% to 50.3%) and allocations for compensation of employees (21.7% to 23.5%) are significant, which are defined by the legal framework. Allocations from the capital budget range from 4.4% to 9.7%, while it is planned to allocate from 3.1% to 5.3% of total spending for subsidies. In the structure of planned spending, the allocation for interest expenses is not negligible (2.5% to 3.8%).

In addition, the Government of Republika Srpska will continue with the structural reforms described in Part 4 of this program in order to maintain macroeconomic and fiscal stabilization, sustain employment and recovery, and accelerate economic growth.

## **4.2. Budget implementation in 2020**

At the time of preparation of revised projections of indirect tax revenues (October 2020) by the Macroeconomic Analysis Unit of the Indirect Taxation Authority (hereinafter MAU) for the period 2020-2023<sup>35</sup> preliminary data on the collection of revenues by type for the nine months of 2020 were available. According to the ITA's preliminary report on the cash flow, at the level of nine months of 2020, the gross collection of indirect taxes revenues was lower by KM 609.8 million, while the refund payments were lower by KM 123.2 million. Due to the decrease in payments of refunds, the decrease in cumulative net collection was significantly smaller compared to the decrease in gross collection and amounted to KM 486.6 million, which is a 10 % decrease. Since the coronavirus appeared in BiH in early March, and BiH authorities introduced significant restrictive measures at the end of March, the growth of revenues from indirect taxes in the first quarter stood at 4.4%. The introduction of restrictive measures at the borders, the closure of

<sup>35</sup>Projections available in MAU Bulletin no. 185-186, [http://www.oma.uino.gov.ba/bilteni/Oma\\_Bilten\\_eng\\_185\\_186.pdf](http://www.oma.uino.gov.ba/bilteni/Oma_Bilten_eng_185_186.pdf)

certain activities, the restriction of population movements have brought a decline in imports and consumption, especially due to the inability of non-residents to arrive (diaspora, tourists, transit and cross-border consumption). After the positive trends in the first quarter, there was a sharp decline in revenue collection. Already in April, net revenue collection fell by 22.2%, and in May by a record 33.1%.<sup>36</sup> After high rates of revenue decline in April and May, there was an improvement in June and July with lower revenue rates (4.6% and 3.5%, respectively), and again a large deterioration in collection in August and September (rates of decline 20, 8% and 14.4%, respectively). Expressed in nominal terms in the period January - September 2020, the largest decrease in revenues was recorded in VAT (KM -239.9 million), excise duties (KM -176.2 million), as well as customs revenues (KM -31.0) and tolls (KM -53.4 million).<sup>37</sup>

The corona virus pandemic has brought turbulence to the BiH economy. Quarantines and isolations, reduction of business and private travel, ban on gatherings, intercity transportation and movement due to curfew led to a loss of revenue from indirect taxes during the period in which the restrictions are implemented. A significant part of consumption in the period of implementation of protection measures was permanently lost and irreparable. Having in mind the worsening of the epidemiological situation in BiH, and the possibility of more rigorous measures to fight coronavirus by the end of the year, in October 2020 MAU projected a net collection of indirect tax revenues for 2020 in the amount of KM 5,830.2 million, which is 10,9% less than in 2019. Projections by type of revenue are available in the following Table.

**Table 3: Revised projections of indirect taxes for 2020 (MAU GB ITA, October 2020)**

In KM mill.	VAT	Excises	Customs	Road tolls	Other	Total	Earmarked tolls	Funds for distribution
2019	4,022.4	1,533.3	300.6	650.2	35.3	6,541.8	-406.2	6,135.6
2020 proj.	3,673.1	1,303.3	259.0	567.3	27.6	5,830.2	-354.5	5,475.7
2020/2019	-8.7%	-15.0%	-13.9%	-12.7%	-21.8%	-10.9%	-12.7%	-10.8%

Note: The earmarked road toll 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).

Source: MAU GB ITA, [http://www.oma.uino.gov.ba/bilteni/Oma\\_Bilten\\_eng\\_185\\_186.pdf](http://www.oma.uino.gov.ba/bilteni/Oma_Bilten_eng_185_186.pdf)

Based on data on revenue collection for the first three quarters of 2020, the projected negative effects of the crisis caused by the coronavirus pandemic and the projected consumption, imports, and exports in 2020, the projected collection of VAT revenues amounts to KM 3,673.1 million, which is by 8.7% below collection in the previous year. Total revenues from excise duties in 2020 are set to KM 1,303.3 million, which is 15.0% less than in 2019. Revenues from tolls are set to KM 567.3 million, which is 12.7% less compared to collection in 2019. According to the BiH Agency for Statistics, imports of goods in BiH fell by 17% in the first eight months. The projected amount of net customs revenues in 2020 is KM 259.0 million KM, which is 13.9% below the realization in 2019.

The above-mentioned high rate of projected decline in excise revenues for 2020 was determined by the projections of excise revenues on the two most important categories of excise products: petroleum products and tobacco products. According to the ITA's preliminary report on revenue collection, gross revenues from excise duties on petroleum products by the end of September 2020 fell at a rate of 11.2%. Taking into account the trends in the collection of revenues and consumption of certain types of petroleum products, and projections of real trends in macroeconomic indicators, MAU projected a decline in net revenues from excise duties on petroleum products in 2020 by 13.8% compared to collection in 2019. Tobacco companies increased retail prices of cigarettes in early 2020, although there was no increase in specific excise duties on cigarettes. The increase is justified by the losses incurred in previous years. On average in eight months, retail prices of cigarettes increased by 5% compared to the weighted average price in 2019. Given the deteriorating epidemiological situation in BiH and the EU, the October 2020 OMA projections state that no relaxation of coronavirus measures is expected by the end of the year, and that it is realistic to expect

<sup>36</sup>Comparison with the corresponding months of the previous year..

<sup>37</sup>It is necessary to emphasize the possibility of changing the indicators of revenue trends by type after the final adjustment of approximately KM 30 million of unadjusted revenues from the preliminary report of the ITA.

continued unfavourable trends in cigarette market values and quantities of cigarettes, expressed by the number of excise stamps taken. Having the above assumptions in mind, it is projected that in 2020, 16.7% less excise duties on tobacco products will be collected compared to the collection in 2019.

**The Law on the Budget of the Institutions of BiH** and International Obligations of BiH for 2020 was adopted by the Parliamentary Assembly of BiH on July 29, 2020, so that during the first seven months of 2020, there was temporary financing of the institutions of BiH. Regardless of the fact that BiH institutions were in the regime of temporary financing in the first seven months, it is estimated that the total revenues in 2020 will be realized in the amount of KM 919.5 million or 99% of the adopted budget, or KM 780 million of generated tax revenues from the Single Account of the Indirect Taxation Authority and KM 139.5 million of non-tax revenues.

It is estimated that, by the end of 2020, the institutions of BiH will realize the following revenues, proceeds and financing:

- KM 780 million or 100% of tax revenues from the Single Account of the Indirect Taxation Authority (ITA SA),
- In relation to the planned non-tax revenues of about KM 146.1 million, we expect their realization in the amount of about KM 139.5 million or 96% in relation to the planned non-tax revenues (noting that the income from the profit of the Central Bank of BiH is not included, because it was not collected in 2019 and 2020),
- About KM 12 million of donations (earmarked), which represent an increase by about KM 11.8 million compared to the plan,
- About KM 1.8 million of transfers from other levels of government (earmarked), which is an increase by about KM 1.3 million compared to the plan,
- About KM 1 million of planned proceeds, of which KM 0.3 million of proceeds from the sale of fixed assets and about KM 0.7 million of proceeds from succession, which is a one-time measure of collection of proceeds from the sale of property.

Temporary financing was reflected in the level of expenditure. The estimate of the execution of budget expenditures of the institutions of BiH by the end of 2020, based on the execution of expenditures in the first three quarters of 2020, may be the following:

- In relation to the planned funds for salaries and remunerations of employees in the amount of KM 696.6 million, they are expected to be executed in the amount of about KM 680.2 million or 98% for salaries and remunerations, which is about KM 18.9 million more than in 2019, because in June 2020, the Law on Amendments to the Law on Salaries and Remuneration in the institutions of BiH was passed, which increased the coefficients for military personnel, while in 2019 and 2020 the number of internal promotions of employees in institutions rose, which increased the average paid salaries in 2020. Then, the compensation for a hot meal for all employees in the institutions of BiH was increased from 6 KM to 8 KM per day, which amounts to about KM 11 million annually. We note that the number of employees as on 30 September 2020 was 22,223, which is 4 employees less than the number of employees on 31 December 2019, due to the outflow of staff, especially at the Ministry of Defence of BiH, while compared to the projected number of employees in the 2020 Budget (23,269 employees) there were 1,046 less employees, but by the end of 2020 the employment of new military personnel, police officers and persons in the newly formed institution of the Institute for the Execution of Criminal Sanctions, Detention and Other Measures of BiH is expected. Planned, but vacant positions are with the Institute for the Execution of Criminal Sanctions, Detention and Other Measures of BiH, because it is a newly established institution, 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 2020, 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,

- In relation to the planned funds for material expenses of KM 171.1 million, we expect execution of about KM 165 million or 96% in relation to the plan for material expenses of the institutions of Bosnia and Herzegovina,
- In relation to the planned funds for social benefits of KM 7.5 million, about KM 7.5 million is expected to be executed for social benefits, of which KM 2 million on transfers to the Return Fund for financing the rights of displaced persons under Annex VII of the Dayton Peace Agreement and KM 5.5 million benefits in case of illness, death and severance pay to employees in BiH institutions,
- In relation to the funds planned to mitigate the economic consequences in the amount of KM 42 million, we expect the execution of about KM 37 million of transfers to other levels of government, and about KM 5 million to the institutions of BiH, for repairing the economic consequences caused by the COVID-19 epidemic, which is a one-off measure on the expenditure side,
- Then we expect execution of about KM 23.5 million for other expenses (direct transfers and reserve),
- KM 0.9 million or 100% on behalf of foreign interest based on the loan of Macro-financial assistance of the European Commission, the CEB loan for the construction of a state prison and the Saudi Fund loan for the project "Reconstruction of housing units for displaced persons in BiH", while KM 4.5 million refers to finance repayments based on these loans,
- In relation to the funds planned for capital expenditures in the amount of KM 41.6 million, we expect slightly higher execution on capital expenditures of about KM 68.5 million, or KM 67.5 million of net expenditures for non-financial assets (capital expenditures of KM 68.5 million net of the realized receipts from assets in the amount of KM 1 million represent a net increase in non-financial assets in the amount of KM 67.5 million). Execution of capital expenditures is expected in a larger amount due to the execution of multi-annual projects for which earmarked funds were transferred from previous years.

In accordance with the above, institutions at the level of Bosnia and Herzegovina could realize a deficit in the amount of about KM 53.6 million at the end of 2020, about KM 10 million less compared to the planned amount of KM 63.5 million, which will be covered from the unallocated surplus from previous years. Due to lower execution of expenditures caused by temporary financing of BiH institutions in previous years, the unallocated surplus from previous years in the amount of 68.2 million KM (planned as financing of BiH institutions in the Budget of BiH institutions for 2020), can 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 2020 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 2020 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, gross wages and remunerations of employees in the institutions of BiH, i.e. employee earnings, have all been frozen at the same level since 2012, except for increased coefficients for police officers (2017) and military personnel (2020) at the level of Bosnia and Herzegovina, which has affected the increase in allocations for salaries of police officers and military personnel in BiH institutions. In addition, BiH institutions have achieved additional savings on material costs, due to the application of uniform regulations on the use of fixed and mobile phones 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 the savings are evident in 2020 as well.

We note that one-off measures in 2020 amount to KM 1 million for proceeds from the sale of property, while on the expenditure side one-off measures amount to about KM 42 million, of which about KM 37 million will be transferred to the entities and Brčko District to repair economic damage caused by the COVID-19 pandemic.

As a consequence of disturbances caused by the COVID-19 pandemic in May 2020, the **revised budget of the Federation of BiH** for 2020<sup>38</sup> in the amount of KM 5,508 million was adopted, which is KM 554.5 million or 11.2% more relative to the 2020 the Budget of the Federation of Bosnia and Herzegovina. The FBiH Ministry of Finance has prepared a regular quarterly report on the execution of the budget of the Government of the Federation of BiH for the period from 1 January to 30 September 2020.g<sup>39</sup>. In the period from 1 January to 30 September 2020, the budget was executed in accordance with the Law on Execution of the Budget of the Federation of Bosnia and Herzegovina for 2020 (Official Gazette of FBiH, 99/19) and the Law on Amendments Law on Execution of the Budget of the Federation of Bosnia and Herzegovina for 2020 (Official Gazette of FBiH", 28/20).

Relative to the budget revision for 2020, the total revenues of the Government of the Federation of BiH were realized 63% or in the amount of KM 3,454.0 million. The structure of realized revenues consists of 74.52% tax revenues, 16.69% receipts from financing and 8.79% non-tax revenues. Revenues from taxes were realized in the amount of KM 2,574.0 million or 78% of the plan, of which the largest amount was realized by contributions for PDI in the amount of KM 1,492.0 million or 85% of the plan and revenues from indirect taxes in the amount of KM 1,015.1 million or 70% of the plan. It is important to note that the payment of PDI contributions from 1 January 2020 is performed on the treasury account by transferring the operations of the Federal Pension and Disability Insurance Fund to the system of the single treasury account, due to which tax revenues are higher by 108% compared to the previous year. In addition to the stated revenues, within the tax revenues, the profit tax was realized in the amount of KM 66.8 million or 93%, and the largest share in them is the income tax of banks of KM 40.3 million.

Non-tax revenues (fees, taxes, fines and other non-tax revenues) have been realized in the amount of KM 303.6 million or 60% of the rebalance of the plan for 2020. Within non-tax revenues, revenues from entrepreneurial activities and property were realized in the amount of KM 190.6 million, fees, taxes and revenues from the provision of public services in the amount of KM 105.1 million and fines in the amount of KM 7.9 million. The largest share (49.9%) in non-tax revenues is made up by "Revenues from the return of annuities - end-user funds for loan repayment" based on which the amount of KM151.7 million was paid in the budget of FBiH. The total planned income on the basis of dividends for 2020 was realized entirely due to the payment of KM 2.3 million by JP Elektroprivreda BIH and KM 31.5 million by JP BH Telekom DD.

Financing based on receipts for the first nine months of 2020 amounted to KM 576.2 million. Of this amount, long-term receipts account for KM 466.3 million or 54% of the planned amount, while receipts based on short-term financing, taking into account the liquidity of the single treasury account, were realized at the level of 27% of the amount planned for 2020.

The total expenditures of the Government of the Federation of BiH were realized in the amount of KM 3,352.5 million or 61% compared to the revised budget for 2020. Current expenditures were realized in the amount of KM 2,901.2 million KM or 66% compared to the plan. Salaries and compensations of employees were realized in the amount of KM 174.6 million KM or 73% of the plan, namely gross salaries in the amount of KM 156.1 million and compensation of employee costs KM 18.5 million. The increase in gross salaries and benefits by 10% compared to last year is the result of the integration of the Federal Institute for PDI in the budget. Relative to the plan, interest expenses were realized only by 57%, i.e. in the amount

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<sup>38</sup> **Decision on Amendments to the Budget of the Federation of Bosnia and Herzegovina for 2020**; Law on Amendments to the Law on Execution of the Budget of the Federation of BiH for 2020, Official Gazette of the Federation of BIH, 28/20

<sup>39</sup> FMF: Report on the execution of the FBiH budget for the period from 1 January to 30 September 2020, October 2020

of KM 66.5 million. Expenditures for materials and services were realized in the amount of KM 62.9 million or 53%.

Current transfers and other current expenditures take the largest share in current expenditures of 88.9% and were realized in the amount of KM 2,578.2 million or 66% of the plan. Within current transfers, the largest share belongs to current transfers to individuals, which were realized in the amount of KM 2,071.5 million or 72% of the plan, while in 2019 they amounted to KM 326.7 million. According to the functional classification, the largest amount of funds spent refers to social benefits in the amount of KM 2,103.7 million. Subsidies to public companies awarded to PE Željeznice (Railways) Federacije BiH, Terminali Federacije BiH, Energoinvest, Privatization Agency and airports, and private companies and entrepreneurs were realized in the amount of KM 78.9 million or 57% of the plan and are higher by KM 16.3 million from subsidies in the same period 2019.

Capital expenditures, i.e. expenditures for the purchase of fixed assets and capital grants have a very low realization rate of 36% compared to the plan and were realized in the amount of KM 60.3 million, within which capital grants were realised in the amount of KM 32.0 million or 25 % of the plan, and expenditures for the purchase of fixed assets amount to KM 28.2 million or 71% of the plan for 2020. Capital grants were awarded in the amount of KM 3.7 million to other levels of government, and KM 28.4 million to public companies, and of the fixed assets most funds were spent on the purchase of equipment and accommodation of institutions of the Government of the Federation of BiH.

Regarding the estimates by the end of the year, the following text presents the consolidated financial indicators of all levels of government in the Federation of BiH shown in Tables 2b, 2b continued and 3 attached to this document.

The budget for 2020 determines the decrease in total revenues and on the other hand the increase in total consumption caused by the outbreak of the COVID-19 pandemic. Based on data on the execution of public revenues in the first three quarters of 2020, and following the assumed economic trends by the end of the year, it is estimated that the total level of available consolidated revenues of the general government<sup>40</sup> in the Federation of BiH in 2020 will amount to KM 7,759.5 million and be reduced by approximately 11% or by KM 950.4 million compared to the realization in 2019.

The largest share in the total consolidated revenues is taken by revenues from social contributions, planned in the amount of KM 3,540.1 million for 2020, with an estimated decrease by 3.43% or KM 125.8 million compared to the execution in 2019. The projection of social contributions for 2020 is supported by one-off payments of subsidies in accordance with the Law on Mitigation of Negative Economic Consequences (intervention measures of the Government of the Federation of BiH) in the total amount of KM 89.8 million.

Available revenues from indirect taxes are projected in the amount of KM 2,561 million, with an assumed decrease by 19.26% or KM 610.7 million. In the category of indirect taxes in 2020, collection based on all sources (VAT, customs duties, excises, tolls) was reduced. Most of the assumed decrease was generated by the decline in the components of indirect taxes related to imports, due to the reduced volume of foreign trade, as a consequence of the pandemic. Furthermore, the lockdown of the economy in one period in order to prevent the spread of the pandemic, the lack of tourist visits, which were expanding in previous years in the Federation of BiH, reduced diaspora visits, disrupted passenger transport, etc. left repercussions on private consumption, which partly reflected in the reduction of the share of the Federation of BiH in final consumption, i.e. the available allocation coefficient during 2020. Ultimately, in addition to the above, the decline in the available portion of indirect tax revenues in the Federation of BiH in 2020 is under additional pressure of the negative amount for settlement between the entities, for previous years.

The projection of revenues from direct taxes for 2020 amounts to KM 853.4 million with the expected reduction of collection by 7.14% or KM 65.6 million compared to 2019. The largest generator of the projected reduction within this category of revenues are corporate income tax revenues, and the absence of

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<sup>40</sup> Consolidated revenues of the general Government of the Federation of BiH include: revenues of the Budget of the Federation of BiH, sub-entity budgets (cantonal budgets and budgets of local self-government units), financial plans of extra-budgetary funds, business plans of public enterprises financed from public revenues or enterprises for which the government issues borrowing guarantees (Željeznice FBiH, Ceste FBiH and Autoceste FBiH). Revenues from indirect taxes intended for repayment of external debt and revenues from repayment of annuities to end users for loan repayment are excluded from the consolidation.

advance income tax payments for self-employment for 2020, as intervention measures of the Government of the Federation of BiH to mitigate the negative economic consequences of the pandemic, while the revenues based on income tax from subordinate employment contract activities are set to remain at the approximate level of realization from 2019. The expected collection of property income in 2020 amounts to KM 51.8 million, which is 21.76% or KM 14.4 million less compared to 2019. The rest of the consolidated framework of the general government in the amount of KM 753.2 million is the plan of other revenues, which is 15.09% or KM 133.9 million lower compared to 2019.

In terms of expenditures, it is projected that the total consolidated expenditures for 2020 will be realized in the amount of KM 8,376.9 million, which is higher than the previous year by KM 391.7 million or 4.9% due to increased social transfers, investments and subsidies. Compared to 2019, social transfers in the amount of KM 3,061.2 for 2020 are higher by KM 196.6 million or 6.8%. Investments are higher by KM 44.2 million or 7.6% compared to the previous year and are estimated to amount to KM 627.40 million, while subsidies are higher by KM 29.6 million or 9% and are estimated to amount to KM 358.4 million. At the same time, it is projected that collective consumption will decrease by KM 31.6 million or 0.8% and interest expenditures by KM 9 million or 7% compared to 2019. Collective consumption is planned in the amount of KM 3,904.4 million, and interest expenses in the amount of KM 118.8 million.

Regarding the general government expenditures by functions, shown in Table 3, the growth of total expenditures will be mostly affected by the increase in social protection costs by KM 150.2 million or 4.9%, general public services costs by KM 80.9 million, health care costs by KM 52.1 million, and education costs by KM 42.5 million. In 2020, the general government level is expected to see a deficit of KM 617.4 million.

At its 13<sup>th</sup> session, held on 1 December 2020, the **National Assembly of Republika Srpska** adopted the Second Revision of the Budget of Republika Srpska for 2020. Also, a number of local governments and social security funds have adopted budget revisions. Budget revisions for 2020 of institutions at all levels of government included in the consolidation, are included in this programme as a revised budget of the general government of Republika Srpska for 2020.

According to preliminary data on budget execution, total revenues in the first three quarters of 2020 were realized in the amount of KM 3,106.8 million, which represents 70.3% of the revised budget of the general government of Republika Srpska for 2020. Compared to the budget of the general government of Republika Srpska for 2020 (from last year's Programme), the revised budget of the general government for 2020 sets the total revenues down by KM 203.1 million, or 4.4%.

Within revenues, the largest decrease refers to total taxes, which are lower by KM 214.4 million, or 8.4%. This difference was mostly caused by a significant decline in revenues from indirect taxes, which are lower by KM 174.7 million. Regarding revenues from indirect taxes, there was a decrease in revenues from all types of taxes (VAT, customs, excise, tolls), while the largest part refers to a decrease in revenues from VAT on imports and excises on imported products as a result of reduced foreign trade exchange due to the new crisis situation.

Measures of the Government of Republika Srpska to mitigate the negative economic consequences caused by the coronavirus pandemic have maintained the number of employees and the level of salaries in the real sector, so that the income from social contributions has not dropped significantly compared to the originally planned amounts for 2020. These revenues are lower by KM 21.9 million or 1.3%.

Regarding property revenues, the revised general government budget for 2020 reduced these revenues by KM 72 million or 44.2%, while other revenues increased by KM 105.3 million or 44.5% (mostly due to significant growth of grants).

According to preliminary data on budget execution, total expenditures in the first three quarters of 2020 were realized in the amount of KM 3,442.7 million, or 68.2% of the revised budget of the General Government of Republika Srpska for 2020.

Compared to the budget of the general government of Republika Srpska for 2020 (from last year's Programme), the revised budget of the general government for 2020 increased the total expenditures by KM 442.8 million or 9.6%.



Within expenditures, the most significant increase in expenditures is planned in the capital budget (KM 153.4 million or 45.5%), and it refers mostly to infrastructure investments in local self-government units. Also, total social transfers went up by KM 94.3 million or 4.3%, which is a result of regular adjustment of pensions and the number of pension beneficiaries, then the calculation base and the number of personal disability benefits and social protection rights increased, as well as the rights in the field of child protection. In the position of subsidies, there was an increase of KM 91.1 million or 51.5%, which mostly refers to allocations for the Solidarity Fund and the Compensation Fund, i.e. allocations for mitigating the negative consequences caused by the coronavirus pandemic. Interest expenditures decreased by KM 1.7 million or 1.3%. The revised budget plans more allocations for compensation of employees (KM 16.4 million or 1.5%). The increase in compensation of employees is the result of an amendment to the Special Collective Agreement for Employees in the Field of Local Self-Government of Republika Srpska (Official Gazette of Republika Srpska, 21/20), based on which the price of labour was increased and ranges from KM 110 to KM 145, then the average salary after taxation in Republika Srpska increase, which serves as a basis for calculating compensation for employees, as well as the introduction of two health centres into a single treasury system of local self-government units.

### 4.3. Budget plans for the ERP submission year

Given the uncertainty surrounding the duration of the coronavirus pandemic, and given the experience gained with the spread of the virus during the winter and early spring, the MAU projections from October 2020 stated that it is unrealistic to expect a recovery in revenue collection before the second quarter of 2021. The projected growth rate of indirect tax revenues for 2021 is 2.8% and is based on the projected relevant macroeconomic indicators, the historical seasonal collection scheme and projections of certain categories of revenues for 2020.

**Table 4: Revised projections of indirect taxes for 2020 (MAU GB ITA, October 2020), in KM mill**

In KM mill	VAT	Excises	Customs	Road tolls	Other	Total	Earmarked tolls	Funds for distribution
2019	4,022.4	1,533.3	300.6	650.2	35.3	6,541.8	-406.2	6,135.6
2020 proj.	3,673.1	1,303.3	259.0	567.3	27.6	5,830.2	-354.5	5,475.7
2021 proj.	3,773.1	1,342.6	269.3	581.4	25.8	5,992.2	-363.4	5,628.8
2021/2020	2.7%	3.0%	4.0%	2.5%	-6.6%	2.8%	2.5%	2.8%

Source: MAU GB ITA, [http://www.oma.uino.gov.ba/bilteni/Oma\\_Bilten\\_eng\\_185\\_186.pdf](http://www.oma.uino.gov.ba/bilteni/Oma_Bilten_eng_185_186.pdf)

The largest generator of absolute growth in revenues from indirect taxes in 2021 is VAT, given its significant share in revenues, and the planned stable growth rate. Revenues from excises together with revenues from road tolls make up 1/3 of the projected absolute growth of total revenues from indirect taxes in 2021. Revenues from excise duties on tobacco, on the other hand, are the largest generator of projected absolute growth in excise revenues. In 2021, two-thirds of the absolute growth in net excise revenue relates to excise duties on tobacco. As no change in cigarette taxation policy is expected in 2021, the assumption was used that tobacco companies will keep the retail prices of cigarettes from 2020, in order to avoid further erosion of sales. On the other hand, the policy of taxation of smoking tobacco in 2021 is expected to change. The increase in cigarette prices in 2020 has resulted in an increase in the weighted average price, which created assumptions to increase the specific excise duty on smoking tobacco in 2021<sup>41</sup>. An increase in the excise duty burden on smoking tobacco while maintaining the same tax burden on cigarettes reduces the gap between the prices of smoking tobacco and cigarettes, which may result in smoking tobacco consumers switching to cigarette smoking again and lower-income people giving up more expensive tobacco smoking and switching to black market tobacco and cigarette use. Provided that the coronavirus pandemic is contained and the much-needed stabilization of the market and consumption in 2021, while keeping retail cigarette prices at 2020 levels and unchanged excise policy, the value of the cigarette market is expected to

<sup>41</sup>The Law on Excise Duties prescribes a methodology for calculating the specific excise duty on smoking tobacco, which is based on the weighted average price of cigarettes and the minimum excise duty on cigarettes. In the period after the preparation of the MAU projections, in November 2020, the Governing Board of the Indirect Taxation Authority passed a Decision on Determination of the Specific and Minimum Excise Duty for Cigarettes and Amount of the Excise Duty on Smoking Tobacco for 2021 (Official Gazette of BiH, 78/20). The decision prescribes a higher amount of excise duty on smoking tobacco compared to the prescribed amount for 2020 (KM 130/kg for 2021 compared to KM 121.6/kg for 2020)

follow macroeconomic projections of consumption. Under the above assumptions, the collection of excise duties on tobacco products in 2021 is expected to increase by 3.6%. An important factor in achieving the projections of excise duty collection is the continuous fight against the black market of cigarettes and tobacco in BiH.

The **Ministry of Finance and Treasury of BiH**, in accordance with the adopted Global Framework of Fiscal Balance and Policies in Bosnia and Herzegovina for the period 2021-2023, prepared Framework Budget Document of BiH institutions for this period and sent it to the Council of Ministers of BiH. The Framework Budget Document of BiH institutions for the period 2021-2023 was adopted by the Council of Ministers of BiH on 16 December 2020. Due to the fact that the Framework Budget Document is a preliminary draft budget for the coming year, we provide below an explanation of revenues and expenditures for 2021 presented in this document. After the Council of Ministers considers and adopts the Framework Budget Document, the Ministry of Finance and Treasury of BiH will prepare the Draft Law on Budget of BiH Institutions and International Obligations of BiH for 2021 and submit it to the Council of Ministers of BiH in accordance with the Law on Financing of BiH Institutions.

On 18 September 2020, the Fiscal Council of Bosnia and Herzegovina adopted the Global Framework of Fiscal Balance and Policies in Bosnia and Herzegovina for the period 2021-2023, in which the framework for financing the institutions of Bosnia and Herzegovina was set at KM 1,027.1 million, with allocation of revenues from indirect taxes in the amount of KM 780 million annually. According to the Framework Budget Document, revenues, proceeds and financing for 2021 include the following:

- KM 780 million from indirect taxes, the same level as in 2020
- KM 149 million of other revenues, of which:
  - KM 148.4 million of non-tax revenues, i.e. KM 2.3 million or 2% more compared to 2020, mainly as the result of planning a larger amount of revenues generated by the Communications Regulatory Agency (fees for the use of radio frequency spectrum), as well as tax revenues in the indirect taxation procedure.
  - KM 0.1 million from current support in cash form (with the Food Safety Agency of BiH), which is less by KM 0.1 million than in 2020.
  - 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 0,16 million;
  - Financing in the total amount of KM 98.1 million which refers to the funds transferred from the previous period according to the Report on Budget Execution of BiH Institutions and International Obligations of BiH for 2019, which is by KM 29.9 million more relative to 2020.

The total expenditures of the institutions of Bosnia and Herzegovina in 2021 amount to KM 1,027.1 million and compared to 2020 they are higher by KM 31.1 million or 3%. The structure of expenditures of BiH institutions according to the GFS 2001 methodology relates to:

- Gross salaries and compensation of employees are planned in the total amount of KM 751.6 million, which represents an increase of KM 50 million or 7% compared to the 2020 Budget. The increase in the total amount of this category of expenditures is the result of increasing the base by 4.5% and returning it to the level of 2012, and partially adjusting to personal income in the entities, increasing the coefficients for calculating the salaries of soldiers and non-commissioned officers (in 2020 budget funds were planned for half a year, and in 2021 for the whole year), planned employment of 133 people with the Indirect Taxation Authority of BiH, harmonization of employment dynamics in relation to the budget for 2020 (with the Institute for Execution of Criminal Sanctions, Detention and Other Measures of BiH), planned admission of 100 of police officers at the BiH Border Police, harmonization of coefficients for salary calculation at

prosecutorial and judicial institutions in accordance with the regulations governing this issue, and the planned larger allocation for one-off compensations, etc.).

- Expenditures for materials and services for 2021 are planned in the amount of KM 193.5 million and compared to the budget for 2020 they are higher by KM 22.4 million or 13%. The increase in the amount of this category of expenditures is a consequence of the fact that in the Budget for 2020, due to the provision of funds for financing economic damages, a significant reduction of this category of expenditures was made, and the increase is evident in the Ministry of Foreign Affairs of BiH, the Institute for Execution of Criminal Sanctions, Detention and Other Measures, the Ministry of Defence of BiH, the Court of BiH, the Ministry of Foreign Affairs of BiH, etc. On the other hand, the Central Election Commission of BiH shows a decrease in these expenditures due to the fact that in 2020 funds were planned for local elections.
- Remittances for social protection (planned under the item of current grants and transfers) are projected in the amount of KM 2 million, which is at the level of 2020;
- Expenditures for non-financial assets are planned in the amount of KM 46.1 million (including funds for multi-annual projects in the amount of KM 4.5 million) and compared to 2020 they are lower by KM 5.3 million.
- Expenditures for foreign interest are planned in the amount of KM 1 million and relate to interest on the loan for the construction of the Institute for Execution of Criminal Sanctions, Detention and Other Measures of BiH, interest on the European Commission Macro-Financial Assistance loan and interest on the Saudi Fund loan for the project "Reconstruction of housing units for displaced persons in Bosnia and Herzegovina".
- Other expenditures are projected in the amount of KM 28.2 million (planned under the item of current and capital grants and transfers, and reserves).

We note that the difference to the total framework for financing BiH institutions relates to the repayment of principal on loans from the CEB Bank, the European Commission and the Saudi Fund, in the total amount of KM 4.7 million.

The general government budget plans of the **Federation of Bosnia and Herzegovina** for 2021 are shown in Tables 2b, 2b continued and Table 3 attached to this document. Following the forecasts of gradual economic recovery and positive trends in key macroeconomic parameters, and assuming that the duration of the pandemic and its negative impact on the economy will not be significantly transferred beyond the first half of 2021, consolidated revenue projections in the Federation of BiH for this year were prepared. However, guided by the estimated high level of uncertainty regarding the end result, in order to preserve fiscal discipline, they were done with extreme caution, based on a conservative approach, and their level is much more modest due to the weakened base in 2020 compared to the high historical trend recorded continuously in recent several years. Thus, the total public revenues of the general government in the Federation of BiH in 2021 are projected in the amount of KM 7,842.2 million with the expected growth of slightly more than 1% or KM 81.7 million compared to the projection for 2020.

Planned level of total social contributions for 2021 amounts to KM 3,579.9 million and assumes an increase of 1.2% or KM 39.8 million compared to the 2020 projection. The projection was made on the basis of positive macroeconomic forecasts of key labour market parameters. If we take into account that the base from 2020 is partly supported by subsidies of intervention measures, and it is reduced by that part, the assumption of "real" recovery of this category of income in 2021 compared to 2020 is higher and amounts to 3.7%.

It is estimated that the total available part of revenues from indirect taxes for users in the Federation of BiH in 2021, planned in the amount of KM 2,622 million, will increase by 2.4% or KM 61 million. This projection, in addition to macroeconomic assumptions for increasing the total collection of revenues from indirect taxes, included the planned amount for repayment of external debt, and the current estimate of the reserve for possible settlements between the entities. The expected realization of revenues from direct taxes in 2021 amounts to KM 847.7 million, with the assumption of an additional decrease by 0.7% or KM 5.7

million compared to 2020, driven by the assumed decrease in revenues from corporate income tax. Namely, following the trend of key indicators, and especially taking into account the assumed possibility of a significant reduction in corporate tax payments by financial institutions, as one of the major payers, given the approved moratorium on repayment of loans to legal entities and individuals economically affected by the pandemic, it is estimated that in 2021 the collection of income tax revenues will suffer further decline of 6.3%. The effects of recovery measures, and the stabilization of the international market, when it comes to their impact on the collection of this type of revenues, can be seen only in early 2022. Other types included in the category of direct taxes, primarily personal income tax, are assumed to turn positive in 2021. Property income for 2021 is projected in the amount of KM 53.3 million, with an expected growth of 2.76% or KM 1.4 million. Projection of other revenues for 2021 amounts to KM 739.3 million and is lower by 1.85% or approximately KM 14 million.

In terms of expenditures for 2021, the total consolidated expenditures of the general government are projected in the amount of KM 8,321.5 million, which is less by KM 55.4 million or 0.7% compared to 2020. The amount of KM 3,953.0 million is planned for collective consumption, which is higher by KM 48.6 million or 1.2% compared to the previous year. Total social transfers are projected in the amount of KM 3,108.2 million, which is an increase of KM 47 million or 1.5% compared to the previous year. It is assumed that the growth in social transfers will be caused by the growth of benefits for veterans and disabled people and their family members - cash subsistence allowance, as well as the implementation of the Law on Social Protection, Protection of Civilian Victims of War and Protection of Families with Children. The legally established increase in the transfer for payment of pensions has also been planned.

Expenditures in the amount of KM 148.8 million are planned for interest expenses, which is higher by KM 30 million compared to the previous year, with the assumption that the largest amount will relate to loans received through the State. Subsidies in 2021 are planned in the amount of KM 437.6 million and are higher by KM 79.2 million or 22.1% compared to 2020. The reason for this increase is that at the level of the budget of the Federation of BiH, a subsidy is planned for private companies and entrepreneurs - the Fund for Economic Stabilization.

Unlike other components of expenditures in 2021, the capital expenditures are projected to decline, i.e. fixed capital formation by KM 87.6 million or 13.9% and amount to KM 539.8 million. Considering that in the previous two years, the execution of the business plan of public companies at the level of investments was only 30% of the planned one, this item for 2021 has been reduced. In addition, this item is reduced on the assumption that due to uncertainty in the domestic and international markets the investment activity will turn downwards.

Compensation of employees in the public sector is planned in the amount of KM 2,054.8 million, which is an increase of KM 14.30 million or 0.7% compared to the previous year. In 2021, funds are planned for the fulfilment of the legal obligation to pay salaries and compensations of officials (MPs, ministers, advisors) six months after the termination of their mandate if they do not have an established employment relationship. Also, funds for the settlement of taxes and contributions from court judgments in the amount of KM 0.5 million have been provided, which has led to the aforementioned increase in this item. In 2021, the general government level is expected to see a deficit of KM 479.3 million.

To mitigate the consequences of the pandemic, within other transfers planned in the amount of KM 2,247.2 million for 2021, transfers are planned to take measures to prevent and combat infectious diseases COVID-19, transfers for the purchase of vaccines against COVID-19, and transfers for rehabilitation of healthcare facilities. In the coming year, the FBiH Government plans intervention measures as a continuation of support in the fight against COVID 19:

- Assistance to lower levels of government is planned, to cantons in the amount of KM 200 million from the arrangement with the IMF, and KM 30 million of transfers for local self-government units.
- Within the Fund for Stabilization of the Economy, KM 150 million is planned, for which a new bylaw has to be adopted.
- As support to employment, KM 50 million of funds are planned, which will be regulated by the programme.

- As part of measures to support the economy, it is planned to continue strengthening the Guarantee Fund at the Development Bank, and for that purpose KM 25 million is planned.
- Within the Guarantee Fund, KM 15 million is envisaged for regressing the costs of interest and guarantees for economic entities in the field of energy, mining and industry, entrepreneurship, and agriculture, water management and forestry.
- KM 10 million is planned for the purpose of linking years of service of employees within private and public companies.
- KM 115 million is planned for the construction of roads and as an aid to airports in the total amount of KM 9.5 million.
- As part of the assistance to healthcare institutions in the fight against the COVID-19 pandemic, KM 60 million are planned to be directed to health institutions, and KM 12 million for the payment of vaccines against COVID-19.
- Within the social measures, KM 16.5 million are planned for providing benefits for parents of children with special needs, and KM 3 million for the reconstruction and investment maintenance of institutions in the field of social protection.

**Looking at the general government sector in Republika Srpska** in 2021, total revenues are planned in the amount of KM 4,365.5 million, which is KM 50.8 million or 1.1% less than the revised general government budget for 2020. Observing the structure of these revenues, the largest share consists of tax revenues (52.9%) and social contributions (38.6%).

Within revenues, total taxes are planned in the amount of KM 2,308.1 million, which is less by KM 20.8 million or 0.9% compared to the revised general government budget for 2020. This difference is mainly due to a significant decline in revenues from indirect taxes. In 2020, a one-off payment was made on the basis of temporary settlements of revenues between the users of the allocation of indirect taxes from the ITA Single Account in the total amount of KM 54.9 million. Considering that it was a one-off payment, which will not happen in 2021, as well as that in 2021 there could be a reverse situation regarding the temporary settlement, but in a much smaller amount, despite the projected growth of net revenues at the level of BiH, there is a decline in revenues from indirect taxes in the general government sector in 2021 compared to the revised general government budget for 2020.

Revenues from social contributions are planned in the amount of KM 1,685.6 million, which is KM 31.2 million or 1.9% more than the revised general government budget for 2020. This projection is in line with the movement of these revenues during 2020, as well as with the expected movement of gross wages and the number of insured persons in 2021.

Regarding property income, the decline is planned by KM 7.7 million or 8.4% compared to the revised general government budget for 2020 and is set to KM 83.4 million. Other revenues decreased by KM 53.6 million or 15.7%, mostly due to a significant reduction in grants within the central government sub-sector, and amount to KM 288.4 million.

Observing at the general government sector in 2021, total expenditures are planned in the amount of KM 4,701.0 million, which is KM 344.8 million or 6.8% less than the revised general government budget for 2020.

Within expenditures, the most significant reduction of expenditures is planned in the capital budget by KM 226.6 million or 46.2%, and it refers mostly to infrastructure investments in local self-government units, which are not at the same level as in 2020 and reflect just a continuation of the started investments. Also, smaller funds are planned with the Health Insurance Fund, considering that a gradual end to the pandemic is planned during 2021.

The amount of KM 165.2 million is planned for the position of subsidies, i.e. there was a decrease by KM 102.7 million or 38.3%, which is mostly related to smaller allocations for the Compensation Fund.

Total social transfers increased by KM 32.2 million or 1.4%, which is mostly the result of regular adjustment of pensions and the movement of the number of pension beneficiaries, so that they amount to KM 2,317.3 million. Interest expenses increased by KM 15.8 million or 12.3% and amount to KM 144.7 million. Compensation of employees amounts to KM 1105.9 million and is higher by KM 10.9 million or 1%, which is mostly related to the increase in salaries of employees in the administrative bodies of Republika Srpska for past work, as well as the increase in salaries at the Child Protection Fund due to the new organization of labour in terms of taking over part of the employees from the centres for social work.

In 2021, the general government level is expected to see a deficit of KM 335.5 million.

#### 4.4. Medium-term budgetary outlook

The projected growth rates of indirect tax revenues for 2022 and 2023 are 3.5% and 3.7%, respectively (Table 3). The projections are based on projected relevant macroeconomic indicators, the historical seasonal collection scheme and projections of individual income categories for 2021.

**Table 5: Revised projections of indirect taxes for 2022 and 2023 (MAU GB ITA, October 2020), in KM million**

In KM mill	VAT	Excises	Customs	Road toll	Other	Total	Earmarked road toll	Funds for distribution
2021 proj	3,773.1	1,342.6	269.3	581.4	25.8	5,992.2	-363.4	5,628.8
2022 proj.	3,907.1	1,387.9	282.1	599.5	26.0	6,202.6	-374.7	5,828.0
2023 proj.	4,049.4	1,437.3	297.9	619.8	26.3	6,430.7	-387.4	6,043.3
2022/2021	3.6%	3.4%	4.8%	3.1%	1.0%	3.5%	3.1%	3.5%
2023/2022	3.6%	3.6%	5.6%	3.4%	1.0%	3.7%	3.4%	3.7%

Source: MAU GB ITA, [http://www.oma.uino.gov.ba/bilteni/Oma\\_Bilten\\_eng\\_185\\_186.pdf](http://www.oma.uino.gov.ba/bilteni/Oma_Bilten_eng_185_186.pdf)

The decline in indirect taxes in GDP in the period 2021-2023 (Table 4) is explained by the decline in the projected share of consumption in GDP (DEP, September 2020) and the fact that certain categories of income are not charged *ad valorem*. In contrast to the projected decline in indirect taxes in GDP, the projected share of revenue (OMA) in consumption (DEP) in this period is at a constant level of about 17.7%.

**Table 6: Revised projections of indirect taxes for 2022 and 2023 (MAU GB ITA, October 2020), in % of GDP**

in % of GDP	VAT	Excises	Customs	Road toll	Other	Total	Earmarked road toll	Funds for distribution
2019	11.3%	4.3%	0.8%	1.8%	0.1%	18.3%	-1.1%	17.2%
2020 proj.	10.6%	3.8%	0.7%	1.6%	0.1%	16.8%	-1.0%	15.8%
2021 proj.	10.5%	3.7%	0.8%	1.6%	0.1%	16.7%	-1.0%	15.7%
2022 proj.	10.4%	3.7%	0.8%	1.6%	0.1%	16.5%	-1.0%	15.5%
2023 proj.	10.3%	3.7%	0.8%	1.6%	0.1%	16.4%	-1.0%	15.4%

Source: MAU GB ITA<sup>42</sup>, [http://www.oma.uino.gov.ba/bilteni/Oma\\_Bilten\\_eng\\_185\\_186.pdf](http://www.oma.uino.gov.ba/bilteni/Oma_Bilten_eng_185_186.pdf)

In the **Draft Document of the Framework Budget of the Institutions of Bosnia and Herzegovina** for the period 2021-2023, the following structure of revenues, proceeds and financing, as well as expenditures and outlays for 2022 and 2023 is planned.

Revenues, financing and proceeds of the institutions of BiH are planned as follows:

- Tax revenues in 2022 and 2023 are projected in the amount of KM 780 million for each year,
- Other revenues in 2022 are projected in the amount of KM 147.6 million (Non-tax revenues of KM 147.1 million and transfers from other levels of government KM 0.5 million). In 2023, other revenues are projected in the amount of KM 156.5 million (non-tax revenues KM 156 million, transfers from other levels of government KM 0.5 million),

<sup>42</sup>As a source of data for GDP (expenditure approach) MAU used: BiH Agency for Statistics, September 2020 and DEP projections (Macroeconomic projections 2020-2023, September 2020)

- Financing and proceeds in 2022 are projected in the amount of KM 99.5 million, and in 2023 in the amount of KM 90.6 million.

The expenditure structure of the institutions of BiH in 2022 and 2023 is as follows:

- Gross wages and compensation of employees in 2022 are projected in the amount of KM 752.8 million, and in 2023 KM 755.7 million, i.e. an increase of 0.4% per year
- Expenditures for materials and services are projected in the amount of KM 197.5 million for 2022 (increase mainly due to the planning of funds for the implementation of general elections), and KM 189.5 million for 2023
- Social security remittances are planned on the item of current grants and transfers in 2022 and 2023 in the amount of KM 2 million annually.
- Expenditures for non-financial assets are planned in 2022 in the amount of KM 40.9 million, and in 2023 in the amount of KM 34.1 million.
- Interest expenditures for foreign loans in 2022 are planned in the amount of KM 0.9 million, and in 2023 in the amount of KM 0.8 million (interest on the loan for the construction of the Institute for the Execution of Criminal Sanctions, Detention and Other Measures BiH, interest on the loan of the European Commission Macro-Financial Assistance and interest on the loan of the Saudi Fund for the project "Reconstruction of housing units for displaced persons in Bosnia and Herzegovina"),
- Other expenditures are planned in the amount of KM 28.4 million in 2022, and in the amount of KM 28.6 million in 2023 (planned under the item of current and capital grants and transfers, and reserves).

We note that the difference to the total framework for financing BiH institutions relates to the repayment of principal on loans from the CEB Bank, the European Commission and the Saudi Fund, in the total amount of KM 4.6 million for 2022 and KM 16.4 million for 2023.

**The general government plans of the Federation of Bosnia and Herzegovina** for 2022-2023 are shown in tables 2b, 2b continued and Table 3 attached to this document. Revenues projections within the general government sector for the period 2022-2023, have been prepared based on the assumed "recovered" base from 2021, and positive macroeconomic forecasts for that period. Thus, the projection of total revenues for 2022 amounts to KM 8,205.7 million and assumes an increase of 4.64% or KM 363.5 million, while in 2023 the consolidated revenues of the general government are planned in the amount of KM 8,530.1 million with an increase by 3.95% or by KM 324.4 million (base: previous year).

The projection of social contributions follows the macroeconomic assumptions on the labour market for the period 2022-2023, with an assumed increase in the number of employees, and an assumed constant nominal increase in wages<sup>43</sup>. The total planned level of social contributions in the Federation of BiH is KM 3,771.4 million in 2022, i.e. KM 4,015.4 million in 2023, with the expected stable growth by 5.4% and 6.4% respectively (base: previous year)

Available revenues from indirect taxes for the Federation of BiH in 2022 are planned in the amount of KM 2,730.9 million, with a growth rate of 4.15% compared to the projection for 2021, while in 2023 they should be realized in the amount of KM 2,747.2 million and a growth of 0.6%. Although not included in the presented amounts, revenues from indirect taxes intended for repayment of external debt, as already pointed out, directly condition the available part, and due to the higher level of debt repayment in 2023, the growth rate of available part is only 0.6%.

Total revenues from direct taxes for 2022 are planned in amount to KM 881.1 million with an assumption of growth of 3.9%, while in 2023 the collection is set to KM 921.9 million, with a growth of 4.63 % (base: previous year). The projections follow the forecasts of GDP growth in the mentioned period, the expected improvement of the realized profit of legal entities, and the positive macroeconomic assumptions related to

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<sup>43</sup> Source: Directorate for Economic Planning, September 2020

the labour market as well as the assumed trends on the realization of other sources of taxable income when it comes to personal income tax collection.

Revenues from property in the period 2022 - 2023 are planned in the amount of KM 54.9 million i.e. KM 56.6 million and an assumed annual growth rate of 3% (base: previous year). The expected collection of other revenues at the level of general government in 2022 amounts to KM 767.5 million with a growth rate of 3.81%. In 2023, the projected amount of these revenues is at the level of KM 789.1 million and an assumed growth of 2.82%.

Projections of total consolidated expenditures of all levels of government in the Federation of BiH for 2022 amount to KM 8,401.4 million, while for 2023 they are planned in the amount of KM 8,580.4 million.

Medium-term projections for the position of total social transfers are planned at KM 3,234.7 million in 2022 and KM 3,305.0 million in 2023. As in the plan for 2021, it is assumed that benefits for veterans and the disabled and their family members will increase, and that transfers for the payment of pensions will increase in accordance with the law. Interest expenses are planned in the amount of KM 171.3 million and KM 151.1 million. The position of subsidies is planned in the amount of KM 370.0 million in 2022, while in 2023 they are planned in the amount of KM 372.1 million. Given that during the development of the plan for 2022 and 2023, it is not known whether resources will be planned for the Fund for Economic Stabilization, the planned amount of subsidies has been reduced to the level of previous years.

It is assumed that fixed capital formation will maintain the level of previous years, so within the medium-term projection it is planned in the amounts of KM 536.0 million and KM 515.0 million respectively. The growth of compensations to employees in the public sector is planned in the amounts of KM 2,058.3 million and KM 2,061.0 million respectively within the percentage determined by the Law on Salaries and Compensations in the Government Bodies of the Federation of BiH. In 2022, at the level of the general government of the Federation of BiH, a deficit of KM 195.7 million is expected, while in 2023, a deficit is set to KM 50.3 million.

**Looking at the general government sector of the Republika Srpska**, total revenues are planned in the amount of KM 4,487.3 million in 2022, while in 2023 they are planned in the amount of KM 4,646.1 million. Considering that the recovery of economic activity is planned in the observed period, a gradual growth of income is also projected.

Total taxes are planned in the amount of KM 2,417.5 million in 2022, while in 2023 they are planned in the amount of KM 2,529.9 million. Within tax revenues, revenues from indirect taxes and revenues from income tax and profit tax have the largest share. This projection takes into account GDP growth rates, as well as projected wage growth rates and the number of employees.

Social contributions are planned in the amount of KM 1,727.4 million in 2022, while for 2023 they are planned in the amount of KM 1,770.3 million. This projection is in line with their current movement, as well as with the expected developments in of gross wages and the number of insured persons in the observed period.

Property income is planned in the amount of KM 87 million in 2022 and KM 91.3 million in 2023, while other revenues for the general government sector are planned in the amount of KM 255.4 million for 2022 and KM 254, 5 million for 2023.

Medium-term projections of total expenditures of the general government of the Republika Srpska in the period 2022-2023 amount to KM 4,716.2 million and KM 4,770.6 million respectively. In the position of total social transfers, the planned amounts are KM 2,355.4 million KM and KM 2,397.9 million respectively. Medium-term projections of compensation of employees amount to KM 1,107.8 million and KM 1,113.2 million respectively. In the capital budget, the planned respective amounts are KM 227.8 million and KM 211.6 million. The respective amounts of KM 146.7 million and KM 146.8 million are planned for the position of subsidies, while interest expenses are planned in the respective amount of KM 166.3 million and KM 179.7 million. In 2022, a general government deficit is set to KM 228.9 million, and in 2023, a deficit is set to KM 124.5 million.



In the period 2021–2023, total financing<sup>44</sup> (new borrowing) is planned in the amount of KM 3.1 billion, of which KM 1 billion in 2021, KM 0.8 billion in 2022, and KM 1.3 billion in 2023. During the given period, financing is mostly done from external sources, whereby in 2021 the share of external sources of financing is 94%, 52% in 2022, and 78% in 2023. Planned financing is realized mostly through long-term (domestic and external) instruments. The share of financing through securities (domestic short-term and long-term, and external long-term) during the given period, except in 2022, is more dominant, and in 2021 it is set to 72%, in 2022 to 40%, while in 2023 it is set to 85% of the total planned financing. Investment projects will be fully financed from external sources, as a result of maximizing access to concessional funding sources (World Bank, EIB, EBRD, IFAD, KfW, Council of Europe Development Bank, etc.). Domestic and external sources of funding will be used to finance budget spending<sup>45</sup>.

#### **4.5. Structural balance (cyclical component of the deficit, one-off and temporary measures, fiscal stance)**

To calculate the cyclically-adjusted (primary) consolidated general government balance for the period 2015 to 2023, the cyclically-adjusted budget balance was calculated on the basis of the European Commission's semi-aggregate method. The calculation of the cyclical part of the balance carried out by the European Commission is based on the usual two-step procedure: (i) assessing the aggregate production gap as an indicator of the economic cycle; and (ii) assessing the elasticity ratio of total 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 ( $\lambda$ ) for annual data, 6.25<sup>46</sup>. 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/expenditure<sup>47</sup> which are sensitive to business cycle developments, where weights of certain categories present their shares in the total revenue/expenditure. The elasticity of the individual component of revenue/expenditure is first calculated considering its relevant macroeconomic base and then we calculate the elasticity of macroeconomic base to the aggregate output gap. These two elasticities are multiplied to obtain the elasticity of individual component of revenue/expenditure to the aggregate output gap.

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

**Table 7: Fiscal balance and components for calculation of cyclically adjusted balance 2015-2023, in %of GDP<sup>48</sup>**

<sup>44</sup> Financing for the period 2021–2023 includes a plan for withdrawal of foreign credit funds for investment projects in implementation approved by the National Assembly of Republika Srpska as of 30 June 2020, a plan for receipts from new loans and issues of securities to finance budget spending in the period 2021–2023, on which the National Assembly of Republika Srpska will decide within the framework of annual decisions on long-term borrowing.

<sup>45</sup> Of the total financing from external sources, 80% in 2021, 69% in 2022, and 81% in 2023 refers to the financing of budget spending godini.

<sup>46</sup> Morten O. Ravn and Harald Uhlig: "Discussion Paper No. 2858 on adjusting the HP – Filter for the frequency of observation, CEPR, June 2001  
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<sup>47</sup> 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.

<sup>48</sup> For the period 2008-2015, the CBBiH data were used while for the period 2019-2023 data were provided by the ministries of finance (institutions of BiH and Entities) and the BD Directorate for Finance.

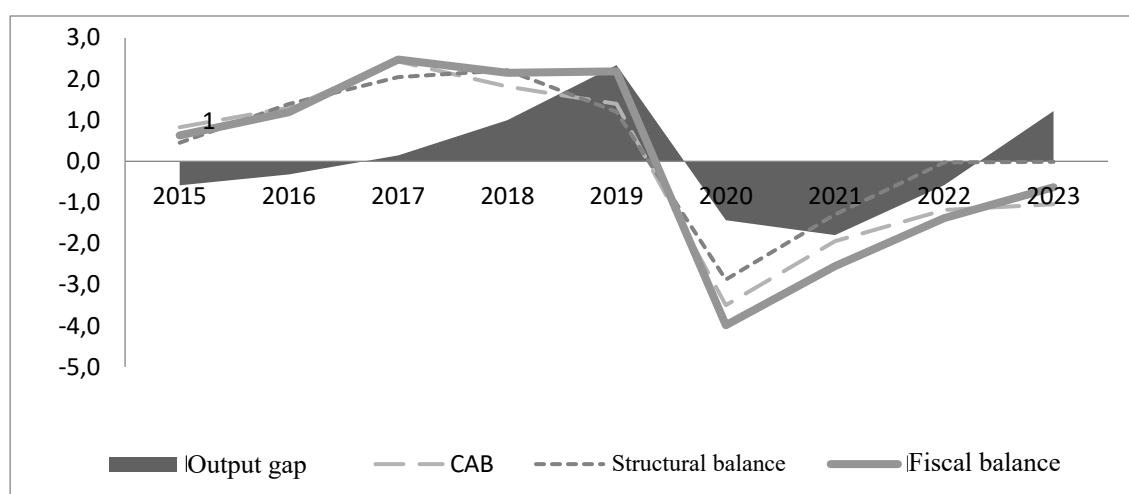
	Output gap	Fiscal balance	Primary fiscal balance	CK	CAB	CAB*	Struct. balance	Struct. Primary balance	Fiscal stance
2015	-0.6	0.6	1.5	-0.2	0.8	1.7	0.4	1.3	-1.9
2016	-0.3	1.2	2.0	-0.1	1.3	2.1	1.4	2.2	-0.8
2017	0.1	2.5	3.2	0.0	2.4	3.1	2.0	2.7	-0.6
2018	1.0	2.1	2.9	0.3	1.8	2.5	2.2	2.9	-0.2
2019	2.3	2.2	2.9	0.8	1.4	2.1	1.2	1.9	1.0
2020	-1.4	-4.0	-3.3	-0.5	-3.5	-2.8	-2.9	-2.2	4.1
2021	-1.8	-2.5	-1.7	-0.6	-1.9	-1.1	-1.3	-0.5	-1.7
2022	-0.6	-1.4	-0.5	-0.2	-1.2	-0.3	0.0	0.9	-1.4
2023	1.2	-0.6	0.2	0.4	-1.0	-0.2	0.0	0.8	0.1

\*Cyclically adjusted primary balance

Source: Ministry of Finance and Treasury of Bosnia and Herzegovina

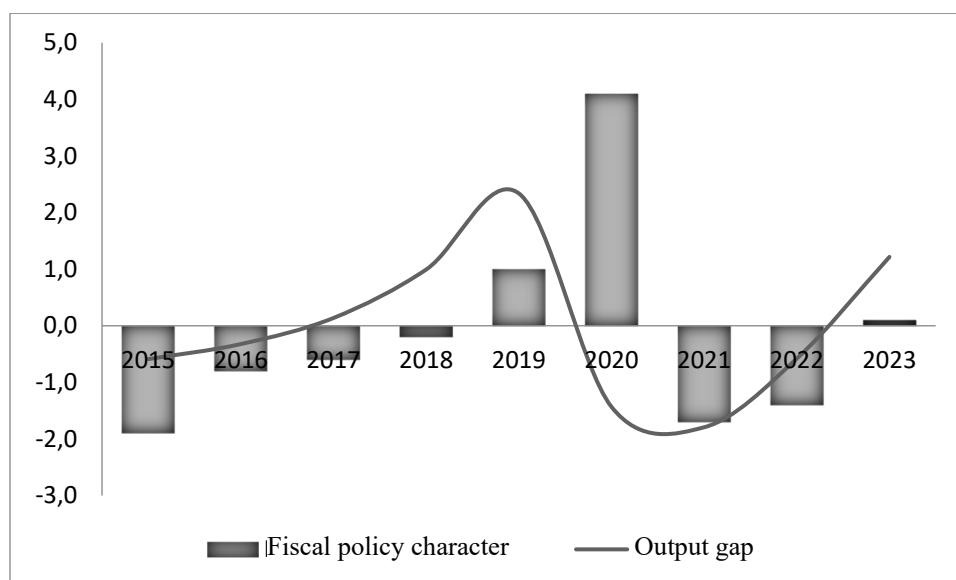
After calculating the overall sensitivity of the budgetary balance, the cyclical component is then obtained as the sum of the output gap and the overall cyclical sensitivity. In order to show the true character of discretionary fiscal policy, we calculate the fiscal stance. It is measured as the annual 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 2015-2023 in % of GDP**



The calculation of cyclically adjusted deficit is used to determine the necessary level of fiscal adjustment during the period. The actual fiscal balance is equal to the cyclically adjusted balance 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 2015-2019, and significant structural improvement in the fiscal position with high values of structural balance. The actual surplus is higher than the cyclically-adjusted surplus in 2018 and 2019 due to the positive impact of the cycle.

The outbreak of the pandemic caused by the COVID-19 virus in 2020 leads to a drastic decline in economic activity, which has had a strong impact on the budgets of all levels of government in Bosnia and Herzegovina. Reduction of revenues on the one hand and increase of expenditures due to the implementation of adopted packages of measures at all levels of government in Bosnia and Herzegovina, leads to a deficit of 4% at the level of general government.

**Graph 7: Fiscal policy character in BiH in the period 2015-2023**

Bosnia and Herzegovina is mainly pursuing a pro-cyclical fiscal policy, except for 2020, when, as in other countries, due to increased expenditures to prevent a negative cycle and help the health sector, a counter-cyclical expansionary fiscal policy was pursued. The fiscal impetus in 2020 is a package of fiscal measures adopted by the entity governments in the form of deferred tax liabilities and other measures to help the economy to mitigate the economic consequences of the pandemic. A gradual recovery will require the continuation of pro-cyclical restrictive fiscal policy in 2021 and 2022.

#### 4.6. 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 2020 amounts to KM 12,209.3 million. Of this total amount 71.7% or KM 8,755.7 million pertains to foreign debt, whereas 28.3% or KM 3,453.6 million pertains to domestic debt.

**Table 8: Public debt state<sup>49</sup> and projections (in KM million)**

	2019	2020	2021	2022	2023
<b>1. EXTERNAL DEBT (1.1+1.2+1.3+1.4)</b>	<b>8,133.6</b>	<b>8,755.7</b>	<b>10,197.5</b>	<b>10,441.7</b>	<b>10,613.0</b>
1.1 Institutions of BiH	69.1	64.9	62.2	56.9	51.6
1.2 Federation of BiH	4,595.4	4,973.8	5,684.2	5,761.1	5,673.2
1.3 Republika Srpska	3,415.5	3,664.5	4,406.3	4,587.2	4,859.1
1.4 Brčko District	53.6	52.5	44.8	36.5	29.1
<b>2. INTERNAL DEBT (2.1+2.2+2.3)</b>	<b>2,975.6</b>	<b>3,453.6</b>	<b>3,109.0</b>	<b>3,131.5</b>	<b>3,083.2</b>
2.1 Federation of BiH	1,000.2	1,107.3	1,085.6	1,019.3	963.0
-Government of the Federation BiH	726.2	849.9	864.3	828.7	792.9
- Cantons, municipalities and cities	274.0	257.4	221.3	190.6	170.1
2.2 Republika Srpska	1,973.0	2,344.5	2,022.3	2,111.7	2,120.2
- Budget of Republika Srpska	1,454.0	1,725.3	1,495.8	1,671.0	1,764.5
- Local self-government units	316.0	406.6	357.9	309.0	260.1
- Social security funds	203.0	212.6	168.6	131.7	95.6
2.3 Brčko District	2.4	1.8	1.1	0.5	0.0
<b>TOTAL (1+2)</b>	<b>11,109.2</b>	<b>12,209.3</b>	<b>13,306.5</b>	<b>13,573.2</b>	<b>13,696.2</b>

<sup>49</sup> For Republika Srpska, the total debt is included in accordance with legislation in Republika Srpska.

**Table 9: Public debt repayment and projections (in KM million)**

	2019	2020	2021	2022	2023
1. Total Federation of BiH	677.8	734.9	769.5	859.6	956.8
1.1. External debt of FBiH	428.0	431.6	462.8	425.8	668.6
1.2. Internal debt	249.8	303.3	306.7	433.8	288.2
- Government of FBiH	196.7	245.0	242.6	362.6	212.8
- Cantons, municipalities and cities	53.1	58.3	64.1	71.2	75.4
2. Total Republika Srpska	733.8	594.2	807.4	750.7	1,236.3
2.1. External debt of RS	293.5	265.4	291.2	347.9	837.4
2.2. External debt of RS	440.3	328.8	516.2	402.8	398.9
- Budget of RS	290.4	235.9	399.7	299.0	299.2
- Local self-government units	123.8	65.5	65.4	61.1	59.2
- Social security funds	26.1	27.4	51.1	42.7	40.5
3. Total BD (3.1+3.2)	7.7	8.6	8.3	9.0	7.9
3.1 External debt	7.1	8.0	7.7	8.3	7.4
3.2 Internal debt	0.6	0.6	0.6	0.7	0.5
4. External debt of Institutions of BiH	6.8	7.6	6.2	4.4	15.5
TOTAL BIH (1+2+3+4)	1,426.1	1,345.3	1,591.4	1,623.7	2,216.5

According to the available information of the Ministry of Finance of Republika Srpska and the Federal Ministry of Finance, the estimated contingent liabilities for 2020 amount to KM 796.5 million, of which KM 144.9 million pertains to the Federation of BiH and KM 651.6 million to Republika Srpska.

Regarding the structure of the purpose of loans, according to the records of the Ministry of Finance and Treasury of BiH as of 30 September 2020, 56.1% of loans were directed to the implementation of infrastructure projects, 30.3% to loans intended for the public sector, while 13.6% represent investments in economic activities. Credit conditions are characterized by a favourable average interest rate of 1.63% (62.5% of loans with a fixed interest rate and 37.5% with a variable interest rate) and an average maturity of 7.4 years. In terms of the currency structure of loans, loans in EUR are still dominant with 57.7%, followed by SRD 29.3%, USD 5.6%, CPU 1.3%, and other currencies <sup>50</sup> in the amount of 6.1%. In the period from 1 January to 30 September 2019, liabilities under external government debt were serviced in their entirety and in time.

**Table 10: Public debt sustainability indicators**

	2018	2019	2020	2021	2022	2023
<b>GDP (KM million)</b>	34264	35753	34644	35888	37569	39291
<b>Total debt (KM million)</b>	11106.6	11,109.2	12,209.3	13,306.5	13,573.2	13,696.2
<b>Export of goods and services (KM million)</b>	14087	14111	12561	13468	14611	15978
<b>External debt (KM million)</b>	8204.9	8,133.6	8,755.7	10,197.5	10,441.7	10,613.0
<b>Total debt repayment (KM million)</b>	1755.6	1426.1	1345.3	1591.4	1623.7	2216.5
<b>External debt repayment (KM million)</b>	830.0	735.4	712.6	767.9	786.4	1528.9
<b>Net revenues from indirect taxes (KM million)</b>	5834.9	6135.6	5475.7	5628.8	5828.0	6043.3
<b>Total debt/GDP (%)</b>	32.4	31.1	35.2	37.1	36.1	34.8
<b>Total debt repayment/GDP (%)</b>	5.1	4.0	3.9	4.4	4.3	5.6
<b>External debt/Export of goods and services (%)</b>	58.2	57.6	69.7	75.7	71.5	66.4
<b>External debt servicing/Revenues from indirect taxes for distribution (%)</b>	14.2	12.0	13.0	13.6	13.4	25.3

<sup>50</sup>The other currencies are: JPY, KRW, CHF, KWD, SAR, CAD, SEK, DKK, GBP.

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

**According to data available to the FBiH Ministry of Finance**, the state of public debt<sup>51</sup> in the Federation of BiH on 30 September 2020 amounts to KM 6,223.33 million, and it is estimated<sup>52</sup> that on 31 December 2020 it will amount to KM 6,176.53 million i.e. 27.97% of GDP estimated for 2020.

**Table 11: Estimated state of public debt in the Federation of BiH on 31 December through years, in KM million**

Debt categories	2018	2019	2020 estimate		
			30/9/2020	31/12/2020	Debt to GDP ratio <sup>53</sup>
1	2	3	4	5	6:GDP
1. Internal debt in FBiH	949.24	1,000.12	1,247.60	1,130.74	5.12%
1.1. Internal debt of FBiH Government	704.68	726.21	969.86	859.86	3.89%
1.1.1. Securities	673.41	711.54	959.86	849.86	3.85%
a) Long-term securities	633.41	691.54	849.86	749.86	3.40%
Old foreign currency savings	7.99	1.87	0.00	0.00	0.00%
War claims	195.42	149.67	109.86	109.86	0.50%
Bonds of FBiH	430.00	540.00	740.00	640.00	2.90%
b) Short-term securities (treasury bills)	40.00	20.00	110.00	100.00	0.45%
1.1.2. Bank loans	0.00	0.00	0.00	0.00	0.00%
1.1.3. Obligations of former FBiH Ministry of Defence	12.09	12.08	0.00	0.00	0.00%
1.1.4. Verified domestic debt for which bonds were not issued	19.18	2.59	10.00	10.00	0.05%
Old foreign currency savings	11.49	2.34	10.00	10.00	0.05%
War claims	7.69	0.25	0.00	0.00	0.00%
1.2. Internal debt of cantons	182.73	199.76	202.44	194.41	0.88%
Bonds	18.81	27.05	27.05	16.29	0.07%
Loans	163.92	172.71	175.39	178.12	0.81%
Other	0.00	0.00	0.00	0.00	0.00%
1.3. Internal debt of municipalities and cities	61.83	74.15	75.3	76.47	0.35%
Bonds	0.00	0.00	0.00	0.00	0.00%
Bank loans	61.83	74.15	75.3	76.47	0.35%
Other	0.00	0.00	0.00	0.00	0.00%
2. External debt in FBiH	4,702.74	4,595.39	4,962.03	4,973.80	22.52%
2.1. External debt of FBiH Government	2,291.21	2,080.62	2,339.95	2,370.33	10.73%
2.2. External debt of cantons	237.14	221.67	225.11	228.62	1.04%
2.3. External debt municipalities and cities	154.05	168.72	171.34	174.00	0.79%
2.4. External debt of public enterprises and other users	2,020.34	2,124.38	2,225.63	2,200.85	9.97%
<b>TOTAL DEBT IN FBiH (1.+2.)</b>	<b>5,651.98</b>	<b>5,492.47</b>	<b>6,223.33</b>	<b>6,176.53</b>	<b>27.97%</b>
TOTAL debt of FBiH Government (1.1.+2.1.)	2,995.89	2,806.83	3,309.81	3,230.19	14.63%
TOTAL debt of cantons (1.2.+2.2.)	419.87	421.43	427.55	423.03	1.92%
TOTAL debt of municipalities and cities a (1.3.+2.3.)	215.88	242.87	246.64	250.47	1.13%
TOTAL debt of public enterprises and other users (2.4.)	2,020.34	2,021.34	2,239.33	2,272.84	10.29%

<sup>51</sup> Includes total foreign and domestic debt of the Government of the Federation of BiH, cantons, cities and municipalities in the Federation BiH

<sup>52</sup> 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.

<sup>53</sup> Estimated value of GDP for 2020 amounts to KM 20,085.01 million

External 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 external debt of the Government of the Federation of Bosnia and Herzegovina and external debt contracted by the Federation of Bosnia and Herzegovina and transferred to end users (cantons, local communities, enterprises, financial institutions and other users) and on 30 September 2020 it was estimated at KM 4,962.03 million (estimate for 31 December 2020 is KM 4,973.8 million).

By 30 September 2020, out of contracted<sup>54</sup> external loans in the total amount of KM 10,692.14 million, KM 7,747.32 million was engaged, while KM 2,944.81 million is available for engagement in accordance with the dynamics of implementation of approved projects. During 2020, the amount of KM 866.37 million was engaged. Loans are, for the most part, contracted with bilateral creditors and multilateral financial institutions (World Bank, EBRD, EIB, IMF, etc). Outstanding debt realized through multilateral financial institutions amounts to KM 3,944.81 million or 79.5% of the total external debt of the Federation of BiH, while the remaining KM 1,017.21 million or 20.50% refers to borrowing from bilateral creditors.

The currency structure of the external debt of the Federation of BiH is defined by available sources of financing. The most common currency in the debt portfolio of the Federation of BiH is the Euro (EUR), followed by the Special Drawing Rights (SDR) and the US dollar (USD). The average maturity (ATM) of external debt loans is 6.22 years, while the average loan repayment time is 3.62 years.

In the period from 1 January to 30 September 2020, liabilities for external debt were serviced in their entirety and on time, in the total amount of KM 347.56 million, of which KM 286.22 million (82.35%) relates to the repayment of principal while KM 61.33 million (17.65%) relates to payment of interest, service and other costs.

Taking into account the repayments of external debt based on the existing debt portfolio of the Federation of BiH, budgetary financial needs, as well as the need for financial resources to finance projects defined by the FBiH Public Investment Program 2021 - 2023, the Federal Ministry of Finance made a projection of debt in the period 2021 - 2023.

**Table 12: Estimated state of external debt in the period 2021 – 2023 by holders of liabilities (KM million)**

<b>External debt in the Federation of BiH</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
	5,684.2	5,761.1	5,673.2
<b>External debt of the Federation of BiH</b>	2,910.9	2,883.5	2,721.5
<b>External debt of cantons</b>	243.5	252.7	259.2
<b>External debt of municipalities and cities</b>	185.4	192.3	197.3
<b>External debt of public enterprises</b>	2,344.5	2,432.5	2,495.2

The internal debt of the Government of the Federation of Bosnia and Herzegovina consists of the debt incurred in accordance with the Law and the debt arising from the issuance of market securities. Domestic debt prescribed by the Law is settled by cash payments or issue of securities (non-market instruments).

As of 30 September 2020, the internal debt of the Government of the Federation of Bosnia and Herzegovina in securities amounted to KM 959.86 million. The internal debt of the Government of the Federation of BiH has a fixed interest rate whose average weighted value is 1.94%. The average maturity (ATM) of the Federation Government's internal debt portfolio was 2.7 years, the same as the average refixing time (ATR). In order to extend the ATM and ATR, the Ministry of Finance / Finance seeks to issue securities with longer maturities. In 2020, the Government of the Federation of BiH issued a bond with a maturity of 15 years (realized coupon interest was 3.2%).

In 2020, according to the indicative calendar of auctions, it is planned to hold 8 auctions of treasury bills (KM 410.00 million) and ten auctions of treasury bonds (KM 410.00 million). Due to the reduced need for financing current liquidity, by 30 September 2020 out of the planned six, two auctions of treasury bills were held. The value of cancelled auctions of treasury bills amounted to KM 200.00 million. In the same period,

<sup>54</sup> No repaid loans are included

when it comes to long-term securities, all planned auctions (six auctions of treasury bonds) were held in the total amount of KM 220.00 million.

By the end of 2020, it is planned to hold one auction of six-month treasury bills in the amount of KM 50 million. Other securities auctions planned to be held in the fourth quarter of 2020 have been cancelled.

In 2020 (until 30 September 2020), a total of KM 90.19 million was paid for servicing the internal debt of the Government of the Federation of BiH, of which KM 84.97 million for principal and KM 5.22 million for interest (the total servicing of domestic debt in 2020 is expected to amount to KM 255.01 million, of which KM 244.97 million refers to the principal and KM 10.04 million to interest).

In view of the above, the state internal debt of the Government of the Federation as of 31 December 2020 is estimated at KM 849.86 million.

Financing the deficit by borrowing on the domestic market in 2021 is planned in the amount of KM 100 million (net), of which KM 50 million refers to long-term financing and KM 50 million to short-term financing. In the period 2022 - 2023, the planned net indebtedness with market securities amounts to 0 KM. The Government of the Federation of BiH will refinance securities maturing with securities of the same or higher maturity and the domestic debt should be reduced in accordance with the maturity of war claims bonds (Table 12).

**Table 13: Structure of domestic debt of the Government of the Federation of BiH in the period 2018 - 2023 (in KM million)**

	2018	2019	2020 30/09	31/12.	2021	2022	2023
<b>Internal debt of the FBiH Government</b>	704.67	726.22	959.86	849.86	864.28	828.69	792.89
<b>Non-market instruments</b>	203.41	151.54	109.86	109.86	74.28	38.69	2.89
<b>Old foreign currency savings bonds</b>	7.99	1.87	0.00	0.00	0.00	0.00	0.00
<b>War claims bonds</b>	195.42	149.67	109.86	109.86	74.28	38.69	2.89
<b>Market instruments</b>	470.00	560.00	850.00	740.00	790.00	790.00	790.00
<b>Treasury bills</b>	40.00	20.00	110.00	100.00	150.00	150.00	150.00
<b>Bonds</b>	430.00	540.00	740.00	640.00	640.00	640.00	640.00

The internal debt of lower levels of government in the Federation of BiH consists of the internal debt of cantons, cities and municipalities in the Federation of BiH. The internal debt of cantons, cities and municipalities in the Federation of BiH on 30 September 2020 amounted to KM 270.9 million. Of this debt, the amount of KM 72.3 million refers to the debt of municipalities and cities, while the remaining amount refers to the internal debt of cantons in the amount of KM 198.6 million.

Debt of cantons, cities and municipalities in the amount of KM 254.6 million consists of loans from commercial banks, while market securities amount to KM 16.29 million (Sarajevo Canton bonds maturing in 2022). It is estimated that the balance of internal debt of cantons, cities and municipalities on 31 December 2020 will amount to KM 257.4 million.

**Table 14: State of internal debt in the Federation of BiH in the period 2018 - 2023 (in KM million)**

	2018	2019	2020 30/09	31/12	2021	2022	2023
<b>Internal debt of the FBiH Government</b>	704.7	726.2	959.9	849.9	864.3	828.7	792.9
<b>Cantons, municipalities and cities</b>	244.5	274	270.9	257.4	221.3	190.6	170.1
<b>INTERNAL DEBT IN FBiH</b>	949.2	1,000.1	1,230.8	1,107.3	1,085.5	1,019.3	963.0

An overview of repaid liabilities of the Federation, cantons, cities and municipalities as well as their projection in the period 2021 - 2023 is shown in Table 3. The amounts shown represent only the amounts of principal that are or will be repaid in the coming period, interest not included.

**Table 15: Overview of paid principals based on internal debt in the Federation of BiH in 2019, estimate for 2020 and projection of repayments for the period 2021 – 2023**

	2019	2020	2021	2022	2023
<b>Government of the Federation of BiH</b>	196.7	245.0	242.6	362.6	212.8
<b>Cantons, municipalities and cities</b>	53.1	58.3	64.1	71.2	75.4
<b>INTERNAL DEBT IN FBiH</b>	249.8	303.2	306.7	433.8	288.2

### *Contingent liabilities*

Contingent liabilities of the Federation of Bosnia and Herzegovina are financial liabilities that could be borne by the FBiH budget on the basis of issued guarantees or decisions of the FBiH Parliament on the possible assumption of obligations of cantons, local communities or public enterprises.

On 30 September 2020, the state of debt based on contingent liabilities of the Government of the Federation amounts to KM 1.46 million and refers to the guarantee issued by the Government of FBiH in 2010 for JP Željeznice FBiH on the basis of loans in the amount of KM 78.92 million. The debt of the Government of the Federation of BiH on 31 December 2020 on the basis of this guarantee will amount to KM 0.

On 1 April 2019, the Parliament of the Federation of Bosnia and Herzegovina 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 of 17 August 2018) in favour of the Export-Import Bank of China for the loan to the Public enterprise Elektroprivreda Bosne i Hercegovine dd Sarajevo for the implementation of the project of construction of Block 7 - 450 MW of TPP Tuzla in the amount of up to EUR 613.99 million or 85% of the total value of the Contract on engineering, supply and construction of Unit 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. The loan became effective on 5 December 2019, but there was no commitment of funds during 2020, so the state of debt under this guarantee is KM 0.

**Table 16: State of contingent liabilities (loans under guarantees of FBiH, cantons, municipalities and cities) on 31 December with projections by 2023 (in KM million)**

	2018	2019	2020 30/09	31/12	2021	2022	2023
<b>Government of the Federation of BiH</b>	16.8	8.1	1.5	0.0	127.4	431.9	1088.1
<b>Cantons, municipalities and cities</b>	10.8	32.9	149.3	144.9	133.6	121.8	112.8
<b>TOTAL GUARANTEES IN FBiH</b>	27.6	41	150.8	144.9	261	553.7	1200.9

**The Law on Borrowing, Debt and Guarantees of the Republika Srpska** regulates in detail the scope of borrowing and issuing guarantees of Republika Srpska and local self-government units, as well as the methods and procedures of borrowing, which together with the existing laws in the budget system and the Law on Fiscal Responsibility in Republika Srpska represent a comprehensive legal framework for improvement and control of budget discipline. Pursuant to the Law on Borrowing, Debt and Guarantees of Republika Srpska<sup>55</sup>, the restriction on the amount of debt is set so that the total debt of Republika Srpska at the end of the fiscal year may not exceed 60%, while the public debt of the Republika Srpska may not

<sup>55</sup> 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.



exceed 55% of realised GDP in that year. The debt of Republika Srpska which was incurred under borrowing for financing the repair of damage from the Single Register of Damages, prescribed by the Law on the Solidarity Fund for Reconstruction of Republika Srpska, is exempted from these restrictions prescribed for the 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 the realized GDP in that year. In addition, the National Assembly of Republika Srpska decides on the total amount of guarantees of Republika Srpska that the Government may issue during the fiscal year<sup>56</sup>. Local self-government units may borrow in the long run only if in the period of debt creation 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 generated in the previous fiscal year. The short-term debt of municipalities may not exceed 5% of their regular revenues generated in the previous fiscal year, while the exposure of local self-government units under issued guarantees may not exceed 30% of the amount of their regular revenues generated in the previous fiscal year (all rules applicable local self-government units also apply to social security funds, except in the part concerning guarantees - social security funds may not issue guarantees). The Law on Fiscal Responsibility<sup>57</sup>, within the general fiscal rules, establishes a rule on debt which implies that the public debt of Republika Srpska at the end of the fiscal year may not exceed 55% of the realized GDP in that year, while within the specific fiscal rules it defines the debt threshold, which means that if the public debt of Republika Srpska at the end of the fiscal year reaches 50% of the realized GDP in that year, the next year's budget must be with a budget surplus.

In September 2019, the Government of Republika Srpska adopted the document Debt Management Strategy of Republika Srpska for the period 2019-2022<sup>58</sup>, which was prepared by the Ministry of Finance. The Debt Management Strategy of Republika Srpska for the period 2019–2022 defines the main goal of the debt management of Republika Srpska, borrowing objectives in order to meet the main goal of debt management, strategy for achieving these goals, 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;
- 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%.

We note that the preparation of the document Debt Management Strategy of Republika Srpska for the period 2020-2023, which will be adopted by the Government Republika Srpska by the end of December 2020, is in progress.

The state of public debt of Republika Srpska as on 30 June 2020 amounts to KM 4,734.8 million, which is 43.5% of GDP<sup>59</sup>, while the state of total debt of Republika Srpska amounts to KM 5,870.9 million, i.e. 53.9% of GDP. The state of the total external debt amounts to KM 3,586.7 million, while the state of the total internal debt amounts to KM 2,284.2 million. As on 30 June 2020, the total debt of Republika Srpska which is subject to the legal limitation amounts to KM 5,800.3 million (53.2% of GDP), while the public debt which is subject to the legal limitation amounts to KM 4,664.2 million (42.8% of GDP).

As on 30 June 2020, the total exposure of Republika Srpska under issued guarantees amounts to KM 680.2 million (6.2% of GDP), while the state of debt on the basis of loans for which the Government of Republika Srpska issued guarantees amounts to KM 609.5 million.

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<sup>56</sup> 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).

<sup>57</sup> Official Gazette of Republika Srpska, 94/15 and 62/18.

<sup>58</sup> Document [Republika Srpska Debt Management Strategy for the Period 2019–2022](#) is available at the website of the Government of Republika Srpska

<sup>59</sup> Estimated value of GDP for 2020 amounts to KM 10,895 million.

The currency structure of total debt portfolio is dominated by three currencies: KM (38.9%), EUR (37.4%), and SDR (16.7%). High share of KM and EUR provides a high degree of predictability of future liabilities, due to which Republika Srpska is less exposed to currency risk.

Of the total debt of Republika Srpska, only 2.2% refers to short-term debt, while the total remaining debt is long-term and its share is 97.8%.

Most of the total debt, i.e. 76.1%, is repaid at fixed interest rates. Of the total external debt, 67.5% is repaid on fixed terms, while 89.8% of the total domestic debt is repaid on fixed terms %.

49.7% of Republika Srpska's the total debt is in the repayment stage, while the remaining 50.3% of the debt is in the grace period. Of the total external debt, the repayment started for 52.9% of the debt (of which 97.4% repayment for the "old" debt and 48.1% for the "new" debt), while 44.6% of the total domestic debt is in the repayment stage.

Regarding the structure of the total debt of Republika Srpska from the point of view of instruments, the marketable part of the debt (bonds and treasury bills) is 31.2%, while the remaining debt represents the non-marketable part of the debt (loans and debt settled through the action plan or in cash).

**Table 17: Servicing and state of the total debt of Republika Srpska in the period 2019–2023 (in KM million)**

No	DESCRIPTION		2019	30 June 2020	2020	2021	2022	2023
			performance		plan	projections		
1	Foreign debt servicing		293.5	127.6	265.4	291.2	347.9	837.4
	1.1.	of Republika Srpska	193.8	75.5	155.9	184.3	218.7	696.2
	1.2.	of local self-government units	6.7	3.3	7.9	10.3	10.4	11
	1.3.	of public enterprises and IDB	93.1	48.8	101.7	96.6	118.9	130.1
2	Domestic debt servicing		440.3	173	328.9	516.3	402.8	398.9
	2.1.	of Republika Srpska	290.4	127.8	235.9	399.7	299	299.2
	2.2.	of local self-government units	123.8	36.4	65.5	65.4	61.1	59.2
	2.3.	of social security funds	26.1	8.8	27.4	51.1	42.7	40.5
3	Total debt servicing of RS (1 + 2)		733.8	300.6	594.3	807.5	750.7	1,236.2
3.1.	Servicing of the debt from the budget of RS		586.6	255.7	500.8	688.2	642.8	1,132.5
4	Foreign debt state		3,415.5	3,586.7	3,664.5	4,406.3	4,587.2	4,859.1
	4.1.	of Republika Srpska	2,122	2,330.8	2,382.1	3,099.4	3,275.6	3,490.7
	4.1.1.	subject to legal limitation	2,049.7	2,260.2	2,312.2	3,031.9	3,211.7	3,431.7
	4.1.2.	not subject to legal limitation	72.3	70.6	69.9	67.5	63.9	59
	4.2.	of local self-government units	128.4	119.8	144.2	144.6	136.8	128.2
	4.3.	of public enterprises and IDB	1,165.1	1,136.1	1,138.2	1,162.3	1,174.8	1,240.2
5	Domestic debt state		1,973	2,284.2	2,344.5	2,022.3	2,111.7	2,120.2
	5.1.	of Republika Srpska	1,454	1,720.2	1,725.3	1,495.8	1,671	1,764.5
	5.2.	of local self-government units	316	336.6	406.6	357.9	309	260.1
	5.3.	of social security funds	203	227.4	212.6	168.6	131.7	95.6
6	PUBLIC DEBT OF RS (4.1.+4.2.+5.)		4,223.4	4,734.8	4,870.8	5,266.3	5,524.1	5,739.1
7	TOTAL DEBT OF RS (4 + 5)		5,388.5	5,870.9	6,009	6,428.6	6,698.9	6,979.3
8	RS public debt subject to legal limitation (4.1.1. + 4.2. + 5)		4,151.1	4,664.2	4,800.9	5,198.8	5,460.2	5,680.1
9	Total debt of RS subject to legal limitation (4.1.1. + 4.2. + 4.3. + 5)		5,316.2	5,800.3	5,939.1	6,361.1	6,635	6,920.3
10	State of the short-term debt of RS		0	128.6	108.7	12.7	31.5	38.9
11	Exposure of RS under issued guarantees		704.9	680.2	651.6	562.2	470.9	377.6

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

Shown in the previous table, the projected state of external debt in the original currency in the period 2020–2023 is based on the amount of loan withdrawals by 30 September 2020 plus the estimated withdrawals for

investment projects under implementation<sup>60</sup> and withdrawals to finance budget spending, and minus by the estimated amount external debt principal servicing. To convert the estimated external debt from the original currencies into KM, the estimated values of exchange rates were used based on the assumption that by the end of 2020 there will be an appreciation of the value of all currencies against the KM in the amount of 0.12%<sup>61</sup> relative to the values at on 31 December 2019, and that their values will remain at the same level in the period 2021–2023. The projected state of internal debt of Republika Srpska and indirect internal debt of Republika Srpska in the period 2020-2023 is based on the state of debt as at 30 September 2020, plus issuance of securities and loan withdrawals in the coming period, and minus the estimated amount of the Republika Srpska's internal debt principal servicing and the indirect internal debt of the Republika Srpska. 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 service of direct debt of local self-government units and social security funds have been taken over from them, and have been increased by potential debts in 2020 and 2021 for which the Ministry of Finance has issued approvals, until the date of the document, but local communities have not implemented<sup>62</sup>.

### *Debt creating flows and risks*

According to estimates for the period 2021–2023, the debt indicators will move as follows:

- In 2021, net debt<sup>63</sup> will amount to 4.8% of GDP, in 2022 to 3% of GDP, and in 2023 to 2.4% of GDP;
- Nominal growth of total, i.e. public debt in 2021 will be 7%, i.e. 8.1%; in 2022, 4.2%, i.e. 4.9%; while in 2023 it will be 4.2%, i.e. 3.9%;
- The state of total, i.e. public debt to GDP ratio in 2021 will be 57.1%, i.e. 46.8%; in 2022 it will be 57.2%, i.e. 47.2%; and in 2023 57.2%, i.e. 47.1%;
- Servicing costs (interest-based service) of total, i.e. public debt relative to GDP in 2021 will amount to 1.3%, i.e. 1.2%; in 2022 1.4%, i.e. 1.3%; while in 2023 it will amount to 1.5%, i.e. 1.4%.

The main risks to the realization of the above-mentioned debt indicators are reflected in the following :

- the realization of assumptions about growth, deficit/surplus, and the need for financing, which directly affects the decrease/increase in the level of debt,
- the realization of assumptions about the values of variable interest rates, foreign exchange rates, withdrawal of credit funds (for financing investment projects under implementation and budget spending) and the availability of planned debt instruments for financing budget spending in the projected period,
- withdrawal of funds on the basis of potential loans for investment projects, as well as loans for which requests were submitted for the issuance of guarantees by Republika Srpska, which are in various stages of preparation (they are not included in the estimates),
- the possibility of changes in legal provisions that would regulate the obligation to settle internal debt in a way different from the existing legal solutions.

<sup>60</sup> 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 2020).

<sup>61</sup> The coefficient of 0.12% represents the ratio between the estimated value of the SDR for the period 2020-2023 (1 SDR = 2.42 KM, which represents the maximum value of the SDR in the period from 2015 to June 2020) and its values as on 31 December 2019 (1 SDR = 2.417 KM).

<sup>62</sup> The stated amount also includes a potential loan of 12 million from the City of Banja Luka, as of June 3, 2020. In the case of direct external borrowing from the EBRD, the City of Banja Luka took into account all approvals (three approvals: one for Eco heating plant and two for water supply and sewerage), regardless of the fact that the funds were not withdrawn.

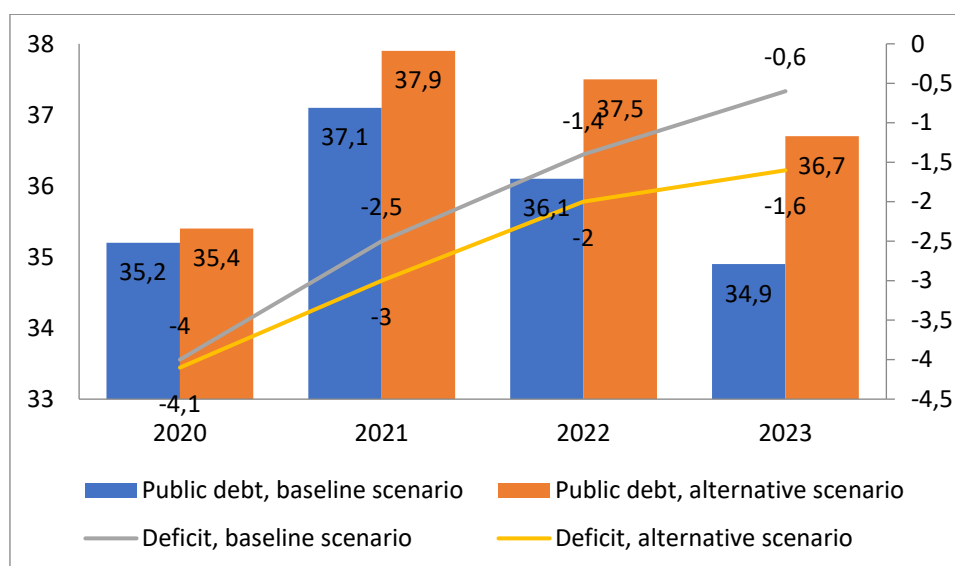
<sup>63</sup> Indicators of net indebtedness include the net indebtedness of the Government of the Republika Srpska on behalf of the Republika Srpska (including the estimated dynamics of verification and settlement of obligations defined by the Republika Srpska Internal Debt Law), and the net indebtedness 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).

## 4.7. Sensitivity analysis and comparison with the previous programme

### *Sensitivity of the budgetary projections to alternative scenarios and risks*

In November 2020, the Directorate for Economic Planning developed an alternative scenario of macroeconomic projections for the period 2020-2023. According to the alternative scenario, the GDP growth rates in the next three-year period are 2.7%, 3.9% and 3.9%. The notes of the alternative scenario of macroeconomic projections state that the outbreak of the global coronavirus pandemic was imposed as the ultimate primary risk for the realization of projections from the baseline scenario, and that the possible prolongation of the crisis and further weakening of economic activity in EU countries would directly affect BiH's economic growth, both in 2020 and over the entire programme period. It is also stated that the threat to the realization of projections from the baseline scenario is posed by internal challenges and internal risks in BiH.

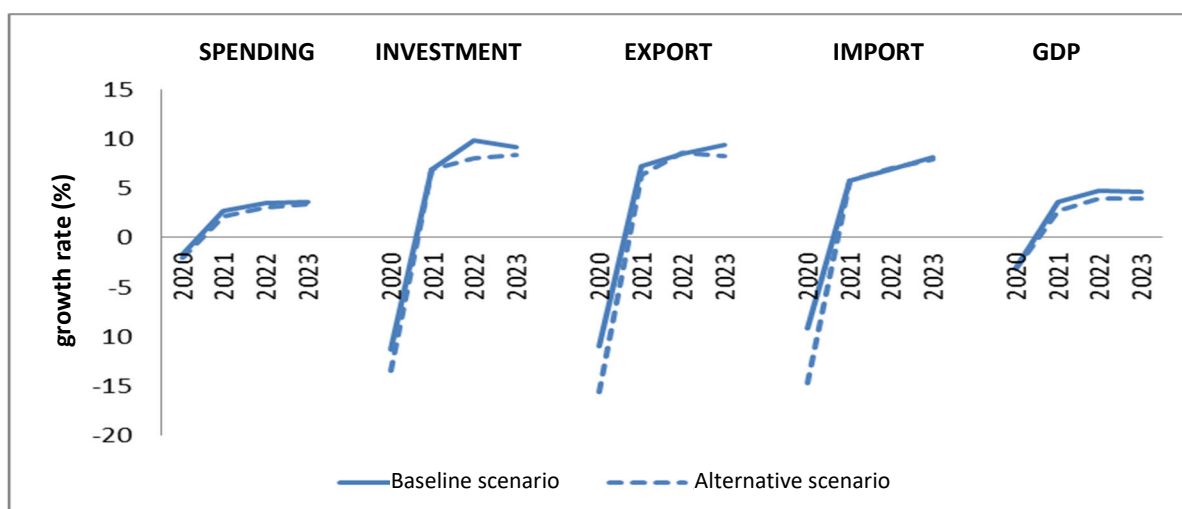
**Graph 8: Fiscal developments under the baseline and alternative scenario in the period 2020-2023**



The projected slower growth in the alternative scenario would primarily affect the revenue side. Consequently, the deficit and public debt would increase too.

Compared to the baseline scenario, the projections from the alternative scenario of macroeconomic projections imply lower GDP growth rates in the period 2020-2023 (Graph).<sup>64</sup>

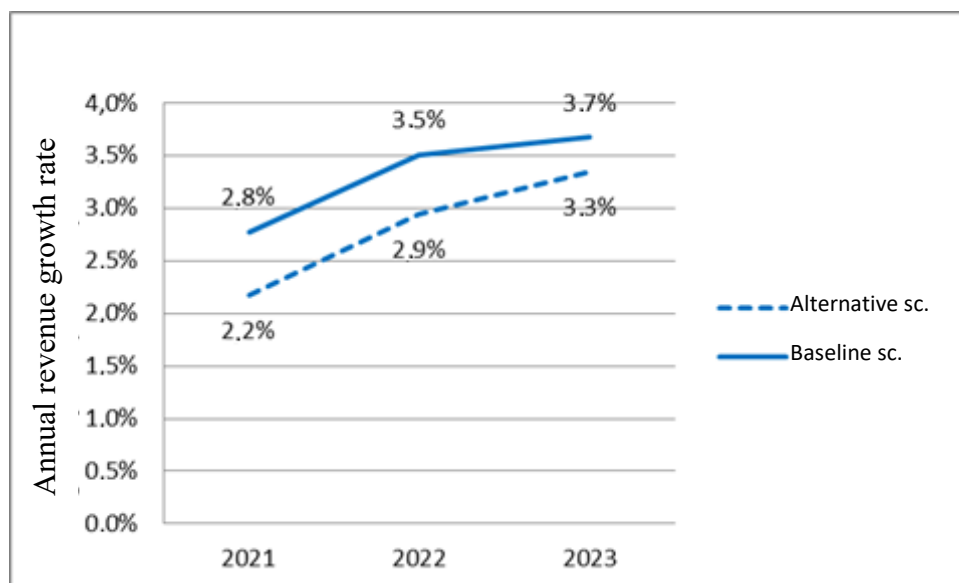
**Graph 9: Projections of macroeconomic indicators under the baseline and alternative scenario**



<sup>64</sup>The difference between the nominal GDP growth rates from the alternative scenario in relation to the projections from the baseline scenario (DEP, September 2020) is: - 0.1 percentage points for 2020, - 0.9 p.p. for 2021, -0.8 p.p. for 2022 and -0.7 pp. for 2023.

Given that the projections of indirect tax revenues are closely related to the projections of macroeconomic indicators, the realization of assumptions from the alternative scenario would lead to lower growth of indirect tax revenues in the period 2021-2023 compared to the growth rates from the baseline scenario.

**Graph 10: Sensitivity of indirect tax revenue projections**



Source: MAU overview based on projections of indirect tax revenues from the baseline (MAU, October 2020) and alternative scenario (MAU, December 2020)

The previous graph presents the growth rates of projection revenue from the baseline and alternative scenarios. There are no significant differences in revenue growth rates (-0.60 p.p., -0.57 p.p. and -0.33 p.p. in 2021, 2022 and 2023, respectively), given that the differences in the estimates of basic macroeconomic indicators are not so much significant. In absolute values, there are differences of KM -35.1 million in 2021, KM -70.1 million in 2022 and KM -92.8 million in 2023.<sup>65</sup> The largest differences in absolute values pertain to VAT revenues (KM -21.0 million, KM -40.0 million and KM -50.5 million in 2021, 2022 and 2023, respectively), given their largest share in the structure of revenues from indirect taxes, and adjustments to consumption growth rates in the alternative scenario. Excise and road tax revenues were also adjusted downwards due to the revised growth rate of GDP and consumption in the alternative scenario (together – KM 16.0 million, KM -30.0 million and KM -41.8 million in 2021, 2022 and 2023, respectively).

**Medium-term projections of public revenues in the Federation of BiH** are followed by expected positive macroeconomic developments of those aggregates with which they are significantly correlated. In some items, in order to preserve fiscal discipline, the estimated effects of certain high risks on the realization of macroeconomic forecasts are already included in the baseline scenario. The projections are closely related to the assumed duration of the pandemic and the speed of economic recovery, based on the assumption that the duration of the negative economic impact of the pandemic will be limited to the first half of 2021, after which a stronger and faster recovery is expected. Furthermore, the assumed amounts follow the applicable policies in the field of direct and indirect taxation and contributions, and the policies on which the collection of revenues from other sources is based.

Given the extreme unpredictability of the shocks that the pandemic will leave on the economy, the possible final outcome of realization can move in both directions. If the duration of the pandemic extends to the second half of 2021, an additional economic slowdown is possible, with negative repercussions on the assumed amounts of public revenues, which could result in an additional reduction of 1.3% compared to the assumed in the baseline scenario. On the other hand, the possibility of a somewhat faster recovery within 2021 remains, which could increase the collection of public revenues in the Federation of BiH in a given year, at the level of the general government by 1.02% compared to the currently estimated. Thus, the changed base from 2021, while maintaining all other macroeconomic assumptions, would also affect the projections for the period 2022-2023 given by the baseline scenario.

<sup>65</sup>In % of GDP: -0.10% in 2021.- 0.19% in 2022 and -0.24% in 2023

In addition to the above, the different outcome in the collection of public revenues may be significantly affected by: unplanned changes in tax policies, significant deviations in the distribution of indirect tax revenues between the entities compared to the currently estimated, changes in the level of planned external debt repayment, changes in allocation of revenues from indirect taxes for the Institutions of BiH, the work of the tax administration, and the development of other events such as new natural disasters. It should also be taken into account that the category of other revenues includes a wide range of rather variable non-tax revenues, a significant part of which does not have a continuous pattern of movements, which increases the risk of the projection.

Starting only from the potential realization of the alternative scenario of macroeconomic forecasts of the Directorate for Economic Planning, the current projections of total public revenues of the general government in the Federation of BiH in 2022 and 2023 could, according to initial estimates, be reduced by (-) 1.5% and (-) 1.9% respectively, compared to the assumptions from the baseline scenario, and mostly by a decrease in the collection of income related to labour market developments (potential large outflow of working age population). The impact of structural measures to reduce the tax burden on labour and restructure the tax burden in the planned phases of implementation in the programme period 2021-2023 have a neutral effect on the level of collection of public revenues to which they are related.

***Revenue projections in the Republika Srpska*** were made based on the assumption of a gradual recovery and growth of economic activity expected in the coming period, all with the assumption of a gradual end to the pandemic.

Projections of revenues from direct taxes and non-tax revenues were made on the basis of projected macroeconomic indicators for Republika Srpska and the existing tax policies in the field of direct taxation, as well as regulations that define non-tax revenues. For each individual type of revenue, the collection trends in the previous period are analysed, potential one-off effects 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 revenue, and this is extremely important since it takes into account the legal basis, seasonal influences and specificities of each individual source of income.

Projections of indirect tax revenues pertaining to Republika Srpska, in addition to the observed current trends in revenue collection and the existing tax policy in the field of indirect taxation, are based on forecasts of macroeconomic indicators for BiH and 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 tax 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 Republika Srpska, i.e. between the central government subsectors, local self-government units and the JP "Putevi Republike Srpske". Also, it is necessary to envisage obligations regarding the temporary settlement of revenues between the users of the allocation of indirect taxes from the ITA Single Account.

Changes in any of the assumptions on which this revenue projection is based will require modifying the revenue projection set out in this document.

The main risks to the realization of these revenue projections may be the following:

- Uncertainty regarding the intensity and duration of the pandemic, as well as restrictive measures aimed at combating the pandemic, but also the effectiveness of economic measures of the Government of Republika Srpska to mitigate the negative effects caused by this crisis;
- Deviation of macroeconomic indicators from projected values, given the close relation of these projections with revenue projections, i.e. the degree of correlation of certain types of revenues with the movement of macroeconomic aggregates;
- Changes in taxation policy in the area of direct and indirect taxes, contributions and non-tax revenues;

- Significant divergences 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 external debt servicing may lead to divergences from projected indirect tax revenues;
- The operations of the tax administration have a significant impact on revenue trends. Tax revenues depend on the improvement of tax discipline;
- Other developments (natural disasters, etc.).

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

- During the projection of indirect tax revenues, annual amounts of KM 780 million are taken to finance BiH institutions that are allocated from the account of the Indirect Taxation Authority, and are planned by the Global Framework of Fiscal Balance and Policies in BiH for the period 2021-2023. The change in this amount significantly affects the distribution of indirect tax revenues;
- 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. The budget implementation is done in accordance with the realization of revenues and inflows into the budget. The risk of realization is in the (non) realization of macroeconomic and other assumptions on which the projection is based. The realization of expenditure projections also depends on the duration of the pandemic and the uncertainty regarding the need to allocate additional funds for mitigating the consequences caused by the spread of the disease caused by the coronavirus.

#### *Comparison with the previous program*

Compared to the previous program, there has been a significant change in the medium-term fiscal framework, especially in 2020. Due to unfavourable macroeconomic trends, there is a significant decline in revenues. On the other hand, due to investments in the health sector and other fiscal stimuli aimed at mitigating the negative effects of the pandemic on the economy, there is a significant increase in expenditures. From the zone of surplus envisaged by the transitional programme, we have entered the zone of greater deficit. The coming period is set to see a gradual recovery and reduction of the deficit.

**Table 18: Differences in fiscal indicators between the previous and current programme**

Difference between the previous and current programme	2019	2020	2021	2022
Revenues	0.8	-0.6	-1.0	-0.8
Expenditures	-1.3	3.6	2.0	1.4
Balance	2.1	-4.2	-3.0	-2.2

The table below presents the differences between the baseline scenario of indirect tax revenue projections for the period 2021-2023 from this Programme (MAU, October 2020) relative to the projections from the ERP 2020-2022 document (MAU, October 2019).<sup>66</sup>

**Table 19: Differences relative to the projections of indirect taxes from the previous programme**

Document	Time of projections preparation	Execution/ projections of indirect taxes (in KM million)				
		2019	2020	2021	2022	2023
ERP 2021-2023	October 2020	6,541.8	5,830.2	5,992.2	6,202.6	6,430.7
ERP 2020-2022	October 2019	6,512.6	6,708.7	6,926.2	7,173.0	
Correction (in %)		0.4%	-13.1%	-13.5%	-13.5%	

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

Source: MAU, projections of indirect tax revenues from October 2020 and October 2019

<sup>66</sup>Projections of indirect tax revenues from October 2019 are available at MAU web site: [http://www.oma.uino.gov.ba/bilteni/Oma\\_Bilten\\_eng\\_172\\_173.pdf](http://www.oma.uino.gov.ba/bilteni/Oma_Bilten_eng_172_173.pdf)



Collection of indirect tax revenues in 2019 was by KM 29.2 million or 0.4% higher than the MAU projections from October 2019. The main reasons for the higher growth of indirect tax revenues in 2019 compared to the projections were the strong growth of net VAT and excise duties on tobacco products (as much as 46%) in December 2019.<sup>67</sup> Compared to the projections from the previous Programme (MAU, October 2019), based on the then projected nominal GDP growth of 4.4% (DEP, September 2019), the projected amount of indirect tax collection (MAU, October 2020) for 2020 was revised by KM -878.5 million or by -13.1%. The large difference in the projections of indirect tax revenues for 2020 was due to huge revisions in the projections of macroeconomic indicators (DEP), due to the inclusion of estimates of the effects of the coronavirus pandemic. Compared to the September 2019 DEP projections, the September 2020 nominal GDP growth projections were revised downwards by 7.5 percentage points (from + 4.4% to -3.1%). For the same year, projections of nominal growth rates of imports were revised downwards by 16 percentage points, exports by 19 percentage points, and private consumption by over 6 percentage points. Investment growth projections were revised by as much as 21 percentage points, from + 10.2% to -11.3%. Only government spending projections have been revised upwards, from + 2.1% to + 2.9%, because, according to the DEP, during the pandemic, increased involvement of institutions is expected in the fight to protect public health and mitigate the economic consequences of coronavirus.

Since 2020 is the base year for making projections for the following years, this explains the significant differences in relation to the projections from the previous Programme for the years 2021 and 2022 as well (Table 5). In addition, the projections of GDP<sup>68</sup> and its components were also adjusted in relation to the DEP's projections from September 2019, on which the projections of indirect taxes from the previous Program are based.

**When we talk about the Federation of Bosnia and Herzegovina,** projections for the period 2021-2023 were made in exceptional circumstances caused by the occurrence of a pandemic and measures to combat the pandemic. If we compare the projections from this document ERP 2021-2023 made in the circumstances of the pandemic with projections from the previous document ERP 2020-2022 there are large differences observed in all items. The biggest risk for projections is uncertainty about the duration of the pandemic. Any prolongation or recurrence of a pandemic other than assumed may have an impact on projections.

The projection risks will in any case be affected by the situation in the region, i.e. a possible decline in the activities of the external environment and a decline in export demand for our products, especially by our main foreign trade partners. Projection risks can also be affected by conflicts between countries at the global level and conflicts in the region, as well as changes in energy prices on the global market.

Among the internal factors, the risks to the projections may be the slow pace of implementation of reforms and the outflow of the younger working age population.

**If we compare the documents of ERP RS 2021-2023 and ERP RS 2020-2022,** it is evident that in the period 2020-2022, the planned budget results were significantly changed, primarily due to the new situation caused by the spread of COVID 19. Lockdown measures led to a significant reduction in economic activity, which resulted in a reduction in revenues, and on the other hand, measures to help the economy and the health sector led to a significant increase in expenditures. In the previous programme, budget surpluses were planned, but due to the previously mentioned, in this programme, budget deficits were planned for the observed period with a tendency of gradual recovery.

#### **4.8. Quality of public finances**

The crisis caused by the pandemic, with a decline in economic activity, reduced revenue collection and increased expenditures, will certainly jeopardize real economic growth, which in the period 2016-2019 averaged 3.3%. BiH's fiscal position points to limited fiscal capacity to more comprehensively counter such deep economic crises. However, the responsible fiscal policy at all levels of government in the previous

<sup>67</sup>One of the assumptions of the MAU projections from October 2019 was to keep the cigarette prices in 2020 at the level of 2019, after the completion of the process of harmonization of excise duty on cigarettes with the minimum EU excise tax in 2019. However, the announcement of retail price increases as of 1 January 2020 was the trigger for the accumulation of cigarette stocks at distributors before the end of the year in anticipation of increased consumption. Since excise duties on cigarettes are paid *ex-ante*, before consumption, the effects of announcing retail prices in 2020 spilled over from 2020 to 2019.

<sup>68</sup>Compared to the DEP projections from September 2019, the projections of nominal GDP growth from September 2020 for 2021 and 2022 were revised by -1.4 and -0.4 percentage points, respectively.



period created limited capacities that enabled their engagement in the fight for public health as well as mitigating the economic consequences of Covid-19 described in section 4.1. Given the size of the expected deficit, all levels of government face the need for fiscal consolidation and restrictive spending policies. In addition to the ongoing, special attention will be paid to public investment policy with the use of available funds of international financial institutions as a lever for growth in the medium term.

Bosnia and Herzegovina is a fiscally decentralized country in which each level of government independently adopts fiscal policy and manages public finances. With the technical assistance of the IMF's Fiscal Affairs Department (FAD), public finance management reform strategies for the period 2021-2025 have been developed at all levels of government, and a nationwide strategy is expected to be drafted in the coming period. Improving public financial management at all levels is also necessary to support fiscal consolidation measures and ongoing structural reforms. These strategies express the commitment of all levels of government to European integration and in that sense the harmonization of regulations with the *EU acquis* and the acceptance of good practices from EU member states.

#### **4.9. Fiscal governance and budgetary frameworks**

There are no numerical fiscal rules at the level of BiH institutions. The medium-term budgetary framework of the institutions of BiH is defined by the Global Framework of Fiscal Balance and Policies in Bosnia and Herzegovina for the period 2021-2023 which sets the framework for financing the institutions of BiH in the amount of KM 1,027.1 million, with the allocation of revenues from indirect taxes in the amount of KM 780 million annually.

In order to achieve key tasks, i.e. development and stability of the economy as well as approximation to the standards of the European Union within the framework of fiscal policy in the Federation of Bosnia and Herzegovina, a number of documents were adopted defining the legal framework and measures to achieve them.

The Law on the Fiscal Council in Bosnia and Herzegovina established the Fiscal Council with the task of coordinating fiscal policy in BiH in order to ensure macroeconomic stability and sustainability of all levels of government in BiH. The Fiscal Council is responsible for drafting fiscal budget targets and debt ceilings for the next three years, and drafting macroeconomic projections by adopting the Global Fiscal Balance Framework document.

The Law on Budgets in the Federation of Bosnia and Herzegovina defines the budgeting system of all levels of government in the Federation of BiH, including extra-budgetary funds, fiscal rules (Article 43), budget oversight, and drafting of the Framework Budget Document. The framework budget document, defining macroeconomic projections and forecasts of budget funds and expenditures for the next three years, serves as a basis for budget preparation and drafting. The key goal of drafting this document is to improve the linkage of government priority policies with resource allocation and resource utilization. This law also established the Fiscal Coordination Body with the aim of securing macroeconomic stability and fiscal sustainability of the Federation of BiH. In order to improve the fiscal responsibility for the use of budget funds, the Fiscal Coordination Body is responsible for controlling the implementation of fiscal rules and monitoring the implementation of established goals and criteria in the adoption and execution of the budget.

Article 43 of the Law on Budgets in the Federation of BiH prescribes a fiscal rule stating that the planned current budget balance must be positive or equal to zero and that the Government must cover the realized deficit from previous years by planning budget funds to cover the realized deficit in the next five fiscal years. The Federal Ministry of Finance, together with the cantons, monitors compliance with the implementation of fiscal rules by lower levels of government. For drafting the budget proposal, the cantons have a legal obligation to obtain the opinion of the Ministry of Finance regarding planned revenues and receipts and the application of the fiscal rule on the current balance, while municipalities and cities have the obligation to obtain the opinion of the cantonal Ministry of Finance.

The Law on Debt, Borrowing and Guarantees in the Federation of Bosnia and Herzegovina regulates the debt and guarantees of the Federation of BiH, cantons, cities and municipalities, the manner and procedure

of borrowing, providing funds for debt repayment, issuing guarantees, keeping records of debt and guarantees, and other issues pertaining to the debt and guarantees of the Federation of BiH, cantons, cities and municipalities. This law defines the fiscal rule of maximum indebtedness of the Federation of BiH, cantons, cities and municipalities. The Federation may borrow in the long run, so that due liabilities each year do not exceed 18% of consolidated revenues from the previous year, while the annual liabilities of cantons, cities and municipalities may not exceed 10% of revenues from the previous year. When it comes to external borrowing of the Federation of BiH, cantons, municipalities and cities may borrow on the basis of external debt only with the prior consent of the Parliamentary Assembly of BiH.

The goal of the Public Finance Management Reform Strategy in the institutions of the Federation of BiH is to improve the management of budget funds by introducing fiscal rules, introducing measures to increase efficiency, transparency and control over public spending. In order to achieve long-term stability, the Federation of BiH adopted the Debt Management Strategy, which is a summary of the main principles and guidelines for debt management policies of the Federation of BiH.

In the area of financial reporting, through the Rulebook on Financial Reporting and Annual Budget Calculation, the Federation of BiH constantly monitors changes in the reporting of the European System of National Accounts as well as the State Financial Statistics and harmonizes with it. We emphasize that at the beginning of 2019, the Rulebook was revised and that reporting is monitored in parallel with the Analytical Chart of Accounts of the Federation of BiH (ESA2010) and (GFS2014), which provides updated and reliable data on the structure and development of the economic situation.

**Public finance management in Republika Srpska** is a priority of the Government of Republika Srpska. The establishment of comprehensive and well-organized public finances is a prerequisite for successful reform processes and further development of all sectors of society. The framework and basis for fiscal policy management are the laws, strategies and arrangements listed below.

The Law on the Budget System of Republika Srpska defines the budget system of Republika Srpska and preparation of the Framework Budget Document of Republika Srpska as the basis for the preparation and drafting of the budget. Framework Budget Document is adopted each year for the next and for the following two years, and its purpose is to set the strategic framework and upper ceiling of resources, within which the annual budget should be prepared. In this context, the preparation and drafting of the budget is based on the Framework Budget Document. The key objective of this document is to ensure a better link between the Government's priority policies and the way in which it allocates public resources.

The Law on the Fiscal Council of BiH defines the existence of the Fiscal Council of BiH, which coordinates the fiscal policy of BiH and adopts the Global Framework of Fiscal Balance and Policies of BiH, which is adopted every year for the next year and the following two years. This document presents the fiscal targets of the budget and the upper debt ceilings of the institutions of BiH, FBiH, Republika Srpska and Brčko District of BiH.

The Law on Fiscal Responsibility of the Republika Srpska regulates fiscal rules, measures and procedures on the basis of which the fiscal framework is established, limits public spending, strengthens responsibility for efficient and effective use of budget funds, establishes the Fiscal Council of Republika Srpska and strengthens the control and supervision system. This law defines general and special fiscal rules. The general fiscal rules refer to the overall budget system of Republika Srpska, while the special fiscal rules represent binding, automatic measures if the indicators expressed by the general fiscal rules reach the value thresholds defined by this law. General fiscal rules determine:

1. The debt rule: The public debt of Republika Srpska at the end of the fiscal year may not exceed 55% of the GDP realized in that year;
2. The consolidated budget deficit rule: The consolidated budget deficit at the end of the fiscal year may not exceed 3% of the GDP realized in that year.

Given that there will be a temporary deviation from the fiscal rule regarding the consolidated budget deficit, the National Assembly of Republika Srpska at its 13<sup>th</sup> session, held on 1 December 2020, adopted the Report and Decision on temporary deviation of the consolidated budget deficit from fiscal rules. The report

explains the reasons for the deviation from the fiscal rule, which primarily refers to a significant drop in budget revenues and significantly higher investments in the health sector and additional costs based on measures taken by the Government of Republika Srpska to reduce economic and social damage. Also, the Report lists the measures that the Government plans to take in the coming period, which on the one hand will lead to revenue growth, and on the other hand affect the reduction of expenditures, in order to gradually establish compliance with the fiscal rule related to the consolidated budget deficit.

The implementation of the Law on Fiscal Responsibility in Republika Srpska, through the Fiscal Council of the Republika Srpska, which was established in July 2017, fiscal responsibility and discipline for spending public funds in the entire budget system of the Republika Srpska has significantly improved, both at the level of Republika Srpska and at the level of local self-government units and extra-budgetary funds.

The Debt Management Strategy of Republika Srpska for the period 2019-2022 defines the main goal of the debt management of Republika Srpska, borrowing objectives in order to meet the main goal of debt management, the strategy of achieving these goals, the tasks of the Ministry of Finance of Republika Srpska, i.e. guidelines for achieving a debt structure with an acceptable level of costs and risks.

With the adoption of the Public Finance Management Strategy of Republika Srpska in the coming period, the directions of reforms in the field of public finances will be clearly defined and the system of improving fiscal responsibility and long-term fiscal stability of Republika Srpska will be completed.

In the field of financial reporting, the government sector reporting system will be further improved through activities aimed at developing statistical basis of financial reporting aligned with internationally recognized standards of macroeconomic statistical systems, increasing efficiency, comprehensiveness and transparency of consolidated financial statements of budget users and controlled public sector units. In parallel with this process, the harmonization of the planning process, i.e. budgeting for budget users will be implemented within the public sector.

In Bosnia and Herzegovina, a roadmap for establishing ESA standards has not yet been developed.

#### **4.10. Sustainability of public finances**

The Federation of BiH has started a series of reform processes in order to achieve the strategic goal of full membership in the EU, and one of the reforms is the reform of public financial management. After the expiration of the Public Finance Management Reform Strategy for the period 2017-2020, the preparation of the Public Finance Management Reform Strategy for the next four years is underway, which envisages measures and activities for 6 areas. One of the most important measures in the field of planning and budgeting is the improvement of budgeting in the programme format.

The programme budget is a comprehensive programme which, in addition to the introduced budget preparation in the programme format, additionally introduces the adoption, execution and monitoring of the budget in the programme format. The programme budget represents not only a change in the budget format but also an improvement in the overall budgeting process as well as linking each budgeting phase. By establishing a clear link between all stages of budgeting, this format becomes an instrument that enables more efficient management of public finances. A significant improvement in the programme budget is that it defines the goals of strategic and medium-term government policies, allocates funds according to the established goals and expected results. This achieved the basic purpose of the new way of budgeting, i.e. the introduction of a clear link between government policies and programmes, the objectives of these programmes and the expected results as well as the resources needed for their implementation.

In order to achieve greater transparency and control over the spending of public funds, the purpose is to include the operations of all budget users in the system of the single treasury account. For this reason, the operations of the Pension and Disability Insurance Institute have been included in the budget since January 1, 2020, and it is planned to start including other extra-budgetary funds in the budget in the middle of 2022, i.e. the Federal Employment Fund and the Health Insurance Fund. In the coming period, the plan is to continue this activity at lower levels of government, i.e. the inclusion of extra-budgetary funds, road directorates and higher education institutions in the budgets of the cantons.

Within the document of the Joint Socio-Economic Reforms for the period 2019 - 2022, the Government of the Federation of BiH planned the reform of the health system as one of the priority reforms in order to ensure adequate and sustainable financing and efficient service provision to health care users.

Given the serious consequences of the pandemic on the stabilization of public finances, a deficit is expected at all levels of government caused by declining revenues and increasing funding needs. For this reason, the Government of the Federation of BiH plans to take a number of measures that will primarily try to alleviate the deficit, and then lead to recovery and stabilization of the economy.

On the one hand, restrictive spending measures are planned, i.e. salaries in the public sector remain at the level of previous years, new employment is restricted, as well as collective consumption or expenditures for materials and small inventory and services for the public sector. On the other hand, it is planned to create fiscal space to boost capital spending, which should affect the growth and recovery of the economy and thus increase revenues, i.e. taxes and contributions.

The Federal Ministry of Finance plans to strengthen cooperation with lower levels of government, through the fiscal coordination body, in order to correct the deficit and achieve greater harmonization in the implementation of measures taken by governments to mitigate the effects of the pandemic in order to avoid overlapping measures. Through this body, the Government of the Federation of BiH will improve the coordination of fiscal policy, determine the proposal of fiscal budget targets, control the implementation of fiscal rules, determine measures and activities to ensure the stability of debt service and criteria for new borrowing, and propose priorities for improving the public finance sector.

Over the previous period, **the Government of Republika Srpska** set the improvement of fiscal discipline as a key goal, i.e. the management of public finances was the focus of the Government's work. Significant efforts were made on fiscal consolidation, which was threatened first by the global economic crisis (first and second waves, 2009 and 2012), and then by the natural disasters caused by the floods in May 2014.

The improvement of fiscal responsibility through the adoption of the Law on Fiscal Responsibility in Republika Srpska and the 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.

In 2016, a set of laws was adopted with the aim of establishing and implementing measures to combat the gray economy, primarily by strengthening the control of undeclared work and performing unregistered activities. The measures adopted within that set of laws refer 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 ban on performing activities. In addition to these measures, the Tax Administration of Republika Srpska is continuously implementing measures aimed at increasing voluntary reporting and payment of taxes, reducing tax debt and strengthening services in the Tax Administration. Additional measures in the coming period to reduce the gray economy in the field of taxation procedure relate to improving the tax control function with increased application of indirect methods, joint controls of undeclared workers and unregistered activities and control of transactions between related parties, and through electronic tax return filing 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.

Challenges for the coming period are especially related to the full implementation of the health system reform, with special attention to the acceleration of the dynamics of the reform, especially in the phase of stopping the increase in arrears and finding models for their settlement. All of the above is just a precondition for the introduction of all health care institutions and the Health System Fund into the treasury operations system, which will preserve their fiscal discipline and create preconditions for structural reform of the system, which will be based on standardizing the network of health care institutions and finding new financing models of health insurance.

Also, it is important to implement activities related to the formation of a register of economic incentives with the aim of more efficient and effective use of public funds, which includes incentives at all levels of government in Republika Srpska. During 2020, the creation of a legal framework for the development of this register was completed, all available incentives from the national and local levels of government were mapped, donor funds were provided for the development of a software solution and an information system for the register was developed. The register is available on the website [www.regpodsticaja.vladars.net](http://www.regpodsticaja.vladars.net).

Activities of a comprehensive mapping of all social benefits in Republika Srpska are underway, which are allocated at all levels of government. The goal of these activities is a fairer distribution and better "targeting" of social benefits, so that social benefits are based on needs and not on the status and affiliation of a particular category of society.

The reform of the pension system carried out in 2011 has yielded significant results in terms of the sustainability of the pension system, in the medium term. However, due to demographic trends, it will be necessary in the coming period to closely monitor the parameters of the pension system, especially in the segment of pension adequacy, in order to be able to respond in a timely manner to negative demographic or economic trends..

Finally, the reform of public enterprises could be viewed through three segments: public enterprises that burden or demand additional funds from the Budget of Republika Srpska, and utility public enterprises owned by local self-government units, whose reform needs to be started urgently, and strategic public enterprises which are expected to be extremely profitable and to be one of the sources of revenue of the Republika Srpska's budget, whose reform must be carefully implemented in order to operate more efficiently and productively, all with the aim of achieving significant profits.

The Government of Republika Srpska has sent a request to the IMF technical mission for advisory services in the part of strengthening the supervision over public enterprises and managing the fiscal risks related to them. The IMF created a report entitled "Strengthening the Supervision of Public Enterprises in Republika Srpska" in February 2020, and the Government of Republika Srpska, to implement the recommendations and planned activities, formed a Working Group for Public Enterprise Reform in September 2020, with the task of preparing an Action Plan for the reform of public enterprises in Republika Srpska.

## **5. STRUCTURAL REFORMS IN 2021-2023**

### **5.1. Update on key obstacles to competitiveness and inclusive growth**

The key obstacles to the continuation of the growth trend and increase of competitiveness in the forthcoming period and in the areas addressed by this document are the challenges and obstacles caused by the COVID-19 Pandemic, obstacles in the sectors of energy, transport, environment, agriculture, tourism, business environment, trade, education, employment and inclusions. The COVID-19 pandemic in 2020 caused huge problems around the world.

In addition to the lives lost, it also caused great economic damage through the reduction and diversion of demand, the disruption of value chains and production, the reduction of trade in goods and services, and the loss of jobs. From March to October 2020, about 13,000 workers lost their jobs in the FBiH. When it comes to the energy sector, it is necessary to regulate, improve the functioning of the system and adopt and harmonize legislation in the field. In both the energy sector and transport, the obstacle to development is insufficiently developed and built infrastructure, which makes life difficult for citizens and business. Obstacles to agricultural development are fragmented holdings, unfavorable production structure, especially in crop production, and low productivity, product quality and quantity, low amount and inadequate system of financial support, liberalized foreign trade regime, low level of harmonization of legislation with the EU acquis in agriculture, food safety, plant and animal health, and the lack of an agricultural information system and agricultural census.

The environment is a living environment and without a healthy and clean environment it is impossible to have the health of citizens and the sustainable development of the economy. Competence in the field of environment is decentralized, with insufficient coordination and synchronization of institutions in the field of transposition of EU legislation, as well as in the implementation of the existing legal framework. The lack of human resources in the environmental sector will be one of the challenges in the future, as well as the lack of strategic documents and relevant statistics in the field of environment. The development of tourism, which before the outbreak of the pandemic was one of the sources of growth, is limited by the lack of a legal and institutional framework according to European Union standards, limited budgetary resources and lack of human resources.

An increased number of mandatory payments for legal entities and individuals, non-harmonized amount of certain benefits throughout the Federation of BiH, as well as the constant introduction of new obligations, without special system solutions, and this is one of the most significant disincentives for business, as new potential investors, as well as to increase the volume of business of existing entities in the territory of the Federation of BiH. Also, business in the field of real estate brokerage in the Federation of Bosnia and Herzegovina is characterized by problems that have arisen as a result of the lack of a special legal framework that would regulate this area. In addition to the above, the constantly present obstacles to the development of an inclusive society are the connection between the education system and the labor market, low efficiency in the labor market and the need to improve the social protection system.

Analyzing the economic and fiscal position of Republika Srpska, identified obstacles and challenges that need to be removed in the coming period in order to improve competitiveness and improve the productivity of the economy of Republika Srpska, which is key to improving the economic status of each individual. Detailed barriers to competitiveness and inclusive growth are analyzed within each area of reform, while the following are five key barriers to competitiveness and inclusive growth:

- 1) Low level of competitiveness and productivity of the economy,
- 2) Fiscally oversized health sector, which accumulates outstanding liabilities,
- 3) Inefficient public sector,
- 4) Inconsistency between education and the labor market, with pronounced structural unemployment,
- 5) Unsustainable demographic "picture" of the Republika Srpska.

The non-competitive economy is additionally endangered and affected by unfair competition, due to business entities operating in the gray zone. Unsatisfactory level and quality of scientific productivity, and outdated and inefficient structure of the economy, affect the insufficient growth of productivity of the economy of the Republic of Srpska. On the other hand, productivity is the only realistic economic model for a possible wage increase.

The health sector is burdened by an inadequate network of health care institutions, the demographic structure of the population, which has a very negative impact on its sustainability, the great inefficiency of the system, and at the same time its excessive solidarity and social sensitivity, which far exceeds by the contribution of each individual to the system. Additionally, the pandemic highlighted the need for health sector reform.

The inefficiency of the public sector is reflected primarily in the inefficiency of public companies, and there is room for improving the public administration of the Republika Srpska, primarily through its digitalization. The reform of public enterprises should be viewed through three segments, ie public enterprises that require budget support, communal public enterprises owned by local self-government units, and strategic public enterprises that are expected to be profitable and to be one of the sources of budget revenues. to be carefully implemented with the aim of more efficient business.

The mismatch between education and the labor market leads to structural unemployment, negatively affects the competitiveness and productivity of economic entities, leads to irrational use of resources, and on the other hand increases the costs to economic entities in order to retrain staff. In the field of higher education, educating staff for occupations for which the Republic does not need, a gap is created between the education sector and the labor market and the dissatisfaction of those graduating from faculties for which the labor market does not currently express a need.

The demographic picture of Republika Srpska, in the long run, is a key problem facing Republika Srpska, and it remains a challenge in the future. Negative demographic trends worsen the position of the labor market in the long run and the fiscal position and sustainability of all budget allocations, reducing labor supply and leading to an aging population. Negative demographic conditions cause special problems for social protection funds and affect the adequacy of total social benefits. If the trends of population migration are added to that, then the negative demographic picture demands that all policies in the coming period dominate and have priority of policies that affect the improvement of conditions, which will lead to keeping the population in Republika Srpska and increasing the total fertility rate.

## 5.2. Summary of reform measures

<i>Priority reform measure</i>	<b>Old or new measure</b>	<b>Impact on competitiveness</b>	<b>Impact on employment</b>	<b>Link to the 2020 Policy Guidelines (number)</b>
<b>Energy and transport market reform</b>				
1. <i>Energy and gas market development</i>	OLD	HIGH	HIGH	-
2. <i>Improving energy efficiency and the use of renewable energy sources</i>	OLD	HIGH	HIGH	-
3. <i>Development and improvement of transport infrastructure</i>	OLD	HIGH	HIGH	-
<b>Agriculture, industry and services</b>				
4. <i>Improving the competitiveness of agriculture, forestry and water management</i>	OLD	HIGH	HIGH	-
5. <i>Support to the manufacturing industry</i>	NEW	HIGH	HIGH	-
6. <i>Improving integral waste management and the system of circular economy</i>	OLD	MEDIUM	MEDIUM	-

7. Establishment of economic instruments in the field of environment and EE	NEW	MEDIUM	MEDIUM	-
8. Improving the legal framework governing tourism and reducing the impact of the effects of the Corona virus pandemic on tourism	OLD	MEDIUM	MEDIUM	-
<b>Business environment and reduction of the informal economy</b>				
9. Mitigation of the negative consequences caused by the Covid-19 pandemic	NEW	HIGH	HIGH	1
10. Enhancing the quality infrastructure system in BiH according to the EU model and the development of a legal and planning framework in the sector of free movement of goods	OLD	HIGH	HIGH	4
11. Health system reform	OLD	HIGH	HIGH	5
12. Enhancing the business environment	OLD	HIGH	HIGH	4, 5, 6
<b>Research, development and innovation and the digital transformation</b>				
13. Improving the communication and information society sector along with the alignment of the regulatory framework with EU standards	OLD	SREDNJI	SREDNJI	4
<b>Economic integration reforms</b>				
14. Improving e-government	OLD	HIGH	MEDIUM	-
15. Regulating the field of brokerage in the real estate trade market	NEW	MEDIUM	MEDIUM	-
<b>Education and skills</b>				
16. Improving the link between education and the labour market	OLD	VISOK	VISOK	6
<b>Employment and labour markets</b>				
17. Improving the labour market efficiency through effective employment policies and strengthening the role of mediation	OLD	VISOK	VISOK	1, 6
<b>Social protection and inclusion</b>				
18. Improving the social protection system	OLD	VISOK	VISOK	2

### 5.3. Analysis by area and structural and reform measures

#### 5.3.1. Energy and transport market reform

##### ENERGY

##### a) Analysis of main obstacles

The goal of harmonisation and ensuring compliance to the Third Energy Package of the EU, the Law has to be aligned on the entity level to remove obstacles to further reforms and economic development and ensure adequate implementation in accordance with the entity laws. The complexity of the removal of these obstacles is seen in the large number of jurisdictions for this activity, which implies that it is necessary to reach agreement of all interested parties. This also includes the need to undertake activities to start adopting revised laws on renewable sources of energy, because the main sources of energy for gross internal spending in BiH continue to be coal, oil, and hydropower.

In regard to investments in the energy infrastructure, it is important to note BiH's obligations arising from the Stabilization and Association Agreement and the Energy Community Treaty. These obligations include



in particular the application of EU standards on public procurement, state aid and environmental impact assessment.

In terms of Bosnia and Herzegovina's supply with natural gas, the current situation is that Bosnia and Herzegovina is fully dependent on a single source (Russian gas) and a single transport route (Ukraine – Hungary – Serbia), which indicates the unfavourable position of Bosnia and Herzegovina regarding natural gas supply. This is especially evident in situations of crises when, due to the lack of an alternative source and supply route, supply to BiH consumers gets completely cut off.

Law on Ministries and Other Administrative Bodies of Bosnia and Herzegovina ("Official Gazette of BiH", No. 5/03, 42/03, 26/04, 42/04, 45/06, 88/07, 35/09, 59/09, 103/09, 87/12, 6/13, 19/16 and 83/17) Article 9 defines the competence of the Ministry of Foreign Trade and Economic Relations, which states, inter alia: "The Ministry is also responsible for performing tasks and duties from the competences of BiH related to the definition of policy, basic principles, coordination of activities and harmonization of plans of entity authorities and institutions at the international level in the areas of: - agriculture; - energy; - environmental protection, development and use of natural resources; - tourism".

On the level of the Federation of Bosnia and Herzegovina, one obstacle to electric energy market development 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. Furthermore, the full implementation of the legally stated objectives in the field of energy efficiency requires 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.

In Republika Srpska, the energy sector is facing challenges focused on electricity.<sup>69</sup> The main obstacles is that the current prices for consumers in Republika Srpska are lower than the market prices and do not reflect real costs, so the reform is focused on liberalization of the electricity market for all customers (consumers), as well as ownership unbundling of market electricity activities from the regulated ones. Given the current situation in the electricity market of Republika Srpska, 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. 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. In this way, there will be more investments into the electricity infrastructure and revenues from the sale of electricity to local consumers will increase, while the level of prices will be aligned with current costs.

Furthermore, an additional obstacle to the production of electricity in Republika Srpska is based on thermal power plants using local coal, which constitute 69% of the total production of electricity, and hydropower plants (excluding small power plants) which produce around 31%. The security of supply is very high because local sources of primary energy are used. Bearing in mind that coal-based production of electric energy is polluting and has a negative impact on human health, investments in this sector are related to the reduction of negative impacts of this technology through the flue gas desulphurisation (FGD) project at the Ugljevik thermal power plant, as well as through planned activities of investing into the energy infrastructure and construction of hydropower plants and other energy facilities which will be based on renewable energy sources.

#### b) Reform measures

### 5.3.1.1. Energy and gas market development

#### 1. Description of measure

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<sup>69</sup> Although ERP 2020–2022 defined the area "Energy and transport market reform," the activities of the line ministry and the Government of Republika Srpska in the observed three-year period will focus on the implementation of the new Law on Electricity in line with the Third Energy Package. In the natural gas sector, a part of activities related to the improvement of the regulatory framework in this area has been completed with the adoption of the new Law on Gas (Official Gazette of Republika Srpska, 22/18), which is aligned with the Third Energy Package, and economic entities performing energy-related activities in the natural gas sector are aligning their internal acts with the new law. The natural gas market was opened on 1st January 2015.

This measure will enhance the electricity and gas market and enhance production from renewable energy sources by implementing energy efficiency measures in Bosnia and Herzegovina, and is focused on creating a well-organised environment for the efficient functioning and development of the electric energy sector, gas sector and other energy sectors in line with EU legislation. The first step is the adoption of the Law on Electricity and Natural Gas Regulator, Transmission and Electricity Market in Bosnia and Herzegovina, after which entity-level regulations will have to be aligned with the aforementioned legal framework. In accordance with Article 107 of the Stabilization and Association Agreement, for BiH it foresees that cooperation in the area of energy will focus on priorities of the *acquis communautaire* of the Community and that cooperation will be based on the Treaty Establishing the Energy Community, and be developed further with the goal of BiH's integration into European energy markets. It is clear from this that the Stabilization and Association Agreement for the energy sector will be implemented through implementing the Treaty Establishing the Energy Community. The second segment of electricity market reform is abandoning the current system of incentives for renewable energy sources through limiting the subsidies for renewable energy sources. This requires the adoption of a new Law on Renewable Energy Sources and increasing competitiveness between energy generators from renewable sources by introducing an auction system for energy generators. Republika Srpska is already in the phase of implementing the new Law on Electricity, which is aligned with specific EU directives, i.e., directives from the Third Energy Package, and is headed for the gradual opening of the electricity market. This refers to the unbundling of electricity distribution and supply, as well as reorganising electricity generators operating under MH "Elektroprivreda Republike Srpske."

### **Activities planned in 2021–2023**

- Adoption of the Law on Electricity and Gas Regulator, Transmission and Electricity Market in Bosnia and Herzegovina in line with the Third Energy Package (MoFTER BiH)
- Adoption of the Law on Transmission System Operator in Bosnia and Herzegovina (MoFTER BiH)
- Establishing of an organized electricity market (MoFTER BiH)
- Adoption of the new Law on Renewable Energy Sources of Republika Srpska
- 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)
- Continuation of the restructuring and reorganisation of the MH "Elektroprivreda Republike Srpske" a.d. Trebinje through reorganising electricity generators operating under MH "Elektroprivreda Republike Srpske"
- Amendment (or adoption of a new) Law on Electricity in the Federation of Bosnia and Herzegovina in line with the Law on Electricity Regulator of BiH, i.e., the Third Energy Package
- Adoption of the Law on Gas in the Federation of Bosnia and Herzegovina in line with the state law, i.e., the Third Energy Package
- Start of operations of the Distribution System Operator in JP Elektroprivreda BiH d.d. Sarajevo and JP Elektroprivreda HZHB d.d. Mostar (JP Elektroprivreda BiH d.d. Sarajevo and JP Elektroprivreda HZHB d.d. Mostar)
- Adoption of the Law on the Gas Pipeline Southern Interconnection Bosnia and Herzegovina and the Republic of Croatia
- Preparation and adoption of by-laws arising from the Law on Gas in the Federation of Bosnia and Herzegovina
- Preparation and adoption of by-laws based on the Law on Electricity in the Federation of Bosnia and Herzegovina

- Continuity of activities from 2022 on the preparation and adoption of by-laws arising from the Law on Gas in the Federation of Bosnia and Herzegovina (FBiH Ministry of Energy, Mining and Industry, Regulatory Commission for Energy in the Federation of Bosnia and Herzegovina and Government of the Federation of Bosnia and Herzegovina, each within their respective jurisdictions)
2. Results indicators – Key Performance Indicators (KPI)

Indicator	Baseline (year)	Intermediate target (year)	Target (year)
Adopted Law on Renewable Energy Sources RS	2021	Limited subsidies for renewable energy sources through the adoption of the new Law on Renewable Energy Sources and introduction of an auction system for energy generators (2021–2022)	2022
Vertical integration (level of vertical unbundling of each individual segment of the electricity sector) RS	Distribution and supply within one legal entity (2020)	Supply within the universal service is still carried out as part of distribution – transitional period. Supply outside the universal service is unbundled from distribution (2021)	Supply is legally and practically unbundled from distribution (2022)
Market structure (market share of the largest electricity company) RS	100% (2020)	97% (2021)	95% (2022)
Adoption of planned laws and regulations/implementing acts, including the realisation of unbundling of energy activities (with special emphasis on the establishment of the Distribution System Operator) FBiH			

### 3. Expected impact on competitiveness

The implementation of reform measures through the adoption of the necessary legislative framework and its alignment 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.

The increase in revenues of the electricity sector in Republika Srpska would have a positive effect on its ability to invest in new infrastructure project and increase energy security, whereas the introduction of competition should lead to an increase in the quality of services within the sector. Considering the fact that this is a complex estimate that requires a special study to be carried out, the Ministry is unable to quantify these indicators.

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

There is no need to provide special funds from the Budget of the Federation of Bosnia and Herzegovina for the adoption of planned laws and regulations/implementing acts and the Electricity Sector Restructuring Program in the Federation of Bosnia and Herzegovina. It is not possible to estimate the cost of implementing the measure in Republika Srpska at this time.

### 5. Expected impact on employment and gender

The construction of new renewable energy generation capacities will provide additional employment, both in the stage of project implementation and in the exploitation phase, as well as additional employment in the event of energy audits and other supporting activities in the field of design and construction work, equipment production, construction materials etc.

In the event of a rise in electricity prices as a result of market formation of prices, it is expected that the result will be increased prices of some goods, services and living costs in households. Accordingly, there may be a negative impact on socially vulnerable categories of the population to the extent of the share of electricity expenditures in the households' budget. On the other hand, reorganisation of the MH "Elektroprivreda" of RS aimed at increasing its competitiveness presupposes an optimisation (reduction) of the number of employees in all companies in accordance with European standards. The measure will surely be reflected by an increase in unemployment.

Through limiting subsidies for renewable energy sources and introducing an auction system for energy generators, the adoption of the new Law on Renewable Energy Sources of Republika Srpska will have a positive impact on competitiveness among electricity generators and reduce the tax burden on electricity consumers (renewable energy feed-in tariffs).

There are no legal restrictions when it comes to neutral gender impact.

#### 6. Expected impact on the environment

Strengthening of the electricity and gas market, increasing energy generation from renewable sources, as well as the implementation of energy efficiency measures, i.e., energy and energy sources savings, will have positive implications for the environment in all identified sectors.

#### 7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
Due to the overall situation brought on by COVID 19, it is certain that the deadlines for all stated activities will be prolonged	high	Monitor the situation in the field and adjust activities in accordance with recommendations to avoid severe setbacks.
Untimely adoption of laws by the Parliament at all levels of government in Bosnia and Herzegovina due to the unfavourable political environment	medium	
Law on Renewable Energy Sources of Republika Srpska shall not be adopted within the expected deadline (2021)	low	Remove obstacles that are preventing the implementation of this measure.
By-laws shall not be adopted within the expected deadline (2021)	medium	The necessary prerequisite is for the first measure to be implemented. Remove obstacles that are preventing the implementation of this measure.
MH "Elektroprivreda RS" shall not implement the Reorganisation Plan in accordance with the legal deadlines (2021)	medium	The necessary prerequisite is for the first measure to be implemented, as well as a series of other preconditions related to ownership, legal and functional transformation of MH "Elektroprivreda RS." A timely solution needs to be found in line with the laws, prescribed options and in cooperation with the management of MH "Elektroprivreda RS" MP a. d. Trebinje.
The management, trade unions and employees of MH "Elektroprivreda RS" will be opposed to the reorganisation due to the reduction of the number of employees, loss of certain rights, or loss of income from economic activities	high	Reach a compromise solution, especially with the trade union and management of ZP MH "Elektroprivreda RS".

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

#### 1. Description of measure

The measure results from BiH's obligations under the Treaty Establishing the Energy Community. It includes activities related to the development of the Integrated Energy and Climate Plan for Bosnia and Herzegovina (NECP BiH). The development of this document started in 2019. In accordance with the administrative organization of Bosnia and Herzegovina, the process of drafting the NECP BiH is led by the Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina together with the Ministry of Energy and Mining of Republika Srpska and the Federal Ministry of Energy, Mining and Industry. It is important to emphasize that in parallel with the continuation of the development of this document, the development of entity energy and climate plans will begin. In addition to energy, these documents fully respect the commitments made by the Paris Agreement on Climate Change, which are an integral part of them under the Regulation on Energy Union Governance and Climate Action. In that sense, the intersectoral and inter-institutional approach is extremely important, ie. their full alignment with the Climate Change Adaptation and Low Emission Development Strategy for Bosnia and Herzegovina and the Nationally Determined Contribution (NDC) of BiH. The end goal of the development of this document and its alignment and integration with the relevant goals of EU, UNFCCC and Energy Community policies is decarbonising the energy sector, which is in accordance with the Green Deal of the EU. Republika Srpska is implementing the second segment of electricity market reform, which is the abandonment of the current incentive system for renewable energy sources through limitations to subsidies for renewable energy sources. This requires the adoption of a new Law on Renewable Energy Sources and increasing competitiveness between generators from renewable energy sources by introducing the auction system for energy generators. These reforms will enhance generation from renewable energy sources and implementation of energy efficiency measures in the Federation of BiH in line with the requirements of the Energy Community. In the area of *energy efficiency*, the Law on Energy Efficiency in the Federation of BiH, which was adopted in 2017, lays down the basis for sustainable energy development through energy savings that lead to the reduction of negative environmental impacts, increase of energy supply security, fulfilment of the energy needs of end consumers and fulfilment of international obligations taken by Bosnia and Herzegovina in terms of energy savings in end consumption and reducing the emission of greenhouse gases through the application of energy efficiency measures.

#### Activities planned in 2021

- Adoption of the Integrated Energy and Climate Plan for Bosnia and Herzegovina for 2021 – 2030 (MoFTER)
- Adoption of the Integrated Energy Efficiency Action Plan (NEEAP) for 2019 – 2021 (MoFTER)
- Adoption of the Integral Building Renovation Strategy in BiH by 2050 (MoFTER)
- Adoption of the new Law on Renewable Energy Sources (Ministry of Energy and Mining of Republika Srpska)
- Adoption of the Amendments to the Law on the Use of Renewable Energy Sources and Efficient Cogeneration in the Federation of Bosnia and Herzegovina, which will define and introduce new mechanisms for incentivising electricity generation from renewable energy sources
- Adoption of the Action Plan for Renewable Energy Sources of Bosnia and Herzegovina for the period 2021-2030 as part of the NECP BIH (Ministry of Foreign Trade and Economic Relations in cooperation with the relevant entity-level ministries, Brčko District and GIZ)
- 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

- Adoption of the Action Plan for Renewable Energy Sources of Bosnia and Herzegovina for the period 2021-2030 as part of the NECP BIH (Ministry of Foreign Trade and Economic Relations in cooperation with the relevant entity-level ministries, Brčko District and GIZ)

### **Activities planned in 2022**

- Implementation of measures and policies defined by the Integrated Energy Efficiency Action Plan (NEEAP) of BiH for the period 2021 – 2030 (MoFTER)
- Preparation and adoption of by-laws based on the Law on Electricity in the Federation of Bosnia and Herzegovina
- Preparation and adoption of by-laws based on the Law on the Use of Renewable Energy Sources and Efficient Cogeneration in the Federation of Bosnia and Herzegovina

### **Activities planned in 2023**

- Reporting to the Energy Community Secretariat on the progress in the implementation of measures and policies defined by the Integrated Energy Efficiency Action Plan (NEEAP) of BiH for the period 2021 – 2030

#### **2. Results indicators**

- 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**

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**

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.

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

7. Potential risks

<b>Risk</b>	<b>Probability (low or high)</b>	<b>Planned mitigating action</b>
Due to the overall situation brought on by COVID 19, it is certain that the deadlines for all stated activities will be prolonged	high	Monitor the situation in the field and adjust activities in accordance with recommendations to avoid severe setbacks.
Unharmonized attitudes of all levels of government in BiH regarding certain issues lead to setbacks and delays	high	
Untimely adoption of laws by the Parliament at all levels of government in Bosnia and Herzegovina	high	State planned measures if it happens
Untimely adoption of by-laws/implementation acts by the line ministries, institutions and Government of the Federation of Bosnia and Herzegovina	high	State planned measures if it happens

Increasing energy generation from renewable energy sources, as well as implementation of energy efficiency measures, i.e., savings of energy and energy sources in all sectors recognised by the Law on Energy Efficiency in the Federation of BiH, will have positive impacts on the environment.

## TRANSPORT

a) Analysis of main obstacles

The transport infrastructure in BiH is underdeveloped<sup>70</sup> whereas the structural adjustments are slow and disrupt the potential for growth and competitiveness. The challenges which Bosnia and Herzegovina is facing are largely caused by: war damage from previous years, inadequate maintenance of the road infrastructure and insufficient financing which is not aligned with the recognised needs, etc. The reason behind insufficient investment in transport lies partially in the misaligned legal and regulatory framework and insufficient cooperation between different levels of government, which hinders the implementation of already agreed financial arrangements. The road network in BiH is limited with the total length of 24,796 km and a little over 200 km of new network in 2019, which has a negative impact on the increase of costs and extended transport time for BiH exporters. In addition to this, insufficient investment into the infrastructure causes a low level of safety in road traffic.

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. A strategic response would be aimed at achieving a major shift towards rail transport in relation to other modes of transport, in line with the European guidelines of the 2011 White Paper on Transport.

The strategic goals of entity-level transport ministries are all focused in the same direction – development and improvement of the transport infrastructure.

In the Federation of BiH, the main obstacle is the aforementioned outdated and unsatisfactory transport infrastructure resulting in a high number of road traffic accidents and the unacceptably long travel times on some road sections, such as the Sarajevo-Goražde and Lašva-Nević-Polje sections, the Sarajevo bypass roads and the Mostar highway. The Sarajevo-Goražde road section is 99 km long, and the travel time to cross in winter conditions is almost 2.5 hours and is highly difficult and dangerous around the Hranjen

<sup>70</sup> The 2019 Global Competitiveness Report – based on the Quality of road infrastructure and Efficiency of air transport services indicators, Bosnia and Herzegovina is ranked as 121st out of 141 countries.

mountain pass. The number of vehicles on the Lašva-Nević Polje road section, i.e., its Annual Average Daily Traffic (AADT), is around 14,000, which causes significant congestions, traffic jams and road traffic accidents, especially on the section going through Vitez. This increases the costs for businesses and hinders regular operations. The 1st Transversal Road in Sarajevo in the direction of the Vogošća intersection has significant congestions, jams and many traffic accidents, especially in the morning and afternoon hours. Due to their underdevelopment, Mostar highways also lead to many traffic jams and frequent road accidents.

With the goal of developing the road infrastructure and increasing road traffic safety, the following strategic documents have been adopted in Republika Srpska: Road Traffic Safety Strategy of Republika Srpska for the period 2013–2022, Public Roads Development Strategy for the period 2016–2025, and Transport Strategy of Republika Srpska for the period 2016–2030. These strategic documents are under implementation in accordance with the adopted plans and available financing.

The road infrastructure in Republika Srpska comprises 106 kilometres of motorways, over 4,200 kilometres of highways and regional roads, and over 6,030 kilometres of local roads and streets in populated areas. Republika Srpska did not have any motorways, and 106 kilometres of motorways have been constructed and put into operation from 2011 to 2019 and construction will continue. There is also continuous rehabilitation and modernisation of the existing highways and regional roads.

In relation to 2011, the base year defined by the Road Traffic Safety Strategy of Republika Srpska for the period 2013–2023, there is a visible decrease of the number of road traffic accidents and the number of fatalities. The number of road traffic accidents with fatal consequences in 2019 decreased by 20.0%, and the number of fatalities decreased by 20.2% relative to the base year (2011). However, there are visible annual oscillations in this indicator, which demonstrates that the system of protection from road traffic accidents in Republika Srpska is not stable.

On the other hand, Republika Srpska focuses on railway transport. “Željeznice Republike Srpske,” a. d. Doboj (hereinafter: “Željeznice RS”) is a joint stock company whose main activity is provision of services of transport of goods and passengers. Due to the accumulated arrears of the company, the Government of Republika Srpska in 2017 decided to launch a restructuring project with the support of the World Bank. The restructuring project will result in ownership, financial and organizational restructuring and is expected to be completed by 2021. The implementation of this project will result in an increase of the number of transported passengers and reduced labour costs, which is as of now the largest expenditure in the structure of total expenditures of “Željeznice Republike Srpske.”

#### b) Reform measure

### 5.3.1.3 Development and improvement of transport infrastructure

#### 1. Description of measure

The main goal of this reform measure in the Federation of BiH is the construction of new motorways, maintenance of the existing road and railway infrastructure. The implementation of the aforementioned projects will reduce traffic congestions and jams, because the issue is extremely dense traffic on the stated road sections with a large number of vehicles (AADT of over 10,000). At the same time, the travel times will be significantly reduced, which will be especially important for economic development and will significantly raise the level of road traffic safety on the stated road sections.

The development of the new Law on Roads in the Federation of BiH will enable improvement of the road management system (maintenance, repairs and construction of roads) and collection of charges for the use of road land because the current Law was adopted in 2010, after which a large number of commercial roadside contents have been constructed.

On the roads of the Federation of BiH, amendments to the Law on Road Traffic Safety have led to the development of plans and measures with the goal of increasing road traffic safety and improving the current



situation regarding the high number of road traffic accidents with fatal outcomes and significant material damages.<sup>71</sup>

In Republika Srpska, the project aimed at restructuring “Željeznice RS” is expected to last until the end of 2021. The restructuring of “Željeznice RS” shall be implemented in three components: ownership, financial and organizational restructuring. It is important to note that financial and organizational restructuring will be financed by World Bank loans. Ownership restructuring will be achieved through conversion of the debt of “Željeznice RS” to the Government of Republika Srpska resulting from foreign loans that the Government of Republika Srpska has been paying off on the behalf of “Željeznice RS” into capital. In this way, Republika Srpska will become the owner of more than 99% shares of “Željeznice RS,” after which the buyout of the shares from minority shareholders will begin. Financial restructuring implies the settlement of liabilities to the Tax Administration of Republika Srpska for taxes and contributions until 31st July 2018, and the settlement of liabilities to the employees: transport, hot meal and recourse fees for the period 2011-2016, which will provide the basis for ownership restructuring and the financing of computerisation of the company. Organizational restructuring is being carried out through downsizing the number of employees, unbundling the infrastructure and operations into two separate accounting units, and forming profit centres from individual organisational parts of the company.

In terms of the development and improvement of the road infrastructure and road safety, activities are currently in progress on the continuation of the construction of motorways in Republika Srpska. The construction of the motorway on the 5c route passing through Republika Srpska is currently underway. Activities are also being implemented on the development of planning and technical documentation and expropriation for the construction of the motorway Vukosavlje – Brčko – Bijeljina – Rača, as well as the implementation of the concession contract for the construction of the motorway Banja Luka – Prijedor.

In regard to the highway and regional roads network, expropriation for the construction of the highway Brod na Drini – Šćešanj Polje (Montenegro) is in its early stage, the development of planning and technical documentation for the construction of a new section of the highway Foča – Tjentište is in progress, as well as the process of obtaining the construction permit for the construction of the Nevesinje – Berkovići regional road. The rehabilitation of individual highway sections is also underway.

### **Activities planned in 2021**

- Implementation of projects: 1. Construction of new road Sarajevo - Goražde; 2. Construction of freeway Lašva - Nević-Polje; 3. Construction of the first transversal bypass in Sarajevo; and 4. Construction of highways in Mostar (adopted by the Government of FBiH, implemented by FMTC, “JP Autoceste FBiH,” “JP Ceste FBiH,” Sarajevo Canton Directorate for roads, each in their respective jurisdictions and sectors).
- Ownership restructuring of the company through conversion of debt into shares, and buy out of the shares from minority shareholders; the restructuring of “Željeznice RS” is implemented on the basis of the Law on Bankruptcy,<sup>72</sup> and in accordance with the Plan of Financial and Organizational Restructuring which was adopted by the Government of Republika Srpska and delivered to the District Commercial Court in Doboj for further proceedings. Ownership restructuring is implemented by the Ministry of Transport and Communications (MTC) as the competent authority, the Ministry of Finance and the Securities Commission.
- Completion of activities related to the organizational restructuring, which is implemented with the assistance of consultants with whom contracts have been signed and whose obligation is to suggest a functional and economically sustainable organisational model for “Željeznice RS.”

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<sup>71</sup> The current situation is that there are no regulations on road traffic safety on the level of the Federation of BiH, which is due to the lack of plans and measures aimed at increasing safety. In 2018, there was a total of 36,672 traffic accidents in BiH, out of which 7,494 traffic accidents had fatal consequences or injured persons, while 29,178 road traffic accidents resulted in material damages. Traffic accidents in Bosnia and Herzegovina in 2018 caused the death of 277 persons, whereas 10,403 persons had severe or minor bodily injuries. Due to the lack of the Law on Road Traffic Safety of the Federation of BiH, there is currently no Agency for Safety in the Federation of BiH to implement operational activities aimed at increasing road traffic safety and reducing the number of road traffic accidents.

<sup>72</sup> Official Gazette of Republika Srpska, 16/16.

- Completion of activities regarding the development of business plans and contracts of financing the infrastructure and road traffic; Signing of contracts with the Government of Republika Srpska for infrastructure maintenance and operator support through co-financing passenger traffic (“Željeznice RS,” MTC). The activity will be implemented with the assistance of planning and contracting consultants.
- 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).

## Activities planned in 2022

- Implementation of projects: 1. Construction of new road Sarajevo - Goražde; 2. Construction of freeway Lašva - Nević-Polje; 3. Construction of the first transversal bypass in Sarajevo; and 4. Construction of highways in Mostar (adopted by the Government of FBiH, implemented by FMTC, “JP Autoceste FBiH,” “JP Ceste FBiH,” Sarajevo Canton Directorate for roads, each in their respective jurisdictions and sectors).
- Development of the preliminary draft of the new Law on Roads in the Federation of BiH.
- Development of the preliminary draft of the Law on Road Traffic Safety of the Federation BiH.

## Activities planned in 2023

- Implementation of projects: 1. Construction of new road Sarajevo - Goražde; 2. Construction of freeway Lašva - Nević-Polje; 3. Construction of the first transversal bypass in Sarajevo; and 4. Construction of highways in Mostar (adopted by the Government of FBiH, implemented by FMTC, “JP Autoceste FBiH,” “JP Ceste FBiH,” Sarajevo Canton Directorate for roads, each in their respective jurisdictions and sectors).

## 2. Results indicators

Indicator	Baseline (year 2021)	Intermediate target (year 2022)	Target (year 2023)
Length of road section and travel time Sarajevo- Goražde. Construction of the Hranjen tunnel.	Sarajevo- Goražde is 99 km, and the travel time in winter conditions is 2.5 hours	Completed construction of the Hranjen tunnel (length: 5.5 km)	Sarajevo- Goražde 60 km, and the travel time in winter conditions 1 hour -Hranjen tunnel hole-through
Completed 4.9 km section -Lašva-Nević	Lašva- Nević (the section passing through Vitez 4.9 km	Vitez 4.9 km	Final construction on Lašva-Nević
First transversal bypass Sarajevo	completion of first section	Works on second section	Final construction on the second section
Reconstruction of M6.1 and M17.4 Mostar	reconstruction of the highway	Continued works	Completed works
Conversion of debt into equity	Increased ownership of Republika Srpska in total ownership of company to 91% (2020)		Republika Srpska owns “ŽRS,” “ŽRS” without outstanding liabilities to creditors (2021)
Settlement of debt towards employees and funds for the period 2011–2018 (until 31 <sup>st</sup> July 2018) in the amount of EUR 42.7 million	In the period 2018–2020 settled obligations for the period 2011–2018.	Regular settlement of obligations 2020.	2021 – no outstanding obligations to employees, “ŽRS” is a self-sustainable company
Process of labour force restructuring, i.e., downsizing the number of employees in the period 2018–2020 by 1,000 employees (retirement, departure with	In accordance with the Amendments to the Law on Railways, Voluntary	On 31 <sup>st</sup> July, 2020, “ŽRS” has 2,244 employees	“ŽRS” has 2,098 employees, achieved restructuring goal (31 <sup>st</sup> December, 2020)

stimulative severance pay and redundancy) in the amount of EUR 3.5 million	Departure and Termination of Labour Contracts, the number of employees has been downsized by 500 (2018), 200 (2019), and 300 (2020)		
Organizational restructuring of the company in the amount of EUR 5 million	Selected organizational restructuring consultant and Planning and contracting consultant (2020)	Procured IT system for management of operations of “ŽRS” (2020)	“ŽRS” is a self-sustainable system (2021)

The result indicator is the decrease of debt to the Government of Republika Srpska arising from foreign loans and of the debt to employees and to Tax Administration of Republika Srpska. Additionally, the reduction of overall operating costs of the company should make it more financially self-sustainable.

### 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.

The realisation of the restructuring project will lead to the debt unburdening of “Željeznice RS” towards the Government of Republika Srpska arising from foreign loans that the company is unable to repay independently, as well as to the reduction of operational costs, primarily due to the reduction of costs of gross earnings, but also due to the optimization of operations and computerization of the company. The end result is expected to be the financial self-sustainability of “Željeznice RS” and increased quality of services, which will significantly improve the competitiveness of this public company.

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

The stated investment programmes and the preparation of the Law on Roads and Safety are planned to be financed from the Budget of the Federation for each year. Implementation will also be financed from the Budget. All activities in Table 10.a. will all be financed from the Budget.

Implementation costs of the restructuring of “Željeznice RS” are equal to the total loan from the World Bank in the amount of EUR 51.3 million for the implementation of all three phases of restructuring. The Budget of Republika Srpska will cover the repayment of debt arising from the World Bank loan for financing Component 1 (settlement of debt to employees and the Tax Administration) in the amount of EUR 42.7 million.

### 5. Expected impact on employment and gender

Implementation of the stated investment programmes in the Federation of BiH and preparation of the Law on Roads are expected to have a direct positive impact on employment and reduction of poverty. It is important to note that direct involvement of local companies and labour force is expected during the implementation of these measures.

The restructuring of “Željeznice RS” will lead to the reduction of the number of employed persons. The number of employees is planned to be reduced by 1,000 employees, i.e., 500 employees by the end of 2018 and the remaining 500 employees by the completion of the restructuring process at the end of 2020. “Željeznice RS” have prepared the Programme for Redundant Employees in accordance with the Labour Law of Republika Srpska, which has been approved by the Government of Republika Srpska. Under the Program, employees whose labour contracts end in accordance with the Law on Amendments to the Law on Railways of Republika Srpska will be taken care of through the provision of the right to full pension. In

2018 and 2019, voluntary departure programmes were implemented whereby departing employees received special compensations. On 31<sup>st</sup> July, 2020, “Željeznice RS” had 2,244 employees.

The implementation of this measure is not expected to have an impact on gender.

#### 6. Expected impact on the environment

Since this is the transport sector, there is no negative impact on the environment when implementing these measures. The impact will be positive because the implementation of these measures will lead to reduced travel times and reduced traffic congestions, which has a direct impact on the reduction of greenhouse gases emissions by motor vehicles.

#### 7. Potential risks

<b>Risk</b>	<b>Probability (low or high)</b>	<b>Planned mitigating action</b>
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
Unsuccessful implementation of the project of organizational restructuring	low	Inclusion of more professional staff to avoid implementation setbacks

### 5.3.2. Agriculture, industry and services

#### AGRICULTURE

##### a) Analysis of main obstacles

The limited growth of agricultural production and related added value in agriculture were caused by both the results of the coronavirus pandemic and the insufficient level of financing of the agriculture sector in comparison to developed countries from which agricultural and food products are imported, which are significantly more competitive than domestic products due to stronger financial support. Additionally, the low share of high-revenue cultures in the structure of agricultural production, as well as of the production of export-oriented products, have a negative influence on the economic results of this sector. At the same time, there is a positive growth trend in overall budget allocations to the sector of agriculture in all levels of the government, as well as in the restructuring of incentives in favour of capital investments, especially in Republika Srpska. An additional obstacle is the extremely complex procedure of adopting laws and by-laws, which prevents the timely takeover of the acquis (failure to adopt strategic documents and misalignment of laws with the legal framework in the field of agriculture in Bosnia and Herzegovina).

Implementation of an agricultural census would lead to the updating of agricultural data and enhance the policy-making process in the sector. The Rural Development Strategic Plan 2018-2021, which was one of the conditions to use EU funds for agriculture and rural development, has been adopted and the remaining obligation is to establish a separate institutional body for implementation of IPARD funds. (Instrument for Pre-accession Assistance Rural Development). The main objective of the IPARD program is to assist in preparing for the implementation of the EU legal heritage in the field of agriculture and rural development, as well as the restructuring of the agricultural sector and the sustainable development of rural areas in the candidate countries. The implementation of IPARD is done on the basis of the IPARD program, and through the operating structure of the so-called. IPARD operating structure which is part of the indirect system of

implementation of EU pre-accession funds. An unavoidable precondition for the use of EU IPARD funds for agriculture and rural development is the established legal and institutional framework. Given the specifics of the organization of Bosnia and Herzegovina, the establishment of the IPARD operating structure in BiH is not proceeding as in other countries that have passed this phase. The reason is the discrepancy between the competencies defined in the Constitution in BiH in the field of agriculture, including the system of payment of financial support, which are at the entity and cantonal level, with the requirements of the EU when it comes to the IPARD structure. The EU's requirements imply that in BiH, as in other candidate countries, it is necessary to establish a single IPARD structure for the whole country, while leaving the possibility to delegate certain functions to institutions of other levels of government. For these reasons, the problem of establishing an IPARD structure has not yet been resolved, although it has been on the agenda of the competent institutions for a long time.

Agricultural production, which includes small-scale agriculture with mixed production systems, produces small amounts of market surplus, whereas fragmented production and the lack of mechanization and expertise hinder the agricultural workers' ability to achieve economy of scale in production and produce the amounts needed in some markets, which limits the growth of agriculture. Additional problems are that primary production is unlinked with the processing industry, the share of contracted production is insufficient, as well as the share of added value production and in the total value of agricultural production.

The impact of the open market, porousness of borders and lack of adequate measures for the protection of local production are all structural obstacles to the growth and competitiveness of the sector. In that regard, some CEFTA members have, unjustifiably and contrary to agreement, introduced unilateral import taxes for agricultural products, among other types of products (Kosovo<sup>73</sup>). Aside from this, some bilateral agreements are difficult to implement as the result of the political situation in BiH, which hinders or even stops the export of certain products from BiH. The impact of climate change and increasing frequency of extreme conditions, as well as the appearance of contagious diseases that are new to these areas, represent an additional risk, not only to the development of the sector, but for the health of people as well.

An additional challenge are the negative demographic changes reflected in high migration rates, both permanent migration and migration from rural to urban areas, the lack of new generations to take over agriculture, high emigration rates of the female population from rural areas due to difficult living conditions and the lack of employment opportunities.

Multiple jurisdictions of a large number of institutions, misaligned policies and standards, and limited institutional capacities which are insufficiently equipped for development and implementation of agricultural policies are the factors limiting the growth of the agriculture and rural development sector, which results in the inability to identify the real needs, insufficient funding, inadequate allocations to the sector and low productivity of this sector.

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

#### **1. Description of measure**

Improving the competitiveness of agriculture, forestry and water management in Republika Srpska 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: increasing the scale of production of local agricultural products, 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

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<sup>73</sup> United Nations Resolution 1244

reaching the European Union average measured by indicators such as productivity in the sector, level of investment and employment in the sector.

In the Federation of BiH, 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 FBiH and BiH with the CAP.

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.

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).

Out of the conditions that need to be fulfilled to use funds earmarked for agriculture and rural development, the one that remains is the establishment of a separate institutional body in charge of implementation of IPARD funds. The process of constructing the IPARD operational structure will imply reform of existing administrations (or parts of administrations) into the IPARD operational structure. Although the opinions on the IPARD operational structure are not fully aligned, all relevant institutions agree that it is necessary to achieve agreement on these issues as soon as possible, and that it should be considered within the framework of activities aimed at the fulfilment of conditions for EU accession. At the end of 2020, activities on the preparation of a proposed model for the governing body of the Instrument for Pre-Accession Assistance for Rural Development (IPARD in Bosnia and Herzegovina were restarted and the activities will without a doubt be carried out in 2021.

Strengthening institutional and human resources established and trained for the purpose of implementing agricultural policies and creating the conditions for opening the possibility of using EU funds is one of the most complex goals of this reform measure.

Continued activities in Republika Srpska in the period 2021–2023

- Preparation of a new information system in forestry (Ministry of Agriculture, Water Management and Forestry of Republika Srpska – MAWMF, “JPS Šume Republike Srpske”);
- Improvement of foreign trade and protection of local agricultural production (MAWMF);
- IPARD procedures and operational structures, as a precondition for opening the possibility of using EU funds for rural development (MAFWM, Ministry of Foreign Trade and Economic Relations);
- Creating the conditions for the establishment of IPARD operational structures in BiH (the Managing Authority and the IPARD Payment Agency) – 2021;
- Creating agrarian policy measures in line with IPARD procedures – 2022;
- Continued activities on the development of IPARD operational structures and alignment of agrarian policy measures implemented by Republika Srpska with the rules and procedure of pre-accession funds for agriculture and rural development, as well as capacity-building within the sector;
- Establishment of the RS Water Information System (MAWMF);
- Establishment of the Land Parcels Identification System – inventory of land resources (MAWMF), continuation of activities;
- Implementing the animal identification process through development of the animal movement control system (MAFWM).

a) Activities planned in 2021

- Adoption of the new Law on Financial Support, Law on Agriculture, Food and Rural Development and Veterinary Law. 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.

- Continued implementation of the training of agricultural advisers and updating of the Register of Agricultural Advisers and the Register of Private Advisory Services. Continued implementation of the training of agricultural producers by public agricultural advisory services. The responsibility for the implementation of this activity lies with the cantonal and city agricultural advisory services in cooperation with the Federal Ministry of Agriculture, Water Management and Forestry.
- Upgrading the Land Parcels Identification System and their use. The responsibility for the implementation of this activity lies with the Federal Ministry of Agriculture, Water Management and Forestry.
- Adoption of the new Law on Incentives in Republika Srpska, as well as of the new Law on Agriculture and the new strategic framework for agriculture and rural development by 2025. The development of a new strategic and legal framework in the area of agriculture and rural development in the future period should contribute to alignment with the EU acquis and result in increased competitiveness, productivity and scale of formal employment in the sector (MAFWM),
- Establishment of the system for tracking the results of agricultural farms in Republika Srpska and, based on the collected data, analysis of the justification for incentivising specific cultures (MAWFM),
- Linking domestic primary production with domestic food industry in Republika Srpska (MAFWM),
- Updating the Action Plan for the Implementation of Strategic Measures for the Development of Agriculture and Rural Areas in Republika Srpska (MAWFM).

b) Activities planned in 2022

- Fulfilment of the conditions to use IPA (RD) funds (MoFTER BiH);
- Adoption of implementation acts based on the provisions of the new Law on Incentives and the new Law on Agriculture, Food and Rural Development. The responsibility for the implementation of this activity lies with the Federal Ministry of Agriculture, Water Management and Forestry.
- Continued implementation of the training of agricultural advisers and agricultural producers.
- Establishment of a Farm Accountancy Data Network (FADN). The responsibility for the implementation of this activity lies with the Federal Ministry of Agriculture, Water Management and Forestry in cooperation with the relevant cantonal line administration bodies for agriculture and the Ministry of Foreign Trade and Economic Relations.
- Improvement of information systems for more efficient use of resources and more effective application of funds in Republika Srpska; the activity is carried over from 2021 and into 2022,
- Implementation of new strategic measures for enhancing competitiveness, productivity and sustainable development In Republika Srpska. With the adoption of the new strategic and legal framework in the previous year will mark the start of implementation of the new cycle of measures which will be financed from the agrarian budget, and whose goal is to modernise and increase the technological level of production in the sector, increase the range of investments, increase productivity and gross added value of the sector, and increase formal employment (MAFWM) – continuation of activities.

c) Activities planned in 2023

- Reorganisation of the Federal Ministry of Agriculture, Water Management and Forestry and establishment of the Payments Agency. The responsibility for the implementation of this activity lies with the Federal Ministry of Agriculture, Water Management and Forestry and the Government of the Federation of BiH.
- Continued implementation of the training of agricultural advisers and agricultural producers.

- Establishment and maintenance of agricultural market information system (PTIS). The responsibility for the implementation of this activity lies with the Federal Ministry of Agriculture, Water Management and Forestry in cooperation with the relevant cantonal line administration bodies for agriculture and the Ministry of Foreign Trade and Economic Relations.
- Improvement of information systems for more efficient use of resources and more effective application of funds in Republika Srpska (MAWFM),
- Implementation of new strategic measures to improve competitiveness, productivity and sustainable development in Republika Srpska (MAFWM).

## 2. Results indicators – Key Performance Indicators (KPI)

Indicator	Baseline (year)	Intermediate target (year)	Target (year)
Established information system, i.e., database in agriculture, water management and forestry	Two systems in development (inventory of land parcels and information system in forestry)	Four systems in development (inventory of land parcels and information system in forestry, veterinary information system and information system in water management)	Two systems in operation (inventory of land parcels, veterinary information system), and two in development (information system in forestry and information system in water management)
Number of incentive measures aligned with IPARD procedures	0 measures	1 measure	2 measures
Percentage of agrarian budget allocated for agricultural investments	5%	10%	15%

## 3. Expected impact on competitiveness

Enabling more efficient use of financial support that will increase the competitiveness of agricultural producers will increase the volume and quality of output.

Indicators of impact on competitiveness:

- Percentage share of real growth of the agriculture and forestry sector in the GDP of Republika Srpska: the introduction of new information systems and databases will enable a higher level of control and reliability in all phases of production and other business activities. The increased level of funds for investments and modernisation of production will contribute to increased productivity and, consequentially, of the added value of the agriculture sector.
- Percentage of increase of formal employment in the sector, which can also be measured in the increase of the number of active agricultural farms, and will be the result of the creation of more favourable conditions for investments into the agriculture sector and start-up farms.
- Percentage of coverage of import by export in the sector of agriculture, forestry and fishing resulting from the implementation of measures aimed at improving the export capacities of entities within the agriculture sector, as well as institutions in charge of the quality control of imported and exported goods.

The application of the SARD and the establishment of an implementation structure 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.

#### 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.

The following table shows the estimated costs of the planned reform measures in Republika Srpska.

Reform measure	Costs	Sources of financing
<b>Enhancement of the competitiveness of agriculture, forestry and water management</b>	<b>34,900,000</b>	
Development of the new information system in forestry	17,000,000	Budget of RS
Development of the new information system in water management	2,500,000	Budget of RS
Setting up a land parcel identification system - inventory of land resources	2,200,000	Budget of RS
Implementing the animal identification process through development of the animal movement control system	1,000,000	IPA and Budget of RS
Improvement of foreign trade and protection of domestic agricultural production	N/A	N/A
Creating the new strategic and legal framework in the area of agriculture and rural development	200,000	Agrarian budget
Creating the conditions for the establishment of IPARD operational structures in BiH	2,000,000	IPA
Implementation of new strategic measures to improve competitiveness, productivity and sustainable development	10,000,000	Agrarian budget, World Bank credit

#### 5. Expected impact on employment and gender

The implementation of planned activities is expected to contribute to sustainable and stable growth of agricultural and food production and ensure a better living standard for agricultural workers, resulting in the increased number of employed persons in the agriculture sector and activities related to the agricultural and food industry, with increased employment of women. The impact of the measure on employment is twofold. On the one hand, the improved productivity and transparency in the sector can contribute to the reduction of the labour force needs, especially if the investments are directed automatization of production processes, modernisation of equipment, procurement of mechanisation of a wider working range, etc. The informatisation of processes can also lead to the reduction of administrative procedures and, thereby, administration employees. On the other hand, increased productivity and financing in the sector can lead to the inclusion of new entities into the agricultural and forestry sector, establishment of new start-up enterprises, which would lead to new employment and self-employment opportunities. Therefore, the short-term impact of the measure is weak or negative, whereas the long-term impact is positive. The measure has a strong long-term qualitative impact, whereas the quantitative impact reflected in the increase of employment in the agriculture sector is 5%.

The impact of this measure on poverty reduction, i.e., increase of income, is twofold and reflected in the direct increase of income by farm or entity (in forestry they are called forest holdings) on the one hand, and the growth of revenues, i.e., added value of the sector on the other. The effect can be measured on the long term, after the implementation of reform measures and completion of at least one investment cycle. The measure has a strong long-term qualitative impact, whereas the quantitative impact is the increase of revenues in the agriculture sector by 10%.

The impact of this measure on equality and gender is relevant to the sector of agriculture, and neutral for the sector of forestry, and pertains to the number of women heads of agricultural farms, the number of women beneficiaries of support measures, the number of women employed in the sector, etc. These indicators are continuously monitored as part of the implementation of agrarian policy measures by the

MAFWM. The measure has a strong long-term qualitative impact, whereas the quantitative impact reflected in the increase of women heads of farms by 10%.

#### 6. Expected impact on the environment

The environmental impact is related to the efficient use of resources, both forest, land and water resources. In this sense, the impact of this measure is relevant both in the short and long term. The measure has a strong short-term and long-term qualitative impact, whereas the quantitative impact is reflected in the increase of used agricultural land by 10%, increase of annual allowable cuts in forestry by 10%

#### 7. Potential risks

The potential risks are the inability to reach an agreement and cooperation between all levels of government in the development and implementation of policies and laws and establish institutional systems for the area of agriculture and rural development in accordance with requirements of the EU; new and more strict policies and legal framework in the EU coming into effect after 2020; delays and setbacks in the alignment of legal provisions; insufficient funding; unfavourable climate conditions (frost, droughts, floods, etc.); and inadequate reaction to climate change within this sector.

Risk	Probability (low or high)	Planned mitigating action
Natural disasters	high	<ul style="list-style-type: none"> <li>– Measures of insurance against natural disasters,</li> <li>– Investments into irrigation systems,</li> <li>– Investments into frost protection,</li> <li>– Institutional coordination at the level of the Government of Republika Srpska for managing crises caused by natural disasters,</li> <li>– Development of strategic documents for adjustment to climate change</li> </ul>
Absence of cooperation with institutions at the level of BiH regarding the issue of implementation of the following activities: <ul style="list-style-type: none"> <li>– animal identification,</li> <li>– development of IPARD operational structures,</li> <li>– establishment of the LPIS and</li> <li>– introduction of protection measures for agricultural production</li> </ul>	medium	The mitigating actions include activities that can be independently implemented by Republika Srpska: <ul style="list-style-type: none"> <li>– earmarking own budget financing for the implementation of animal identification and establishment of the veterinary information system,</li> <li>– Alignment of agrarian policy measures financed from the budget with IPARD procedures and gaining experience in pilot projects,</li> <li>– allocation of own budget financing for the land resources inventory and World Bank credit for the enhancement of information systems in agriculture,</li> <li>– increase own sources of financing for investments in agriculture through the adoption of the new Law on Incentives and new strategic framework for the development of the sector of agriculture and rural areas</li> </ul>

## INDUSTRY

### 5.3.2.2. Support to the manufacturing industry

#### a) Analysis of main obstacles

The sector of the manufacturing industry is the key sector for generating added value and employment, growth of productivity and other sectors and, indirectly, for economic development and growth of competitiveness of an economy. In addition to the fact that the sector is primarily export-oriented, it is significant to emphasise that the structure of export comprises products in lower stages of processing, raw materials or products with low added value.

Due to the dominant share of labour-intensive industry, i.e., industry based on Lohn activities, and low technical and technological sophistication, an additional difficulty in the development of the manufacturing industry is direct dependence on subcontractors in the production chain of values, which impacts inadequate adjustment to changes taking place on the global scale. This was particularly prominent in the period of the

coronavirus pandemic when the production process was halted due to the inability to procure raw materials or place finished products on the market.

The key obstacles to competitiveness and inclusive growth of the manufacturing industry are: the lack of working capital due to reduced business activities resulting from the harmful effect of the pandemic, low competitiveness of products, insufficient level of investments, low level of technological development, lack of professional labour force and developmental capacities.

#### 1. Description of measure

With the goal of removing the identified obstacles and overcoming the negative effects of the coronavirus pandemic on economic activities, it is necessary to provide support to the recovery of companies from the sector of the manufacturing industry from the economic crisis brought on by the coronavirus epidemic, and support the implementation of projects in the manufacturing industry, as well as to develop the domestic products and base industry.

The stated measure includes:

- 1) Support to the recovery of companies from the manufacturing industry sector from the economic crisis brought on by the coronavirus epidemic. Financial support will be focused on rehabilitating the situation in companies that have suffered damages due to the harmful effects of the coronavirus pandemic on their operations, with the goal of maintaining the manufacturing and employment levels. Financial support will be allocated in order to improve the liquidity of companies, in terms of allocating support funds for the continuous performance of manufacturing activities and settlement of obligations of companies. Support is intended for companies in the manufacturing or manufacturing-service industry within the following areas of the manufacturing industry: wood industry, metal and electrical industry, textile industry, leather and footwear industry, rubber and plastic industry, graphic industry and paper-cellulose industry. The responsibility for the implementation of this activity lies with the Ministry of Economy and Entrepreneurship of Republika Srpska (MEE).
  - 2) Support to the implementation of investment projects with the goal of incentivising innovations, the application of new technologies, employment and strengthening competitiveness. Considering the fact that the manufacturing sector was significantly affected by the pandemic, and that available studies project a fall of foreign direct investments by more than 30%, the sustainability of the manufacturing industry depends on financial support. Support includes incentives for direct investments into the implementation of investment projects in the minimal amount of KM 10,000,000. The measure will be implemented in accordance with the Law on Economic Incentives of Republika Srpska and the Decree on the Procedure for Granting Incentives for Direct Investments. Special support to the manufacturing sector for the procurement of new technologies should be provided through a direct credit line of the Investment and Development Bank of Republika Srpska in the amount of KM 20,000,000 with an agreed subsidy of 30%.
  - 3) Support to the development of a competitive base industry and domestic product. The dependence of the economy of Republika Srpska on the foreign market has been especially visible in the pandemic period, which implies that domestic resources are under-utilised. In this regard, it is necessary to develop support measures for the development of the base industry and domestic product. The needs and possibilities of companies to develop domestic product need to be mapped, available databases on materials and products imported into Republika Srpska need to be analysed, etc.
- a) Activities planned in 2021
- Identify economic activities whose operations and survival in the market have been jeopardised by the negative impacts of the pandemic, establish the criteria and allocate support to the recovery of companies from the area of manufacturing industry from the economic crisis brought on by the coronavirus epidemic,

- Establishment of the criteria for allocating support and opening of a public call for applications and allocation of financial support to the implementation of investment projects,
- Mapping the needs and capacities of companies to develop their own products, i.e., make contact with potential domestic product manufacturers, identifying the key limitations in the decision-making process for developing own products,
- Analysis of available databases on materials and products being imported into Republika Srpska with the goal of presenting the possibility of starting cost-effective manufacturing of products lacking from the domestic market.

b) Activities planned in 2022

- Identify economic activities whose operations and survival in the market have been jeopardised by the negative impacts of the pandemic, establish the criteria and allocate support to the recovery of companies from the area of manufacturing industry from the economic crisis brought on by the coronavirus epidemic,
- Monitoring the implementation and impacts of supported investment projects,
- Development of the study on the possibility of manufacturing own products,
- Promotion of the development potential of the domestic product.

c) Activities planned in 2023

- Opening of a public call for applications and allocation of financial support to the implementation of investment projects,
- Monitoring the implementation and impacts of supported investment projects,
- Promotion of the development potential of the domestic product,
- Defining incentive measures for domestic product development (especially in sectors with potential base industries),
- Provision of support for domestic product placement on the market.

2. Results indicators

Indicator	Baseline (2021)	Intermediate target (2022)	Target (2023)
The number of economic entities that have received support for recovery from the economic crisis brought on by the coronavirus pandemic	Depending on available financing	Depending on available financing	–
Number of supported investment projects	200 and more, depending on available financing	200 and more, depending on available financing	200 and more, depending on available financing
Completed mapping of needs and capacities for manufacturing domestic product	Mapping of the textile, leather and footwear sectors	Mapping of the wood-processing and metal sector	Completed mapping of key sectors of the manufacturing industry
Completed study on the capacity to manufacture domestic product	Finding financing sources for the preparation of the study and source of consultants	Completed study	Promotion of the results of the study

3. Expected impact on competitiveness

The implementation of this measure will support the survival and development of economic entities from the manufacturing industry. The described measures will affect the improvement of liquidity, sustaining of

employment and have a direct impact on the increase of competitiveness of the manufacturing industry. The development of domestic product both on the micro-level and on the sector-level will directly contribute to the reduction of the economy of Republika Srpska's dependence on the global market trends.

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

At this time, it is not possible to estimate the costs of the implementation of this measure. Financing will be sourced from the Budget of Republika Srpska, and part of the financing for the implementation of this measure will be provided by donor support.

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

The implementation of this measure will enable sustaining employment and create the conditions for new employment and improving the social situation of employees.

#### 6. Expected impact on the environment

The measure has a short-term and long-term qualitative impact on the environment through the more efficient use of resources and the application of contemporary technologies.

#### 7. Potential risks

<b>Risk</b>	<b>Probability (low or high)</b>	<b>Planned mitigating action</b>
Continuation of the coronavirus pandemic and its impact on the domestic and global economy	high	Financial and other types of support to economic entities with the goal of mitigating the consequences of the coronavirus pandemic
Lack of financing	high	Activities for the provision of support financing
Lack of interest of investors in investing into the development of domestic product	low	<ul style="list-style-type: none"> <li>– promotion of the potentials and opportunities of product placement,</li> <li>– defining incentivising measures for investments into base industry projects and domestic product development</li> </ul>

## WASTE AND ENVIRONMENT

### a) Analysis of main obstacles

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. The 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. 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.

There is no official environmental statistics, nor is there an environmental information system in place to adequately monitor the state of all environmental components. Utility companies dispose of 64 percent of all communal waste. It is estimated that only 10 percent or less of the total amount of industry waste in FBiH is used as a secondary raw material. There are almost 2,000 listed illegal landfills in the Federation of BiH.

Based on information obtained from landfills, approximately 7% of the total amount of waste disposed on landfills goes to industry companies as non-hazardous industrial waste. For now, systems of separate waste collection are implemented in a small number of municipalities where a portion of waste is delivered to sorting facilities. There is not firm division between the collection and disposal costs. In terms of waste disposals on municipal landfills, no fee is charged for disposal. Municipal communal waste landfills are mostly open and are frequently spaces that do not meet the conditions for sanitary landfills and are not properly prepared for that purpose. Municipal waste disposal landfills do not have systems for the protection of the soil, water or air. The number of municipal landfills that have been repaired is small. Almost none of the municipal landfills have mechanisms for controlling landfill leachate and gas.

Waste management is a public interest activity in Republika Srpska and includes the implementation of a series of measures for waste management, including monitoring of the activities and maintenance of waste management facilities after closing.

The demands and standards set by the EU are gradually being incorporated into the legislation of Republika Srpska, which created the basis for the establishment of a suitable waste management system in the territory of Republika Srpska, in accordance with the principles of sustainable development and environmental protection. The sector of environmental protection and waste management in Republika Srpska is regulated by the Law on Environmental Protection, Law on Waste Management and by-laws adopted in accordance with these laws.

Waste management in Republika Srpska is divided into 8 regions with the goal of achieving smaller functional units and achieving a more efficient waste management system. According to this principle, there are 5 regional centres encompassing a total of 36 municipalities. Sanitary landfills are located in Banja Luka, Zvornik and Bijeljina. The landfills in Doboј and Prijedor are not sanitary, but they have been approved a program of measures with an adjustment dynamic that will improve these landfills into sanitary landfills. Activities are also being implemented to improve the existing regional landfills, locate regional centres in those territories that are not covered by the regional landfills, and close the existing local landfills belonging to regions in which a regional system of waste management has been established.

The average coverage of the territory of Republika Srpska with waste management services is 64% according to available data, with an increasing trend.

The Environmental Protection and Energy Efficiency Fund of Republika Srpska was established under the Law on the Fund and Financing of Environmental Protection of Republika Srpska, the Statute of the Fund and other regulations. The activities of the Fund include activities related to fundraising, as well as financing of the preparation, implementation and development of programmes, projects and similar activities in the area of preservation, sustainable use, protection and improvement of the environment, as well as in the area of energy efficiency and the use of renewable energy sources.

#### b) b. Reform measures

### **5.3.2.2. Improving integral waste management and the system of 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. The activities are aligned with SDG 7 – Sustainable consumption and production “Sustainable management and efficient use of natural resources” Encouraging the economy, companies and consumers to recycle and reduce the amount of waste is equally important considering the relevant Communications of the European Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions, the European Green Deal, Industrial Strategy for a Clean and Circular Economy, and other reforms of the waste legislation.

The key to efficient waste management in Republika Srpska is determining the volume, mass and nature of every type of waste manufactured. Also, one of the most important instruments for planning sustainable and long-term implementation of the waste management system is a solid database on the current situation in the area of waste manufacturing and its quality. Reliable data, i.e., detailed analyses are necessary to determine an efficient waste management system, as well as the functioning of the waste management infrastructure, based on which measures can be developed for reducing, returning and recycling of useful components in a cost-effective way. The implementation of the above is in accordance with the goals of the Waste Management Plan of Republika Srpska for the period 2019-2029.

With the goal of improving integral waste management and circular economy in Republika Srpska, a series of by-laws was adopted in line with EU legislation and regulating the procedures for management of special

categories of waste. These regulations refer to management of packaging and packaging waste, management of waste containing asbestos, management of titanium dioxide waste, management of waste from long-term organic polluting materials, procedures for managing electronic waste and waste containing polychlorinated compounds.

a) Activities planned in 2021.

- Improvement of the separate waste collection and recycling system through the system operators for packaging and electronic waste;
- Disposal of approximately 5000 tons of hazardous industrial waste by exporting it to third countries;
- Drafting of the Waste Management Strategy of the Federation of BiH;
- Adoption of decrees on fees for special categories of waste (packaging, electronic and electrical products, accumulators and batteries, vehicles, vehicle tyres) and on the method of allocating collected fees;
- Adoption of harmonised Rulebook on the Management of Waste Tyres, Vehicles, Oils, Accumulators and Batteries; Rulebook on Titanium Dioxide Waste Management;
- Development of local waste management plans for all self-government units in Republika Srpska,
- Establishment of the information system for registering waste management data (development of the information system and procurement of equipment),
- Adoption of the Rulebook on Management of Special Categories of Waste (electronic and electrical products, accumulators and batteries, waste vehicles, vehicle tyres and waste oils),
- Encouraging product manufacturers and importers to use clean technologies enabling rational use of natural resources, materials and energy.

b) Activities planned in 2022

- Improvement of the separate waste collection and recycling system for packaging and electronic waste;
- Introducing fees for environment polluters for the disposal of communal and non-hazardous industrial waste;
- Disposal of approximately 5000 tons of hazardous waste from the industry by exporting it into third countries;
- Construction of the regional waste management centre in Živinice;
- Adoption of the Rulebook on PCB/PCT Waste Management;
- Development of the waste management information system;
- Securing sources of financing for reactivating the Revolving Fund under the Environmental Protection Fund. (The RF is primarily intended for the recycling economy as no-interest loans with subsidies for projects with the best results, as an incentive to the establishment of circular economy).
- Strengthening regional cooperation through the Agreement on Green Circular Business Value Chains in the Western Balkans through the Memorandum of Understanding “Support provided in identifying and building of green & circular regional value chains to seize untapped economic potential aimed at supporting transition towards green & circular economy” (Western Balkans Common Regional Market Action Plan, CRM AP 2021-2024).

c) Activities planned in 2023

- Drafting of the new Law on Waste Management;
- Disposal of approximately 5000 tons of hazardous waste from the industry by exporting it into third countries;
- Construction of regional sanitary landfills and regional waste management centres, including transshipment stations and recycling islands;
- Implementation of the Waste Management Information System;

- Securing sources of financing for reactivating the Revolving Fund under the Environmental Protection Fund. (The RF is primarily intended for the recycling economy as no-interest loans with subsidies for projects with the best results, as an incentive to the establishment of circular economy).
- Strengthening regional cooperation: Regional Green and Circular Economy Plan/Mapping of green and circular economy in the region (Western Balkans Common Regional Market Action Plan, CRM AP 2021-2024).

## 2. Results indicators – Key Performance Indicators (KPI)

Indicator	Baseline (2021)	Intermediate target (2022)	Target (2023)
% of recycled AA and EE waste out of the total manufactured waste	35%	36%	36.5%
% exported hazardous industrial waste out of the total manufactured waste	69%	70%	71 %

## 3. Expected impact on competitiveness

The goal of the adoption of regulations in the area of waste management is the establishment of circular economy through the introduction of market mechanisms (waste fees) that will finance the collection and recycling activities of these categories of waste. The development of waste management legislation will lead to the improvement of the business environment in the area of waste management.

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

One of the key sources of financing for the recycling economy should be the Revolving Fund under the Environmental Protection Fund of FBiH. This means that initial financial funds for the charging of the revolving funds will be partially secured from the fees, and partly from international funds.

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

The proposed measure has no impact on the above

## 6. Expected impact on the environment

The proposed measure has a positive impact on the environment

## 7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
Under capacitated environmental sector personnel	high	Employment of professional personnel
Under capacitated environmental inspections	high	Employment of professional personnel
Difficulties in establishing a reporting system	high	Workshops, inspection control
Verification of the accuracy/validity of environmental data provided by reporting entities	high	Inspection control
Insufficient coordination between institutions	high	Meetings and workshops
Lack of financing for the development of the waste management system	high	Budget of the Federation of BiH Projects Donor funds

### 5.3.2.3. Establishment of economic instruments in the field of environment and EE

#### 1. Description of measure

The goal is to ensure the enhancement of the established system with the adoption of the new Law on the Fund through strengthening the supervision of spending through transfers to the cantons, spending reporting system, level of implemented activities, issue of financing of energy efficiency measures, providing adequate supervision and monitoring mechanisms, and the introduction of penal provisions for violating the prescribed provisions. It is necessary to secure the financial mechanisms to ensure adequate



implementation of the legal framework in the environment sector (components: air, climate change, waste, water protection).

a) Activities planned in 2021

- Adoption of the Law on the Environmental Protection and Energy Efficiency Fund with the aim of establishing and strengthening a system for monitoring the use of economic instruments in the field of environment and energy efficiency.
- Strengthening of coordination between the FBiH Ministry of Environment and Tourism, the FBiH Environmental Fund, the FBiH Government, cantonal governments and municipal governments.

b) Activities planned in 2022

Adoption of by-laws in accordance with the Law on the Environmental Protection and Energy Efficiency Fund.

2. Results indicators – Key Performance Indicators (KPI)

Indicator	Baseline (2021)	Intermediate target (2022)	Target (2023)
Established Fund for Support to Energy Efficiency Projects	NO (2020)	2022	YES
Cantonal reports on budget spending	2021	2022	Number-10 all cantons
Information system implemented	2021	2022	Number of users of the IS 100%

3. Expected impact on competitiveness

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

The Law on the Fund will have no direct financial implications.

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

The implementation of this measure will lead to the enhancement of waste management, environmental protection and energy efficiency, which will generate new jobs.

6. Expected impact on the environment

The implementation of this measure will lead to improved control over budget spending, dedicated spending of money and decrease the burden on the environment.

7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
Under capacitated environmental sector personnel	high	Public administration reform with the purpose of securing the capacities of institutions in the area of environmental protection
Under capacitated environmental inspections	high	Strengthening the capacities of environmental inspections
Underdeveloped system of monitoring and information on the environment.	high	Strengthening the system for monitoring environmental parameters through establishment of an Environment Agency or a similar institution/unit
Establishment of a surveillance system for used measurement methods and measuring equipment.	high	Introduction of the authorisation system for professional activities in the area of monitoring
Insufficient coordination in the strategic planning of higher and lower levels of the administrative structure of environmental management.	high	Strengthening the capacities of institutions is necessary for adequate vertical coordination of institutions

## TOURISM

### a) Analysis of main obstacles

After the continuous success of previous years, tourism in BiH has experienced a major decline caused by the Corona virus pandemic. The tourism and hospitality sector is one of the hardest hit sectors of the economy in terms of supply and demand for tourist travel. Uncertainty and the global economic crisis that the world will face are not in favour of Bosnia and Herzegovina because all countries-tourist destinations will actively work to attract tourists and competition will be greater than before. This means that the BiH tourist offer will have to be more competitive and active than ever before in order to mobilize the domestic market and raise awareness of the importance of spending holidays in BiH, so that the citizens of Bosnia and Herzegovina help the tourism sector and the overall BiH economy to survive. At the same time, it is necessary to work on designing the development of sustainable tourism and its adaptation to new conditions, as well as transforming the natural potentials of BiH into concrete tourist products. Adapting the tourist offer to new conditions is becoming crucial. This means that all forms of mass tourism (eg Međugorje, Sarajevo, Mostar, Jahorina, Trebinje, etc.) need to adapt their offer.

In the field of tourism in Republika Srpska, the improvement of the legal and strategic framework is envisaged for the planned three-year period as well as the implementation of measures to reduce the impact of the Corona virus pandemic on this sector. The key obstacles are limited budgetary resources, the inability to increase spending through the visit of foreign tourists, and the reduction of domestic consumption due to restrictions on movement and restrictive measures.

Namely, the decline in the number and arrivals of tourists in 2020 was about 70%, which affected the decline in turnover and revenue in hospitality facilities such as hotels, motels, restaurants, cafes, etc. The decline in turnover and revenue was recorded in travel agencies too. Tourism and hospitality are the branches most affected by the Corona virus pandemic, and jobs are at risk, both in Republika Srpska and around the world. The decline in turnover is also felt by other tourism related activities (transport, etc.).

The strategic framework of the Tourism and Hospitality Sector in the Federation of BiH 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. The key obstacles in this area are the lack of this harmonization and adequate legal framework in the fields of tourism and hospitality, limited budgetary resources and lack of human resources.

#### **5.3.2.4. Improving the legal framework governing tourism and reducing the impact of the effects of the Corona virus pandemic on tourism**

##### 1. Description of measures

Reducing the impact of the Corona virus on tourism is one of the most important measures. In Republika Srpska the priorities are the development of a strategic document with a proposal of measures to mitigate the consequences of the pandemic, and the creation of a stimulating policy for the tourism sector. Namely, in order to recover tourism, it is necessary to influence the development of domestic tourism through promotion and specific campaigns, because due to the pandemic, tourism can no longer count on foreign guests. The effect is reflected in the promotional campaign "Experience Srpska", which promoted tourism and issued tourist vouchers worth 100 KM. The campaign influenced the increase in the number of overnight stays and the arrival of domestic tourists. In addition to the domestic market, it is necessary to focus on the market of neighboring countries.

On the other hand, in the Federation of BiH, the objective of this measure is to improve the existing normative regulations in the field of tourism and hospitality with the aim of harmonizing regulations and aligning the legal framework with EU legislation, as well as to facilitate the work of operators and reduce the zone of gray economy through better regulated and more transparent system of organizing hospitality industry. Given the current situation in the FBiH, it is possible to take certain solutions from EU directives, including Directive 2006/123 on services in the internal market, and Regulation 853/2004 on hygiene of foodstuffs. This partial harmonization will further contribute to the improvement of the hospitality industry and consumer protection.

a) Activities planned in 2021

- Drafting of the proposal of the Law on Hospitality Industry in the Federation of BiH,
- Drafting bylaws arising from legal regulations in the field of tourism and hospitality sector.
- Drafting a strategic document and amending the existing regulations in the field of tourism in RS

b) Activities planned in 2022

- Preparation of the Law on Hospitality Industry in the Federation of BiH ,
- Preparation of bylaws arising from legal regulations in the field of tourism and hospitality sector.
- Development of mutually complementary contingency plans and crisis management strategies in tourism and adoption of protocols on cooperation in emergency/crisis situations together with the other five Western Balkan countries in cooperation with the RCC (Western Balkans Common Regional Market Action Plan CRM AP 2021-2024)
- Amending the existing regulations in the field of tourism and hospitality in RS

c) Activities planned in 2023.

- Preparation of bylaws arising from legal regulations in the field of tourism and hospitality sector in FBiH

Continuous activities in the period 2021–2023 in Republika Srpska

- Preparation of a strategic document with measures to support tourism,
- Amendments to the existing regulations in the field of tourism and hospitality,
- Implementation of campaigns for the promotion of domestic and receptive tourism,
- Sectoral cooperation of the competent ministries on the issue of joint activities on the development of tourism and mitigating the consequences of the corona virus pandemic,
- Stimulating domestic tourism and domestic consumption through the introduction of standards and the implementation of international projects and the use of donor funds (USAID, GIZ, UNDP, etc.),
- Mitigating the consequences of the corona virus in accordance with the recommendations of the World Tourism Organization and other international organizations.

2. Results indicators – key performance indicators (KPI)

Indicator	Baseline (2021)	Intermediate target (2022)	Target (2023)
Arrivals	348,733	398,552	448,371
Overnights	664,503	759,432	854,361
Number of employees	35,630	40,720	45,810
Relative to 2020 in %	40%	60%	80%
Total taxable turnover	97,037,276	110,899,744	124,762,212
Strategic and other documents prepared with measures to mitigate the consequences of the Corona virus in the tourism sector	2020	2021	2027
Increased turnover in tourism and hospitality	2020	2021 (30%)	2023 (60%)

3. Expected impact on competitiveness

The implementation of the reform measure in the Federation of BiH will contribute to the growth of competitiveness in the field of tourism. Additional savings will be provided to the private sector when

registering and conducting business. Also, the introduction of the Register will increase the transparency of the system and reduce the gray economy for those engaged in hospitality, which would contribute to greater transparency of hospitality services in the FBiH.

In Republika Srpska, it is necessary to improve the legal framework and implement strategic projects.

- 1) In the three-year period, preparation of strategic documents and laws in the field of tourism and hospitality is planned, which will increase consumption, income and competitiveness.
- 2) The measure of promoting and encouraging travel programmes for domestic tourists affects the strengthening of the economy and domestic consumption. Domestic consumption appears as an active factor in economic development and job preservation. On the basis of domestic tourism, the transfer of income from developed areas and destinations (sources of demand) to relatively less developed areas and destinations (tourist places) is provided. Therefore, it is necessary to encourage programmes that are intended for the domestic market. The implementation of this measure and stronger promotion will create better conditions for strengthening the competitiveness of Republika Srpska on the domestic market and mitigating the consequences of the corona virus pandemic.
- 3) Develop receptive tourism (Serbia, diaspora, region). This measure stimulates foreign exchange inflows based on tourism. Consumption generated by foreign tourists is considered an "invisible export" because tourists pay for travel expenses with money earned in their home country. Stimulating the arrival of tourists coming from Serbia, the region or other countries creates conditions for increasing competitiveness in the international tourism market.
4. Estimated cost of the activities and the source of financing

The costs for the Federation of BiH are planned within the Budget of the FBiH Ministry of Environment and Tourism, as well as technical support from international organizations. Costs for Republika Srpska are planned within the budget of the Ministry of Trade and Tourism of Republika Srpska and donor funds from international organizations (USAID, GIZ, UNDP, etc.)

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 planned measure has no impact on the environment. However, this balance is achieved through the encouragement of the development of sustainable tourism in Republika Srpska. Through the development of strategic and other documents, priority is given to the development of this type of tourism. This is important, especially during a pandemic, where a balance between the economy and health is sought. With the development of sustainable tourism, it is possible to establish that balance, as well as the balance between the preservation of resources and the economy. For example, going to the mountains and rural areas that are ecologically clean and with clean air, affects health and at the same time affects consumption.

7. Potential risks

<b>Risk</b>	<b>Probability (low or high)</b>	<b>Planned mitigating action</b>
Failure of the FBiH Parliament to adopt the laws within the planned deadline	High	
Non - acceptance of solutions by lower levels of government (cantons)	High	Consultations with lower levels of government
Lack of funds in the Budget for planned activities	High	Timely planning of the funds in the FBiH Budget
Continuation of the coronavirus pandemic	Medium	Institutional coordination at the level of the Government of Republika Srpska, Development of strategic documents with mitigation measures.
Lack of budget funds	Medium	Due to the impossibility of securing the own budget funds for the

		implementation of incentive policy measures and mitigating the consequences of the corona virus pandemic, the measures will not be able to be implemented.
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### 5.3.3. Business environment and reduction of the informal economy

#### 5.3.3.1. Mitigation of the negative consequences cause by the Covid-19 pandemic

##### a) Analysis of main obstacles

The COVID-19 pandemic in 2020 caused huge problems around the world. In addition to lost lives, it also caused great economic damage through the reduction and diversion of demand, the disruption of value chains and production, the reduction of trade in goods and services, and the loss of jobs. The expected GDP fall in FBiH in 2020 is set to 6.5%<sup>74</sup>. From March to October 2020, about 13,000 workers in FBiH lost their jobs. In 10 months, indirect taxes in the FBiH contracted by 382 million or 15.5% and direct taxes by 26.2 million or 8% compared to the same period of the previous year. Income tax was reduced by 4 million compared to the same period last year or by 1.2%. Furthermore, corporate income tax revenues in 2021 are set to decline, which is paid for the previous year.

In 2019, there were 39,436 small and medium-sized enterprises or 99.8% of the total number of business entities in Republika Srpska. The structure of SMEs includes 17,585 legal entities and 21,851 independent entrepreneurs. Legal entities generate 72.60% of total revenues, 70.65% of employment and 71.06% of exports of Republika Srpska, which shows how important this area is. In Republika Srpska, a framework for SME support has been established and implemented through a series of activities and programmes. However, the COVID 19 pandemic affected the business of all businessmen, especially independent entrepreneurs. There is a large number of women entrepreneurs operating in this area who are also affected by the pandemic. Business activity decreased due to lack of materials, loss of markets, problems with the transport of goods, illness of workers, causing the reduction of financial inflows, which are necessary to continue business and return the business volume to pre-crisis levels. In this regard, financial support is needed for the whole area.

In addition, the crisis has shown that it is necessary to work on the digital transformation of entrepreneurs. The experiences of the Centre for Digital Transformation of Serbia, which supported over 450 entities in the process of digital transformation, show that the work of a similar Centre in Republika Srpska formed at the Chamber of Commerce should be supported, which would facilitate digital transformation for business entities.

Within the framework of international projects, the Development Agency of Republika Srpska has developed programmes of support to entrepreneurs in problems, people who are re-starting a business, a programme for beginners in business - accelerator and a mentoring programme. These activities are important for business both during the crisis and during the recovery, and it is necessary to provide funds for their implementation.

Also, it is necessary to provide support to local self-government units to complete their business zones for businessmen and to establish an Information System for business zones that would provide all the necessary information about zones in one place.

In addition, activities are underway to draft a Law on Social Entrepreneurship, which provides support to vulnerable groups to get involved in business processes, and strengthen their status in society.

##### 1. Description of measure

Mitigating the effects of COVID-19 and putting the economy back on the path of development and growth is a top priority. In this regard, the FBiH Government plans to strengthen the Credit Guarantee Fund at the Development Bank with the aim of encouraging banks to lend to the economy. In addition to this measure,

<sup>74</sup> Estimate, October 2020

the following are planned: transfers to lower levels of government to improve budget liquidity, the Economic Stabilization Fund whose funds will be used as fiscal "injections" into certain segments of the economy, and an additional Employment Program tailored to young people, the most vulnerable sectors and industries with potential for the fastest recovery.

The measure in Republika Srpska is being implemented through strengthening support for the recovery of entrepreneurship after the pandemic and would refer to the following activities of the Ministry of Economy and Entrepreneurship (MEE) and partner organizations:

- Financial support to the subjects for reducing the consequences of the pandemic: independent entrepreneurs for the purchase of new equipment and technologies and the introduction of quality standards, all entrepreneurs for digital business transformation, women entrepreneurs to co-finance their development projects, the Development Agency of Republika Srpska and local government units for development of business zones;
- The establishment of an information system for the business zones of Republika Srpska will enable the availability of data on vacant plots and available infrastructure;
- The adoption of the Law on Social Entrepreneurship enables the improvement of general social and economic policy and reduces the burden of social benefits.

a) Activities planned in 2021

- Strengthening the Loan Guarantee Fund in the Development Bank
- Transfer to lower levels of government to help overcome the negative effects of the pandemic
- Economic Stabilization Fund
- Strengthening the Employment Programme through additional funds
- Adoption of the necessary legislation in Republika Srpska for support (MEE),
- Implementation of procedures for contractor and development of portal for business zones (MEE, Development Agency of RS),
- Adoption of the Law on Social Entrepreneurship (MEE).

b) Activities planned in 2022

- Continued implementation of financial support (MEE)
- Training of portal administrators and entry of necessary data (Development Agency of RS, local self - government units),
- Implementation of the law in Republika Srpska (adoption of by-laws, granting of status to socially-owned enterprises, supervision over the application of the law)

c) Activities planned in 2023

- Continued implementation of financial support (MEE),
- Business zone portal operational and functional (Development Agency of Republika Srpska, local self - government units),
- All necessary structures for social enterprises in Republika Srpska have been established and supported.

2. Results indicators – Key performance indicators (KPI)

Indicator	Baseline (2020)	Intermediate target (2021)	Target (2022)
% Employment in 000			
% GDP growth	-6,5		
Number of financially supported subjects	150	170	200
Business zone portal	Portal established	Promotion of 20 zones	Promotion of 40

		64 employees trained	zones
Law on Social Entrepreneurship	Law adopted	Rulebook made	20 social enterprises supported

### 3. Expected impact on competitiveness

This measure will significantly affect the economy as a whole through mitigating the negative effects of the COVID-19 pandemic on competitiveness. Support through the provision of guarantees and subsidizing interest rates will reduce the cost of investment and thus start a new investment cycle in the FBiH.

The existence of financial support in Republika Srpska would enable the recovery of entrepreneurs and facilitate business. Through the activities of the MEE, the Agency and the Center for Digital Transformation, education and financial assistance would be provided, and through the development of zones, a balanced development of this area. The adoption of the Law on Social Entrepreneurship and its implementation will provide support for social enterprises.

### 4. Estimated cost of the activities and information on the budgetary impact of activities

Financing the strengthening of the Credit Guarantee Fund in the Development Bank is planned in the amount of KM 35 million, of which 25 million KM as a possible cover for activating a certain number of guarantees and 15 million KM with the purpose of regressing interest for all users. Transfer to lower levels of government to help overcome the negative effects of the pandemic, namely KM 230 million as transfers to cantons and municipalities. Economic Stabilization Fund – KM 150 million and the Employment Project additional KM 50 million for the employment project.

In Republika Srpska, for the needs of financial support, it is necessary to provide KM 1,500,000 annually. The cost of establishing a portal for business zones would amount to KM 100,000 for application development and other activities. After the adoption of the Law on Social Entrepreneurship, it is necessary to provide some support for the development of social enterprises.

### 5. Expected impact on employment and gender equality

Financial support enables sustainable employment, poverty reduction, women's empowerment and economic independence, the use of digital tools, which enables subjects to survive in the market, and the development of new locations for zones. The creation of social enterprises contributes to the employment of vulnerable groups.

### 6. Expected impact on the environment

This measure has no negative impact on the environment. During the implementation of the activities, the environment will be taken into account and the awareness of entrepreneurs about environmental protection will be raised.

### 7. Potential risks

<b>Risk</b>	<b>Probability (low or high)</b>	<b>Planned mitigating action</b>
Lack of funds in the budget for planned activities	Low	Borrowing from international financial institutions or the domestic capital market
Lack of financial resources	High	Looking for alternative sources of funding
Lack of financial resources and insufficient interest of the local community in the development of zones	Medium	Looking for alternative sources of funding, Promotion of measures through the media
Lack of funds to support social enterprises	Low	Using funds from EU projects

### **5.3.3.2. Enhancing the quality infrastructure system in BiH according to the EU model and the development of a legal and planning framework in the sector of free movement of goods**

#### **a) Analysis of obstacles**

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.

The legal framework for products, which meets the needs of the market and the economy, increases the productivity and competitiveness of domestic producers, the protection of consumers and the environment, and the liberalization of regional trade in goods. The development of a legal and planning framework for the free movement of goods in BiH, as well as in Republika Srpska, is an obligation arising from the Stabilization and Association Agreement between the EU and BiH. Also, it is one of the preconditions for facilitated trade in goods and services within the single economic space in BiH and the region, which directly affects the more favourable business climate, competitiveness and productivity of the domestic economy and consumer protection. This measure eliminates unnecessary barriers to access to the EU and CEFTA markets, i.e. the regional markets, and contributes to free trade in goods. Ensuring domestic product certification and compliance of the domestic legal framework with international quality standards contributes to strengthening domestic production, especially final products, and facilitates their access to the single regional market and the European Union market.

A higher share of final products in total exports, with a smaller share in total imports, results in the specialization of the domestic industrial sector and increased investment, as well as the employment of new labour and better social conditions for citizens. Adaptation of domestic production technologies to modern market requirements directly affects the increase of investments, such as investments in new equipment and machines, fixed assets, training and development of specialized personnel, etc., and thus the growth of GDP.

This measure is in line with objectives 1.1. Facilitating free trade in goods, 1.2. Harmonization of the CEFTA market with the EU and 1.3. Creating a region without technical and non-technical barriers, established within the "Trade" component of the multi-annual Action Plan for a Regional Economic Area in the Western Balkans (REA MAP). Also, this reform measure has a significant impact on the sectoral area of this document: Industry and manufacturing.

#### **1. Description of measure**

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 regulations, 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 the market in BiH is fragmented and governed by different principles, which have a negative impact on the competitiveness of the BiH economy and domestic companies that face barriers when operating in the entities.

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 regulations 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.

Development of the legal and planning framework in the sector of free movement of goods (EU Chapter 1) in Republika Srpska entails: improvement of the applicable legal framework of Republika Srpska in the sector of free movement of goods, adoption of necessary new regulations on products in line with the acquis, EU principles and modern standards; continued removal of the so-called "conflicting" SFRY regulations and JUS standards with mandatory application from the legal system of Republika Srpska; establishment of the Register of applicable regulations and information point for regulations of the Republika Srpska, for standards and designated certification bodies of Republika Srpska; establishment of an operational Notification Point of Republika Srpska regulations in preparation (EU and CEFTA/WTO obligations); monitoring the implementation of objectives and measures set by the "Strategy for Infrastructure Quality of the Products and Services of Republika Srpska for the period 2019-2023", analysis of regulations in terms of meeting the requirements of Articles 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 Articles 34, 35 and 36 of the Treaty on the Functioning of the European Union, and preparations for the signing of the Agreement on Conformity Assessment and Acceptance of Industrial Products (ASAA) with the European Union

The Ministry of European Integration and International Cooperation of Republika Srpska (MEIIC) and 11 administrative bodies of Republika Srpska are responsible for the implementation of this measure, which adopt sectoral regulations on technical and other requirements for products and services, and participate in the work of the Coordination Body for Quality Infrastructure in Republika Srpska.

Activities planned in 2021-2023

- 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 notification of regulations in preparation, standards and conformity assessment bodies in Republika Srpska,
- Establishment of an operational and comprehensive register of regulations of Republika Srpska and information point of regulations for businessmen, investors and administrative bodies,
- Establishment of notification point of regulations of Republika Srpska in preparation,
- Adoption and implementation of the plan for harmonization of non-harmonized regulations of Republika Srpska with the requirements of Articles 34, 35 and 36 of the Treaty on the Functioning of the European Union,
- Adoption of a Guide for the implementation of the Republika Srpska regulations, which transposes the New Approach EU regulations

## 2. Results indicators

Indicator	Baseline (2020)	Intermediate target (2021)	Target (2023)
Level of harmonization of Republika Srpska regulations (horizontal and vertical) with the <i>acquis</i> Chapter 1 - Free movement of goods	30%	60%	80%
Degree of operability and availability of the Register of applicable regulations and designated certification bodies of Republika Srpska (software supported)	30%	90%	100%
Implementation of measures and activities from the "Strategy for Infrastructure Quality of the Products and Services of Republika Srpska for the period 2019-2023"	80%	80%	100%
Percentage of identified obstacles to free trade in goods in the Republika Srpska regulations (obligations under Articles 34, 35 and 36 of the Treaty on the Functioning of the EU)	15%	40%	60%

## 3. Expected impact on competitiveness

### Results indicators:

- Percentage of companies that directly or indirectly export products (at least 1% of sales). Takes into account the number of companies that produce goods (manufacturing sector) that are exported to foreign markets and provides insight into the extent to which domestic companies meet the standards of quality, safety and other standards required for export to foreign markets.
- Number of products with CE marking (product certification) and number of issued certificates of conformity of products per year. Measures the level of compliance with international quality standards. The implementation of the standards contributes to facilitating access to the EU single market and liberalizing international trade.
- Number of non-tariff barriers to trade in force (NTB) and the number of products covered (at the level of six-digit HS code). Specifies the number of different non-tariff (NTB) measures in force in a given year, as well as the number of specific products (at the 6-digit HS code) covered in a given year.
- Employment in the manufacturing industry (percentage of total employment). It measures the share of employees in the manufacturing sector, pointing out the importance of this sector for job creation.

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

In 2021, it is planned to secure KM 360,000 of donor funds for the development of software for registry management, and other activities will be implemented with regular funds from the Budget of Republika Srpska.

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

The development of this sector affects the increase of production of competitive and safe domestic products, their export and attraction of investors, and this contributes to the creation of new jobs and better social conditions of citizens.

6. Expected impact on the environment

This measure is neutral.

7. Potential risks

<b>Risk</b>	<b>Probability (low or high)</b>	<b>Planned mitigating action</b>
The risk of implementation of the measure is reflected in the number of competent institutions involved	Low	It is not possible to define alternative measures.

### 5.3.3.3. Health system reform

a) Analysis of main obstacles

The main obstacles to the comprehensive reform of the health care system in Republika Srpska are the accumulated arrears of health care institutions and the Health Insurance Fund of Republika Srpska (HIF RS). The introduction of all health care institutions and the HIF RS into the treasury operations system is aimed at halting the increase in arrears and finding a model for their clearance. In this way, the fiscal discipline of health care institutions and HIF RS will be preserved, and preconditions will be created for the structural reform of the system, which will be based on standardizing the network of health care institutions and finding new models of health insurance financing.

Based on the proposal of the Ministry of Health and Social Welfare of Republika Srpska (MHSW RS), the Government of Republika Srpska in 2019 adopted an Action Plan to ensure the sustainability of the health system of Republika Srpska, in order to accelerate analysis and implementation of necessary measures that will make the health system sustainable.

1. Description of measure

The strategic commitment of the Government of Republika Srpska is to introduce public healthcare institutions and the Health Insurance Fund (HIF) into the treasury system of operations in the coming period. To implement this activity, there are two preconditions to be met, as follows:

- 1) It is necessary to define and implement measures that will stop the further growth of arrears in each health institution individually,
- 2) Define a model for settling the arrears in each healthcare institution individually, so that the problem of arrears would not be transferred to the budgets of municipalities and cities or the budget of Republika Srpska.

The health system reform in the following period (2021-2023) should include:

- 1) Monitoring and continuous settlement of the liabilities of public health care institutions,
- 2) Ensuring business continuity of public health institutions,
- 3) Stopping the trend of increasing total stock of arrears in the health system,
- 4) Designing and implementing new models of the health care system financing,
- 5) More efficient use of available funds,
- 6) Adjusting the organization and operations of the Health Insurance Fund of Republika Srpska and thus supporting the implementation of the Action Plan and other measures.

## Continuous activities in the period 2021–2023

### – Transition to treasury operations system:

- 1) Preparing selected public healthcare institutions and local self-government units for the transition to the treasury operations in 2021 and introducing the treasury operations system into selected public healthcare institutions,
  - 2) Preparing selected public healthcare institutions and local self-government units for the transition to the treasury operations in 2022 and introducing the treasury operations system into selected public healthcare institutions,
  - 3) Preparing the remaining public health care institutions, local self-government units and the Health Insurance Fund for the transition to the treasury operations in 2023 and completion of the process of introducing the remaining public health care institutions into treasury operations system,
- Construction and equipping of the new Hospital in Doboj, reconstruction and equipping of hospital institutions in Foča, in Zvornik, as well as completion of construction (internal works) and equipping the remaining space in the building Južno krilo - Polyclinic PHI University Clinical Center of Republika Srpska - South 1, Phase 1 (third part),
  - Plan of the network of health care institutions (preparation, establishment of the organization of health institutions according to the Plan and implementation),
  - Introducing the healthcare centres and other health care institutions, which have fulfilled the preconditions, in the treasury system of operations.

### a) Activities planned in 2021

- Defining models for clearing the arrears in the healthcare system in Republika Srpska and preparing a plan to settle liabilities,
- Adopting a new legal framework governing the healthcare system in Republika Srpska (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),
- Considering the possibility for self - employed persons in Republika Srpska to use their rights in the field of health insurance without obstacles (sick leave),
- Drafting an act on the nomenclature of health services at the primary, secondary and tertiary level of health care in Republika Srpska,
- Increasing control over the use of sick leave in Republika Srpska, and considering regulating the model of early retirement, with the aim of overcoming the problems related to workers whose medical treatment has not been completed within 12 months,
- Implementing the COVID 19 Project with the World Bank, with the aim of improving work in the health sector to respond to the pandemic,
- Developing and implementing the Programme for settling the liabilities based on the contribution of the Pension and Disability Insurance Fund of Republika Srpska for employees in public health institutions (2021–2026),

### 2. Results indicators

Level of reduction of total arrears of public health institutions and the Republika Srpska Health Insurance Fund (initial value: balance of total liabilities as of 31 December 2019, according to the financial statements of public health institutions and the Health Insurance Fund of 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 Republika Srpska (initial value: data included in the health account of 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 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<sup>75</sup>

Year	Wages	Goods and services	Subsidies and transfers	Capital expenditures	TOTAL
2021	–	–	368,045,260	31,163,519	399,208,779
2022	–	–	368,045,260	30,843,978	398,889,238
2023	–	–	368,045,260	20,485,878	388,531,138
<b>TOTAL</b>	0	0	1,104,135,780	82,493,375	1,186,629,155

### 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. The program for clearing the arrears based on the contribution of the Pension and Disability Insurance Fund of Republika Srpska for employees in public health institutions (2021–2026) envisages taking care of workers, adjusting the number of employees in public health institutions, focusing on hiring younger, better and more efficient staff, primarily health workers.

### 6. Expected impact on the environment

No impact.

### 7. Potential risks

Risik	Probability (low or high)	Planned mitigating action
COVID 19 pandemic	High	Measures of the Government of the Republika Srpska; an emergency project COVID 19 with the World Bank worth EUR 13.2 million and other measures were launched
The potential costs of implementing the measure can significantly slow down its implementation	High	–

#### 5.3.3.4. Enhancing the business environment

##### a) Analysis of main obstacles

Improving the business environment in accordance with EU directives is one of the most important strategic directions for BiH. However, due to the division of competencies and significant differences in the organization of the business environment, this reform is one of the most complex due to the scope of measures and potential risks that each measure carries.

<sup>75</sup> MHSP entered in the column Subsidies and Transfers the amount necessary to clear the arrears of public health institutions and the Health Insurance Fund, as of 31 December 2019. Given that a model for clearance of arrears has not yet been prepared, it is necessary to consider in advance whether this amount should be treated as subsidies and transfers or as some other type of costs.

In the Federation of BiH, insufficient budget allocations to encourage the development of small and medium enterprises, as well as difficult access to favourable financial resources are a significant problem in raising the competitiveness of small businesses.

Also, there is insufficient allocation of financial resources for the establishment and development of business zones, business incubators, technology parks, development agencies and other forms of business infrastructure.

A special problem is the business of craftsmen in the Federation of BiH who, for example, do not have the possibility of foreign trade, and have a long procedure for registration of crafts, execution of all property of craftsmen, the obligation to have a degree to perform many types of crafts, etc.

When it comes to entrepreneurial infrastructure, we emphasize that this very important area for economic development is developing without an adequate regulatory framework. We do not have defined forms of entrepreneurial infrastructure, bearers of their development and management, as well as a support system for entrepreneurial infrastructure.

In addition to the small financial resources needed for the development of small businesses, there is a very pronounced problem of insufficient training of human capacities for writing quality projects in small and medium enterprises, but also among employees in local authorities.

In Republika Srpska, the following are recognized as key obstacles to growth and competitiveness in the business environment and reduction of the informal economy in the field of inspections: overlapping of inspections at the supervised entities by two levels of inspections, lack of coordination, i.e. communication between the Republika Srpska level and local inspections, imposing more repressive measures compared to preventive measures. In order to avoid duplication, i.e. overlapping of inspections, it is proposed to harmonize the work plans of the Republika Srpska level inspectors and inspectors who perform inspection activities at the level of local self-government units, in order to improve the coordination of inspections and the effectiveness of inspections and monitor their implementation.

In Republika Srpska, the system of fiscal cash registers was established by the 2007 Law on Fiscal Cash Registers. The system of fiscal cash registers, after more than 10 years of application, is technologically obsolete; it does not follow the complete business in cash, which is why there is still a certain space for the gray zone. In this regard, there is a real and well-founded need to revise the existing system.

Namely, the existing system, due to its outdated technical limitations, imposes an obligation on all business entities to implement mandatory procedures for preparing periodic reports, implementation of the procedure for preparing daily reports for sending, which must be carried out after working hours and other explicitly and implicitly related procedures that they must carry out their workplace in order for the system to function. This points to the fact that the establishment of a new and expansion of an existing business, as well as the operations themselves are financially and procedurally burdened in the interest of achieving the goals of fiscalization. Any solution that will affect the liberalization of the market of fiscal systems, reduce associated operating costs and reduce procedures or their automation would certainly have positive effects on the business environment in Republika Srpska and Bosnia and Herzegovina in general.

Furthermore, it was observed that some taxpayers have found a way to avoid strict requirements for the functional and technical characteristics of fiscal systems and trade goods and services by issuing fictitious fiscal invoices (which apparently do not even deviate from the prescribed form), i.e. invoices that do not enter daily turnover reports submitted to the Tax Administration of Republika Srpska on a daily basis. The mentioned phenomenon has been identified and the existing capacities of the Tax Administration of Republika Srpska currently do not have an adequate response, which is an additional strong motive to switch to a system that would, in its settings, prevent such a way of working.

In addition to the issue of using parallel POS (Point of Sale) devices from which fraudulent fiscal receipts are issued and there is also the occurrence of using defiscalised 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, since the system is defiscalised. In connection with all the above, there is a clear commitment of the Government of Republika Srpska, as well as the Ministry of

Finance and Tax Administration of Republika Srpska to resolve this issue in order to implement activities aimed at reducing the gray economy and creating a level playing field for all businesses in the country.

For these reasons, it is planned to adopt the Law on Fiscalization at the end of 2020, which will lay the foundation for a new system of fiscalization, and which should be fully implemented from 2022. The legal framework for products, which meets the needs of the market and the economy, increases the productivity and competitiveness of domestic producers, the protection of consumers and the environment, and the liberalization of regional trade in goods. The development of a legal and planning framework for the free movement of goods in the Republika Srpska is an obligation arising from the Stabilization and Association Agreement between the EU and BiH. Also, it is one of the preconditions for facilitated trade in goods and services within the single economic space in BiH and the region, which directly affects the more favourable business climate, competitiveness and productivity of the domestic economy and consumer protection. This measure eliminates unnecessary barriers to access to the EU and CEFTA markets, and the surrounding markets, i.e. contributes to free trade in goods. Ensuring domestic product certification and compliance of the domestic legal framework with international quality standards contributes to strengthening domestic production, especially final products, and facilitates their access to the single regional market and the European Union market.

Republika Srpska has recognized the need for a stronger orientation to the services sector, and the need for a liberalized approach to the services sector has been recognized in recent years through several regional initiatives (CEFTA, WB6, etc.).

Liberalization of the services market, both in terms of freedom of establishment and freedom to provide services in the territory of Republika Srpska, is an obligation arising from future membership in the European Union (Chapter 3 of the *acquis*). Gradual preparation for future membership of the Union and functioning in the EU single market implies meeting the requirements of the Directive on services in the internal market. Through the Law on Services, a partial transposition of the Services Directive was made, and it also represents omnibus regulations. The implementation of an appropriate legal framework in the sector of free provision of services aims to simplify administrative procedures in the field of service provision and greater transparency, reduction or removal of obstacles (barriers) to the development of service activities.

In 2006, Republika Srpska implemented a comprehensive reform so as to simplify administrative procedures, and the Ministry of Economy and Entrepreneurship established an electronic record of formalities for starting and doing business (they are publicly available on the portal [pscsrpska.vladars.net](http://pscsrpska.vladars.net)). There is an obvious increase compared to 2006. The reasons for this are not only the increase in administration, but also the fact that not all procedures were listed in 2006, that in the meantime there was regulation of areas that were not previously regulated, as well as the need to harmonize with EU regulations. Regardless of the above, there are those in the listed procedures which unnecessarily burden the business community and citizens and which may be simplified or abolished, and thus achieve significant savings in time and costs.

It is possible to identify several obstacles to the improvement of a safe business environment, of which insufficient opposition to corruption stands out, bearing in mind the difficulties in detecting and proving this type of crime, and having in mind the importance of corruption prevention in business environment development. In order to improve the fight against corruption, Republika Srpska is converging its legislation with the UNCAC. In order to improve the security environment for business, it is especially important to harmonize with GRECO's recommendation VI, which requires that bribery in the private sector be unequivocally criminalized with separate provisions from bribery in the public sector, which the Republika Srpska has done. Monitoring flows and preventing money laundering, as well as combating organized crime and cybercrime, have a significant impact on improving the safe business environment, not only in Republika Srpska but also through regional activities. A significant obstacle to the improvement of a safe business environment as well as the perception of safe business is the migrant crisis and the return of fighters from foreign battlefields.

## 1. Description of measure

### 1) The reform of the Inspectorate of Republika Srpska

This reform envisages the reform of the Republika Srpska Inspectorate and inspections from all levels of government in Republika Srpska. The goal is to regulate the situation in the field of inspections and overcome the shortcomings identified during the analysis of the situation, as well as on the basis of submitted comments, proposals and suggestions of trade unions, employers and local communities. So far, a new Law on Inspections of Republika Srpska has been adopted ("Official Gazette of Republika Srpska", No. 18/20), and the adoption of a new systematization of internal organization and systematization in the Administration for Inspection Affairs of Republika Srpska is underway, which will establish a new structure of inspections.

### 2) Reducing the share of expenditures for current spending in public administration

In Republika Srpska, the measure will be implemented through the establishment of a register of employees with users of budget funds, and through changes in the organization of public administration and increasing the efficiency of its work. The adoption of the Law on the Register of Employees of the Users of Budget Funds of Republika Srpska created preconditions for the implementation of the envisaged reform measure. The implementation of the measure related to the change of organization will be done by passing a new Law on Civil Servants. The Ministry of Administration and Local Self-Government (MULS) in cooperation with SIGMA conducts situation analysis activities with the aim of establishing the Republika Srpska administration based on SIGMA principles, which 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, a fair and transparent payment system, as well as the promotion of integrity and the prevention of corruption.

### 3) Reducing the gray zone in the presentation of turnover through the implementation of the new system of fiscal cash registers

The adoption of the Law on Fiscalization is planned at the end of 2020, which will lay the basis for a new system of fiscalization, and which should be fully implemented from 2022. In this regard, it is planned in the coming period to draft all bylaws based on the Law on Fiscalization that are necessary for the system to function and which regulate in detail the technical aspects of the new system. Also, in the coming period, it is necessary to procure a system for fiscalization management and the necessary components for taxpayers.

### 4) Improving the free trade in services sector

Implementation of the Law on Services, with the aim of developing the service sector in Republika Srpska, implies the development of a comprehensive list of legal regulations governing the field of services in Republika Srpska, followed by analysis of identified regulations to identify barriers to service delivery. In this regard, it is necessary to identify the requirements contained in the regulations governing the provision of services in individual sectors that are contrary to the provisions of the Law, and to take actions to harmonize them. This will contribute to the simplification of procedures and formalities and the reduction or removal of unjustified and disproportionate burdens (barriers) faced by providers, but also service users in the Republika Srpska. For this purpose, it is especially important to put into operation an electronic single contact point ([www.pscsrpska.vladars.net](http://www.pscsrpska.vladars.net)) through which interested parties will be provided with access to information on procedures, administrative procedures and formalities.

### 5) Improving a safe business environment

In order to improve the security of citizens, institutions, communities and property, a number of strategic documents in the field of security have been drafted in Republika Srpska. The implementation of activities envisaged in the strategic documents will contribute to the improvement of general security and a safe business environment, through the improvement of security of citizens, institutions, communities and property and the prevention, detection and investigation of crimes, especially organized crime, corruption and terrorism.



6) Easier access to affordable financing for SMEs to increase investment, profits and jobs

The planned reform measure in the next three years, through our most important project "Strengthening Competitiveness", encourages SMEs to purchase new equipment and introduce new technologies and thus contribute to the implementation of the European Green Deal in the field of investing in environmentally friendly technologies and encouraging industries to innovate. Also, with this measure we contribute to sustainable investment in business infrastructure, as well as encouraging SMEs to introduce innovations, which is very important for achieving economic growth and development. Investing in infrastructure and encouraging businesses to innovate contributes to the 17 global goals that make up the United Nations Sustainable Development Program.

7) Increasing the economic activity of SMEs by removing administrative barriers

The FBiH Ministry of Development, Entrepreneurship and Crafts will undertake a series of activities to change or remove all administrative barriers within our competence, with the aim of strengthening the competitiveness of small and medium enterprises, increasing their number, encouraging the growth of innovative and export-oriented SMEs, as well as creating a favourable business environment for the establishment and development of small businesses.

8) Optimization of administrative procedures in Republika Srpska

In Republika Srpska, a reform is planned related to the Optimization of administrative procedures at the national level, which includes an analysis of procedures identified in a single register of all permits, certificates, decisions (so-called formalities) issued by national administrations (publicly available on the portal [www.pscsrpska.vladars.net](http://www.pscsrpska.vladars.net)), from the point of view of their justification, justification of requesting the necessary documentation, analysis of costs and time in obtaining them. The aim of the analysis and the next step is to propose and implement simplifications of certain administrative procedures, and save costs and time for the business community.

a) Activities planned in 2021

- Establishment of a new organizational structure of the Republika Srpska Inspectorate 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 (Ministry of Administration and Local Self-Government),
- Adoption of the Law on Amendments to the Law on the Register of Employees in Users of Budget Funds of Republika Srpska (Ministry of Administration and Local Self-Government),
- Analysis of each individual job of employees in the RS administrative bodies, given in the register, to which the provisions of the Law on Civil Servants apply a (Ministry of Administration and Local Self-Government and other ministries and institutions of Republika Srpska in line with their competencies).
- Adoption of bylaws for the implementation of the new Law on Fiscal Cash Registers,
- Implementation of technical aspects of online fiscalization system in Republika Srpska (Ministry of Finance, Tax Administration).
- Preparation of the List of legal regulations governing the field of services in Republika Srpska and beginning of the identification process of regulations that are not in accordance with the provisions of the Law on Services,
- Proposing measures for harmonization of identified regulations from the List of legal regulations governing the field of services in Republika Srpska that do not comply with the requirements of the Law on Services for the purpose of harmonization with this law,
- Development of a new Strategy on the Supervision of Narcotic Drugs and Suppression of Narcotic Drug Abuse in Republika Srpska (the current document is for the period 2016-2021) and the Strategy for the Prevention and Fight against Terrorism in BiH (Ministry of Security of BiH initiated activities on the development of the State Strategy for Prevention and Fight against Terrorism 2021–2026);

- Strengthening the institutional and legal framework in the fight against cybercrime and other forms of serious crime.
- Financial support for small and medium-sized enterprises through the allocation of grant funds,
- Financial support for small and medium-sized enterprises through access to favourable loans,
- Strengthening the capacity of SMEs, through training, to access favourable financial resources,
- Amendments to the Law on Incentives for Small Business Development,
- Drafting by-laws based on the Law on Incentives for Small Business Development.

b) Activities planned in 2022

- Establishing a system of wage setting based on values, which will establish equitable pay system in the RS administrative bodies (Ministry of Administration and Local Self-Government and other ministries and institutions of Republika Srpska in line with their competencies)
- Full implementation of the new fiscalization system in Republika Srpska (Ministry of Finance, Tax Administration).
- Development of an action plan for harmonization of regulations in Republika Srpska regulating the field of service provision with the Law and the Directive relating to the free trade in services,
- Update of data on the portal of the Single Electronic Contact Point, in the part related to the free trade in services
- Development of a new Anti-Corruption Strategy in Republika Srpska and an appropriate Action Plan (current documents are for the period 2018-2022).
- Financial support for small and medium-sized enterprises through the allocation of grant funds,
- Financial support for small and medium-sized enterprises through access to favourable loans,
- Strengthening the capacity of SMEs, through training, to access favourable financial resources,
- Drafting by-laws based on the Law on Incentives for Small Business Development.

c) Activities planned in 2023

- Adoption of Operational plan for reducing the total payroll expenditure (Ministry of Finance, Ministry of Administration and Local Self-Government and other ministries and institutions of Republika Srpska in line with their competencies),
- Improving the work of the Single Electronic Contact Point and the application of the act on records, analysis, testing and assessment of procedures and formalities for doing business in Republika Srpska
- All necessary structures for social enterprises have been established and support provided to them.
- Financial support for small and medium-sized enterprises through the allocation of grant funds,
- Financial support for small and medium-sized enterprises through access to favourable loans,
- Strengthening the capacity of SMEs, through training, to access favourable financial resources.
- Monitor the contents of the register of approvals in Republika Srpska and possibly supplement the optimization plan of administrative procedures (MEE).

2. Results indicators

Indicator	Baseline (year)	Intermediate target (year)	Target (year)
Realised investments of SMEs			
Realised profit of SMEs			
Number of new jobs in SMEs			
The Inspectorate of Republika Srpska organized in accordance with the results of the implemented activities from the action plan	2019		2020
The Instruction on keeping the register of employees with users of budget funds adopted	2020		2021
The register of employees with users of budget funds established	2020		2020
Law on Civil Servants adopted	2019		2020

Eligibility criteria determined and competency tests developed for each position in the employment of civil servants and employees	2020		2021
Analysis of each individual job of employees in the RS administrative bodies conducted	2020		2022
The Law on Salaries of Employees in the Republika Srpska Administrative Bodies adopted	2020		2022
Operational plan for reducing the total payroll expenditure adopted	2020		2022
Reduced share of public sector wage expenditures relative to GDP	2020		2022
By-laws for the application of the new Law on Fiscal Cash Registers adopted	X	Preparation of by-laws in parallel with drafting of the Law at the end of 2020	First half of 2021
Procurement of information system for fiscalization and implementation of technical aspects of the system	X	X	2021
Full implementation of the system of fiscalization in Republika Srpska			2022
Level of harmonization of regulations of Republika Srpska (horizontal and vertical) with the <i>acquis</i> Chapter 1 - Free movement of goods	30%	60%	80%
Level of operability and availability of the Register of applicable regulations and designated certification bodies of Republika Srpska (software supported)	30%	90%	100%
Implementation of measures and activities from the "Strategy of quality infrastructure of products and services of Republika Srpska for the period 2019-2023"	80%	80%	100%
List of legislation governing the field of services in Republika Srpska	100%	–	–
Action plan for harmonization of regulations in Republika Srpska regulating the area of service provision with the Law and the Directive relating to the free trade in services	40%	100%	–
Operational contact point established	20%	60%	100%
Number of individual formalities and administrative procedures in Republika Srpska in relation to the total number	150/932	150/932	

### 3. Expected impact on competitiveness

- Efficient and cost-effective, professional and accountable and transparent work of inspection bodies will contribute to the reduction of the gray economy and improvement in all spheres of life.
- Facilitated access to more favourable financial resources, as well as increased budget allocations for small and medium-sized enterprises in the last two years of this three-year period, will contribute to improving the competitiveness of the private sector in the Federation of BiH. In addition, the adoption of the necessary legislation will also lead to a more favourable impact on the competitiveness of small and medium-sized enterprises in the Federation of BiH, and thus to an increase in the number of employees, profits, exports, etc.
- By creating the Register, it will be possible to analyse each individual job, review its performance and pay wages according to the performance. In this way, more efficient public administration will be established, and at the same time the total payroll expenditure in relation to GDP will be reduced, thus creating space to increase capital spending. Based on the analysis and analytical assessment of all jobs, a value system of jobs in the administrative bodies of Republika Srpska will be established so as to create assumptions for a more fair pay system. By determining the eligibility criteria and introducing competency tests, the efficiency and effectiveness of the work of the employees in the administrative bodies of Republika Srpska will be improved, while respecting the EU and SIGMA principles.
- The primary impact of the new fiscalization system is expected to reflect in the reduction of the gray economy and the reduction of tax evasion, as well as the improvement of tax discipline, which directly increases the competitiveness of economic subjects that comply with tax regulations.
- The measure related to the optimization of administrative procedures in Republika Srpska has a direct impact on competitiveness, given that it also applies to certain areas monitored in

international reports, which assess the business environment, and thus affects the attraction of both domestic and foreign investment. In addition to such reports, the business community would have direct benefits in terms of reducing costs and time in obtaining certain permits, certificates and solutions.

#### Results indicators:

- Percentage of companies that directly or indirectly export products (at least 1% of sales). Takes into account the number of companies that produce goods (manufacturing sector) that are exported to foreign markets and provides insight into the extent to which domestic companies meet the standards of quality, safety and other standards required for export to foreign markets;
  - The impact is reflected in the improvement and implementation of the legal framework in the sector of free provision of services, which will contribute to the reduction or elimination of obstacles to the development of service activities. Through administrative simplification and the use of a centralized database on the conditions for the provision of services, rapid access to information will be provided to interested parties engaged in or intending to engage in activities in the field of services. Also, the impact relates to the development of the service sector and the contribution to job creation.
4. Estimated cost of the activities and the source of financing
- The cost structure is difficult to define at this time, given that, after the entry into force of the Law on Inspections, the Inspectorate will have to be structurally reorganized.
  - The development of the register will be financed from the World Bank funds planned for this purpose. Financing of the adoption of the Law on Civil Servants will be done from the budget of Republika Srpska and with the help of funds intended for the implementation of projects in the field of public administration reform.
  - According to estimates, the costs of introduction and implementation of the new fiscalization system amount to about KM 37 million, and include: software for fiscalization of transactions in online mode, software for fiscalization of transactions in offline mode, support system, security system, account verification system, communication system, and other components necessary for the functioning of the fiscalization system. The Government of Republika Srpska is determined that the costs of the introduction and implementation of the new fiscalization system will be financed from the budget, and that they will not be borne by the business community.
  - These activities will be carried out by the staff of the FBiH Ministry of Development, Entrepreneurship and Crafts, so that the implementation costs will be regular costs for salaries of employees (there will be no additional costs), except for funds provided in the Federation Budget for financial support to small and medium-sized enterprises. The funds planned for this measure in 2021 are KM 0, in 2022 - KM 10,500,000 in 2023 KM 11,000,000.
  - Optimization of administrative procedures in Republika Srpska should be realized within the existing administrative capacities of the institutions of Republika Srpska, with possible advisory support of international organizations, such as IFC / WB. The process of implementing this reform includes the application of the so-called standard cost model, which allows to calculate the financial effects of the proposed simplifications of procedures, both for the public budget and for the business community.
5. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

The expected impact on employment, poverty reduction, equality and gender will be possible to see only after the full implementation of this measure and analysis of the work of the Inspectorate. The expected impact is reflected in the more efficient work of inspection bodies, and this will contribute to the reduction of the gray economy and the transition from informal to formal employment. The expected impact on employment and gender will be possible to see only after the full implementation of this measure and the analysis of each individual job.

The measure has no direct impact on social outcomes. However, reducing the gray economy, increasing tax discipline, and expanding coverage and increasing the tax base as a result of the introduction of the new system, should lead to an increase in tax revenues, which through the redistribution system will indirectly have a positive impact on social outcomes.

Improving the sector of free provision of services will contribute to the achievement of high quality services, creating preconditions for new service activities and increasing employment, and the development of the services market as a whole.

Creating a safe business environment for domestic and foreign investments in Republika Srpska will have a direct impact on employment and thus on reducing poverty, i.e. improving the social position of the population and all other living and working conditions.

In addition the burden of economic subjects with the inspection controls will be reduced. which

Creating a better business environment for the growth and development of small businesses in the Federation of Bosnia and Herzegovina directly affects employment growth, poverty reduction, but the implementation of this measure will also have a positive impact on equality and gender.

The measure related to the optimization of administrative procedures in the Republika Srpska has an indirect impact, since the improvement of the business environment, conditions will be created for higher employment and better social status of citizens.

#### 6. Expected impact on the environment

The planned measure has no negative impact on the environment, because through these activities we will not support projects that could have any negative consequences for the environment.

#### 7. Potential risks

Untimely adoption of laws by the Parliament of the Federation of BiH.

There is a risk of lack of planned financial resources.

<b>Risik</b>	<b>Probability (low or high)</b>	<b>Planned mitigating action</b>
Resistance of local self-government units to retain inspection bodies	Low	Participation of representatives of local self-government units in joint activities on the implementation of this measure
Interference in the implementation of technical aspects of the system	Low	Technical and personnel readiness for implementation of the process
The risk of implementation of the measure related to the optimization of administrative procedures in the Republic of Srpska is reflected in the number of involved competent institutions and the large scope of the project.		<ul style="list-style-type: none"> <li>- Establishment of the Council at the highest level that monitors the work of institutions</li> <li>- Existence of a formal and publicly available initial database</li> <li>- Adoption of a uniform methodology</li> <li>- Formally determined competent persons</li> </ul>
Inadequate cooperation and exchange of data with other competent institutions in BiH	High	<ul style="list-style-type: none"> <li>- Intensify the implementation of the Agreement,</li> <li>- Intensify cooperation and data exchange</li> </ul>
The migrant crisis and the return of fighters from foreign battlefields	High	<ul style="list-style-type: none"> <li>- Strengthening security capacities (institutions, human and material capacities)</li> </ul>
Non-application of the adopted coordination system in the process of EU integration in BiH in the programming process within the IPA 2 instrument and other EU instruments	Medium	<ul style="list-style-type: none"> <li>- Better cooperation of the Government of Republika Srpska with all levels of government (monitoring and coordination of activities)</li> </ul>
Untimely adoption of laws by the Parliament of the Federation of BiH	Low	Seek financial support from alternative sources
Lack of planned financial resources from the Budget of the Federation of BiH	Low	

### **5.3.4. Research, development and innovation and the digital transformation**

#### **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 rolled over from the previous period, partially revised. 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 field of research, development, innovation and higher education in Republika Srpska are: low orientation of scientific research towards the economy, insufficient number and unfavourable structure of researchers and research institutions, low level and quality of scientific productivity, incompatibility of enrolment policies with labour market requirements, unsatisfactory level of student standards, insufficient cooperation of scientific research and innovation community with the economy, modest investments in research and development, lack of interdisciplinarity in higher education and research, mismatch between the ability of the economy to absorb new technological solutions and demand for them, underdeveloped awareness of decision makers the use of modern technological solutions, the lack of a systematic approach to innovation, especially in higher education institutions, the lack of interest of the economy in investing in research centres that can encourage and promote the development of innovation, as well as resistance to scientific research and academic communities towards competitive institutional and project funding.

As a direct consequence of the pandemic and the need to redirect financial and organizational resources, planned activities related to the adoption of the Law on the Science and Innovation Fund of Republika

Srpska and activities directly related to this law (establishment of the Science and Innovation Fund of Republika Srpska) have been postponed for the coming period.

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**

1. Description of measure

The ICT sector in BiH is insufficiently developed and thereby 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.

The first step in the digital transformation of society is the digitalization and informatization of public administration. The European Union monitors the development of e-government in the Member States through the report "European Commission's eGovernment benchmark", on an annual basis. The results of many years of research show that BiH ranked 105th out of 193 countries in terms of e-government development. Nevertheless, in Republika Srpska there is a strong basis for further development of e-government, which is reflected in the existence of a basic legal and regulatory framework governing e-government, established basic ICT infrastructure that supports electronic communication services and strong social and political commitment to accelerated information society development. The technical implementation of the certification body was completed in 2019, which made the official certification body operational. The preparation of internal acts and procedures is underway, which need to be adopted in order for the certification body to formally and legally start issuing certificates

Some of the main obstacles are:

- Lack of laws, policies and strategies governing the area that are in line with relevant EU legislation at all levels of government;
- 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 and economy;
- Underdeveloped e-government;
- Services and systems that are not protected from threats and abuse, which includes the area of Cyber security and insufficient security of e-government information systems.
- Adoption of laws, policies, strategies and bylaws for the ICT sector in BiH.

Activities planned in 2021 – 2023

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 the institutions of Bosnia and Herzegovina/MCT BiH and GS SM BiH;
- Improving the capacity of the national centre for digital identity management, i.e. the certification body MSTDHEIS with the aim of mass production of qualified electronic certificates for electronic signature and electronic seal;

## 2. Results indicators

Indicator	Baseline (2021)	Intermediate target (2022)	Target (2023)
Legislation of BiH aligned with EU standards	2021 20%	2022 40%	2023 75%
Territorial coverage of BiH by broadband services	2021 40%	2022 50%	2023 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 the annual additional cost of the implementation of all the activities of the measure. State the source of financing used to cover the full costs. However, do not mention the specific donor or lender by name.

## 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

### 5.3.5. Economic integration reforms

#### 5.3.5.1. Improving e-government

##### a) Analysis of main obstacles

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.

In Republika Srpska, during 2020, the planned measures for the establishment of a National Centre for Digital Identity Management within the Ministry of Scientific and Technological Development, Higher Education and Information Society (MSTDHEIS) were implemented, i.e. the basic public key infrastructure (PKI infrastructure) and a qualified MSTDHEIS certification body were established. The role of the National Centre is twofold and includes the management of the legislative framework of trusted services in Republika Srpska, as well as the management of digital identities of individuals and legal entities, i.e. the issuance of qualified electronic certificates for electronic signatures and electronic seals through the certification body MSTDHEIS.

The first step in the digital transformation of society is the digitalization and informatization of public administration. The European Union monitors the development of e-government in the Member States



through the report "European Commission's eGovernment benchmark", on an annual basis. The results of many years of research show that BiH ranked 105th out of 193 countries in terms of e-government development.

Nevertheless, in Republika Srpska there is a strong basis for further development of e-government, which is reflected in the existence of a basic legal and regulatory framework governing e-government, established basic ICT infrastructure that supports electronic communication services and strong social and political commitment to accelerated information society development.

However, the more dynamic development of e-government in Republika Srpska is conditioned by further development of the basic ICT infrastructure of e-government, i.e. the development of horizontal building blocks, such as a single interoperable information system, electronic payment platform, strengthening trust services, i.e. digital identity management, platform for qualified electronic delivery "e-mailbox"(e-sandučje), e-government portal, etc. As recognized by the e-government development strategy for the period 2019-2022, the key challenge in the development of ICT infrastructure is the provision of quality financial resources, accompanied by the development of a favourable environment for digital transformation of public administration and human resources development in public and private sectors. As an unplanned obstacle, the situation caused by the Corona virus pandemic is the reason why the infrastructure for communication and data exchange (e-mailbox) has not been established.

#### 1. Description of measure

During 2020, the planned measures for the establishment of a National Centre for Digital Identity Management within the Ministry of Scientific and Technological Development, Higher Education and Information Society of Republika Srpska (MSTDHEIS) were implemented, i.e. the basic public key infrastructure (PKI infrastructure) and a qualified MSTDHEIS certification body were established. The role of the National Centre is twofold and includes the management of the legislative framework of trusted services in Republika Srpska, as well as the management of digital identities of individuals and legal entities, i.e. the issuance of qualified electronic certificates for electronic signatures and electronic seals through the certification body MSTDHEIS. Within the certification body MSTDHEIS, a registration body has been established, whose role is performed by the Agency for Intermediary, Information and Financial Services of Republika Srpska (APIF).

In the field of development of electronic services during 2020, the technical preconditions for electronic registration of the birth of a child through the "e-baby" (e-beba) project were created, as well as online registration of business entities. During 2020, activities were implemented on the application of the concept of "smart city", which refers to the establishment of a system of unified billing and collection of utility costs from local governments. However, due to the consequences of the corona virus pandemic, this concept was not implemented in five local governments in Republika Srpska during 2020. Also, due to the consequences of the corona virus pandemic, the adoption of the legislative framework in the field of e-government and information security of Republika Srpska was postponed, but the strategy of e-government development of Republika Srpska for the period 2019-2022 was adopted and activities on preparing the preliminary draft of the aforementioned legal solutions were implemented.

In the segment of information security during 2020, an operational centre for information security was established, which operates within the MSTDHEIS. In this initial phase of the centre's existence, automated supervision of only a part of the key ICT infrastructure of e-government of Republika Srpska has been established and in the coming period it is necessary to carry out extensive activities to add additional ICT infrastructure that would be subject to constant monitoring and defining information security rules.

Continuous activities in the period 2021–2023

- regulation of the field of e-government in Republika Srpska, electronic signature and information security of Republika Srpska, in accordance with the established objectives of the e-government development strategy of Republika Srpska for the period 2019–2022:

- activities of conceptual design and development of key ICT infrastructure of e-government (single interoperable information system, platform for electronic payment, platform for qualified electronic delivery e-mailbox, RS cloud, e-government portal etc.),
- application and maintenance of information systems for providing e-services to citizens and business entities (e-baby, smart city, online registration of business entities etc),
- application and maintenance of information systems for supervision in the field of information security,
- improving the capacity of the National Centre for Digital Identity Management, i.e. the MSTDHEIS certification body with the aim of mass production of qualified electronic certificates for electronic signature and electronic seal and expanding the services provided by the MSTDHEIS certification body (signing in the cloud, etc.),
- Improving the capacity of MSTDHEIS and e-Government of Republika Srpska to manage the process of digital transformation of public administration, digital identities and information security of Republika Srpska,
- analysis of possibilities and introduction of incentive measures for business entities in the field of ICT in Republika Srpska.

#### Activity planned in 2021–2023

- preparation and adoption of strategies, as well as laws and bylaws that will improve the field of information security in Republika Srpska.
- coordination of activities of analysis, selection and digitalization of administrative procedures for which there is a built key ICT infrastructure and digital readiness of public administration bodies for electronic provision of services to citizens and business entities.

#### 2. Results indicators

Indicator	Baseline (year)	Intermediate target (year)	Target (year)
Laws and by-laws that improve the field of e-government, electronic signature and information security of Republika Srpska prepared and adopted	2021	2022	2023
Individuals and legal entities and public administration bodies are enabled to use trust services	2021	2022	2023
Incentive measures for business entities in the field of ICT in Republika Srpska determined	2021	2022	2023
Republika Srpska e-government is developing a key ICT infrastructure for providing e-services to citizens and businesses	2021	2022	2023
Capacities of the certification body MSTDHEIS improved with the aim of mass production of qualified electronic certificates for electronic signature and electronic seal and services provided to citizens and businesses expanded	2021	2022	2023
Developed information systems for providing e-services to citizens and business entities (e-baby, smart city, online registration of business entities, etc.) are continuously maintained and improved	2021	2022	2023
Developed information systems for supervision in the field of information security are continuously maintained and improved	2021	2022	2023
The efficiency of incentive measures established and introduced for business entities in the field of ICT in Republika Srpska is continuously analyzed	2021	2022	2023
Improving the capacity of MSTDHEIS and e-government of Republika Srpska to manage the process of digital transformation, digital identities and information security	2021	2022	2023

#### 3. Expected impact on competitiveness

It is estimated that a country can increase its GDP by 1% thanks to a 20% increase in ICT investment. Efficient and transparent provision of e-services to citizens and businesses enables a simple and secure

market entry process and significantly faster procedures. This will directly affect the shortening of time and costs of business entities and entrepreneurs, and for the area of Republika Srpska, the improvement of the elements that are evaluated in the competitiveness of a certain location. There is an unequivocal and positive impact on reducing public administration costs in the process of providing public services.

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

Investments in the digital transformation of public administration, i.e. in the development of key ICT infrastructure imply significant financial investments, especially in the initial phase. Only after a certain level of e-government development has been reached, these investments start to generate returns. Funding for these reform measures will be provided from donor and budget funds.

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

Simple and safe market entry procedures and significantly faster procedures will directly reduce the time and costs of business entities and entrepreneurs, which will provide the preconditions for new employment, without gender restrictions.

#### 6. Expected impact on the environment

There is no impact on the environment.

#### 7. Potential risks

<b>Risk</b>	<b>Probability (low or high)</b>	<b>Planned mitigating action</b>
A large number of participants in the process Implementation depends on dynamics and amount of funds.	High	Active dialogue, promotion of positive outcomes of the implementation of the measure
Implementation depends on dynamics and amount of funds.	High	Finding alternative sources of financing

##### a) Analysis of main obstacles

In Republika Srpska, it is necessary to adopt European standards in the field of real estate brokerage and normatively regulate this area through the adoption of the Law on Real Estate Brokerage. The mentioned legal regulation will strengthen the competitiveness of business entities in the services sector and tackle the gray 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, fair competition and consumer protection.

In 2021, based on the Law on Real Estate Brokerage, by-laws will be adopted, including a by-law establishing the Register of Real Estate Brokers.

The analysis of the current situation in Republika Srpska in the field of real estate brokerage identifies the following: high share of the gray economy in real estate brokerage; poor brokering service; lack of liability insurance; the required qualification for the person performing brokering activities has not been determined; brokers are not obliged to present all documentation related to the real estate, nor to keep those documents, i.e. copies of documents; brokerage contracts are rarely concluded in practice; contracts do not contain all the necessary elements, nor the obligations and responsibilities of the broker; commissions are often paid in cash rather than through accounts, which calls into question cash flow control and taxation; Republika Srpska does not have an adequate source of data on transactions performed in real estate brokerage (volume, type, value, by territory, etc.); hiring unprofessional persons in brokering, without concluding an appropriate contract in accordance with the law governing labour relations, which leads to poor service delivery, a large number of transactions in the real estate market is performed with the mediation of unregistered businesses, i.e. in the gray zone of the economy, in which no rules or business standards apply, while avoiding paying taxes.

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 special

legislative framework to regulate the area. The legally unregulated situation is favourable to an increasing number of persons/entities brokering real estate trade without registering, in the sphere of the gray economy.

b) Reform measure

### 5.3.5.2. Regulating the field of real estate brokerage

1. Description of measure

The measure "Real Estate Trade Market in the Federation of BiH" in connection with the Draft Law on Real Estate Brokerage is rolled over from the previous year. 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 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 gray economy and developing the real estate market in Republika Srpska.

a) Activities planned in 2021

- 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 in Republika Srpska (Ministry of Trade and Tourism – MTT).
- Adoption of the Law on Real Estate Brokerage

The change that would affect the indicators relates to the reduction of unfair competition, better market regulation, consumer protection, registration of data on all transactions and real estate turnover, as well as increase the efficiency of control of legal and natural persons working in this field, which will affect tax and contributions revenues.

b) Activities planned in 2022.

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 in Republika Srpska (Ministry of Trade and Tourism – MTT).

Prepering and adopting the bylaws arising from the Law (Ministry of Trade of the Federation of BiH) (Ministry of Trade of the Federation of BiH and the Chamber of Commerce of the Federation of BiH)

c) Activities planned in 2023

Implementation and monitoring of the implementation of the Law.

2. Results indicators

Indicator	Baseline (2021)	Intermediate target (2022)	Target (2023)
Increased number of registered, i.e. legal brokers in Republika Srpska	15	30	–
Growth of budget revenues	4,000	15,000	–
Assessment of the gray economy in the field of real estate brokerage			

3. Expected impact on competitiveness

The impact on competitiveness is reflected in the increased inflow of funds into the budget of Republika Srpska, while the legal regulation of this activity and the creation of fair competition creates conditions for

the development and growth of this activity, contributes to combating the gray economy and protecting participants (buyers and sellers) in the field of real estate brokerage.

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

No funds are needed in Republika Srpska for the implementation of these activities.

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.

The impact on social outcomes, employment and poverty reduction is reflected in the creation of new jobs, increased employment, rising living standards, strengthening the purchasing power of the population and improving pension, health and social funds.

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

#### 6. Expected impact on the environment

There is no impact on the environment.

#### 7. Potential risks

The Draft Law on Real Estate Brokerage was adopted at the 5th regular session of the House of Representatives of the Parliament of the Federation of BiH on 24 September 2019, but the House of Peoples has not yet considered the Draft Law.

### **5.3.6. Education and skills**

#### a) Analysis of main obstacles

The unfavourable educational structure has a negative impact on the labour market, and ultimately on the social protection system. 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.

Education and upbringing should assume one of the key roles in the development of society through quality education, because quality education is a resource for the development of the economy and society as a whole. In order to achieve quality education, appropriate to the requirements of economic, cultural and social development of Republika Srpska, the primary development goal should be the improvement of the educational system of Republika Srpska through strengthening access to and quality of education. This means that it is necessary to enable every child to be involved in the process of upbringing and education from preschool age, through primary school, to enrolment in secondary schools, and later in higher education institutions.

Since curricula are one of the basic components of the education system, the Ministry of Education and Culture (MEC) has completed activities on revision and standardization of curricula in the field of secondary education, which were the basis for their adoption, while the revision of some curricula in the field of primary education are still ongoing. Openness to other systems and integrated action of all relevant

subjects important for raising the creative and productive qualities of the working age population are important for the development of human resources, which should be a priority of Republika Srpska.

The obstacles to growth and competitiveness in the field 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; organizing practical lessons in the conditions of corona virus pandemic (SARS-CoV-2), especially in the case of the need to organize distance teaching; teaching processes are not sufficiently adapted to contemporary methods and forms of work in the field of education.

On the other hand, the 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

Improving the harmonization of education with the requirements of the labour market is the main goal of this reform measure, in order to provide educated and professional staff to the economy and increase the number of employed persons. FMON focused its activities on improving the adults living and working skills and competencies, educating and training quality labour force and scarce skills/occupations as the main resource of competitive knowledge-based economy in the Federation of BiH, improving student standards, supporting international academic mobility of teachers and students through the newly established Foundation for Mobility of Students and Teachers in the Federation of BiH and supporting lifelong learning.

The WB Economic and Investment Plan has an initiative to establish a Youth Guarantee Scheme. It is a proposal of a way for all young people to get a quality job offer after continuous education, apprenticeship or completed internship within 4 months after losing their job or leaving formal education. This should be implemented by the WB Governments in 4 phases and through IPA III financial support framework.

The system of preschool education, as a service, needs to be made available to as many preschool children as possible, because out of the total number of preschool children (51,806) in 2020, 13,274 or 25% of them attend preschool institutions. It is necessary to continue with activities that lead to an increase in the coverage of children in some of the preschool programmes, especially the programmes in the year before starting school. In order to raise the quality of education, it is necessary to re-examine the structure of the preschool curricula, because the structure affects the teaching quality and learning outcomes and development of children.

Primary education is a mandatory part of the education system of Republika Srpska, which is a necessary condition for the overall development of each individual and society as a whole and should therefore be based on quality and openness in which each student will master the quality knowledge and skills that can be interlinked and applied in further education and in everyday life, while meeting the developmental needs of students and the needs of society, while respecting the equal right of access and equal opportunities of each individual without discrimination on any grounds. The quality of primary education is related to demographic, economic and social changes in society.

Although the revision and standardization of occupations has been completed, it is necessary to continuously work on the harmonization of vocations and occupations, especially with the aim of easier adaptation of program contents to the new requirements of the labour market of local communities. In the context of sustainable development of local communities, it is necessary to work on defining new occupations needed by the labour market, through the development of a pilot curriculum, which would be monitored in the implementation process, and after evaluation of the curriculum, the justification for its introduction into the education system would be considered. Occupational standards based on competencies

and learning outcomes will provide basic measures for further activities in redefining the existing nomenclature of occupations, i.e. classification of occupations, which is subject to constant revision in terms of amendments, and in accordance with labour market needs. The classification of occupations is subject to constant revision, in terms of amendments, and in accordance with the needs of the labour market, employers and the business community, with continuous cooperation with educational institutions. Today's development of the labour market, first of all, requires a new definition of occupations in accordance with the modern requirements of the workplace, i.e. in accordance with the descriptions of tasks that an individual should perform.

Having in mind the importance of secondary vocational education for the economic development of Republika Srpska, preconditions have been created for the reorganization of the Institute for Adult Education, which should deal with the analysis and connection with the labour market.

#### Continuous activities in the period 2021–2023

- Finance and support the organisation of pre-school programmes in order to ensure coverage of 50% (2021), 55% (2022) and 60% (2023) of children with pre-school education (Ministry of Education and Culture, local self-government units),
  - Analysis of learning outcomes in the of preschool education programme and curricula in schools based on the performed analysis (MEC and Pedagogical Institute of Republika Srpska):
    - 1) 2021 – new structuring of learning outcomes in preschool education programme based on the performed analysis (MEC and Pedagogical Institute of Republika Srpska),
    - 2) 2022 – reconstruction of children's learning outcomes based on the new structure in the preschool education programme and adoption of the new programme,
    - 3) 2023– analyze the learning outcomes of existing curricula; define the minimum standards of knowledge that each student must achieve; create catalogues of knowledge according to the subject curricula; create flexible curricula contents - up to 20% of contents created by teachers, students and schools in cooperation with the local community; in line with labour market needs, developing new curricula or revising existing ones,
  - Develop an enrolment policy in line with the real needs of the labour market and development policies of Republika Srpska, based on the estimated needs of the labour markets of local communities
- a) Activities planned in 2021
- Programme of training, professional development and education of adults, with a special focus on women, in order to facilitate integration into the labour market.
  - Support to public higher education institutions for projects related to the needs of the labour market for study programmess of the first and second cycle of studies and support for student exchange projects for the purpose of conducting student internships abroad.
  - Raising the quality of primary education: improving the working conditions in schools and modernizing the teaching process in primary education, improving support for gifted and talented students, establishing a system of identification and monitoring of gifted and talented students, organizing training for teachers and professional associates to facilitate the development of gifted and talented students, defining knowledge standards that describe the level of quantity and quality of knowledge and skills that the student will have after completing each level of education, continuous improvement of the quality of textbooks and other teaching aids in accordance with modernized curricula - digitization, improvement of distance learning during the corona virus pandemics - SARS-CoV-2 (MEC, Pedagogical Institute of Republika Srpska, Institute for Textbooks, Faculties, Scientific Institutions, etc.),
  - Continue project for equipping all classrooms and labs with state-of-the-art teaching aids and communication tools (one pupil – one iPad or laptop),

- Define the minimum standards of knowledge that each student must achieve; create flexible curricula contents - up to 20% of contents created by teachers, students and schools in cooperation with the local community.

#### b) Activities planned in 2022

- Programme of training, professional development and education of adults, with a special focus on women, in order to facilitate integration into the labour market.
- Support to public higher education institutions for projects related to the needs of the labour market for study programmes of the first and second cycle of studies and support for student exchange projects for the purpose of conducting student internships abroad.
- Ensure a 98% coverage of primary school students; provide greater individualization of teaching and application of means, forms and methods of work in accordance with the needs of gifted and talented students; implement special support programmes through competitions, awards, scholarships, research camps, visits to science centres, exhibitions, science festivals; improve the forms of cooperation between the school and the parents of gifted and talented children by organizing a summer school for gifted and talented students; encourage lifelong learning, learning to learn and improve curricula to support the comprehensive development of students (MEC, Pedagogical Institute of Republika Srpska, Institute for Textbooks, Faculties, Scientific Institutions etc.),
- Establish a resource centre for inclusive education (MEC, local communities, PIRS, institutes),
- Complete project for equipping all classrooms and labs with state-of-the-art teaching aids and communication tools (one pupil – one iPad or laptop).

#### c) Activities planned in 2023

- Programme of training, professional development and education of adults, with a special focus on women, in order to facilitate integration into the labour market.
- Support to public higher education institutions for projects related to the needs of the labour market for study programmes of the first and second cycle of studies and support for student exchange projects for the purpose of conducting student internships abroad.
- Increase the coverage of students in primary education to 99%, develop new curricula, develop curricula for talented and gifted students, equip schools with modern equipment, which includes the introduction of digital classrooms and textbooks for organizing regular and distance learning teaching.

## 2. Results indicators

Indicator	Baseline (year)	Intermediate target (year)	Target (year)
Increase coverage of children with preschool education	2021	2022	2023
New/innovated curricula	2021	2022	2023
Percentage of students covered with primary education	2021 (98%)	2022 (98%)	2023 (99%)
Resource centre	2021	2022	2023
Improve the training system at the employer with the aim of introducing students to the world of work as early as possible, and increase the hours of practice with the employer	2021	2022	2023

## 3. Expected impact on competitiveness

An educated and skilled workforce contributes to the growth of competitiveness.

Increasing the efficiency of education, and indirectly, the labour market too, will significantly affect the competitiveness of the economy of Republika Srpska, whose ultimate goal is to reduce the unemployment rate. Investment at each level of education creates certain outcomes at each of them, but this investment is



also reflected in later levels of education, further learning, thus further improvement of education has a long-term impact on improving competitiveness and reducing the unemployment rate.

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

Estimated cost in the Federation of BiH:

The amount planned in 2021 is KM 272,000.00

The amount planned in 2022 is KM 272,000.00

The amount planned in 2023 is KM 272,000.00

At this moment, it is not possible to estimate the fiscal effects in Republika Srpska, since this is a measure that will be implemented in the medium term.

#### 5. Expected impact on employment and gender

A better workforce contributes to employment growth.

Increasing the competitiveness of the economy of Republika Srpska through increasing the efficiency of the labour market and its attractiveness for foreign investments, has direct effects on employment and the social position of the population. Increasing the efficiency of education, and indirectly, the labour market too, will significantly affect the competitiveness of the economy of Republika Srpska, whose ultimate goal is to reduce the unemployment rate. Also, the "yield" or "return" on investment in the early period of life is several times higher than the investment itself, bearing in mind that the effects of early stimulation and learning are numerous: better health of individuals and young people in general, lower spending on health and social protection, as well as a lower percentage of pronounced deviant and socially unacceptable forms of behaviour, better educational results, higher labour productivity, and higher economic growth and more tax revenues for the state. Also, high-quality primary education is a prerequisite for functional and quality development of other levels of education.

#### 6. Expected impact on the environment

This measure will have no impact on the environment.

#### 7. Potential risks

<b>Risk</b>	<b>Probability (low or high)</b>	<b>Planned mitigating action</b>
A large number of partners involved affecting the necessary very detailed and comprehensive analysis of the required occupations for each local government unit.	High	Local government unit should plan enrolment in accordance with the needs of the labour market
Low level of employment of active job seekers	High	Vertical and horizontal mobility between education and employers
Education of students in the conditions of the pandemic	High	Obezbjedenje uslova za organizovanje nastave na daljinu
Lack of resources and capacity to change curricula	Low	Hiring experts for curricula change
Lack of awareness of parents about the importance of early learning	Low	Media promotion of the importance of early learning
Lack of financial resources		

### **5.3.7. Employment and labour markets**

#### **5.3.7.1 Improving the labour market efficiency through effective employment policies and strengthening the role of mediation**

##### **a) Analysis of main obstacles**

In the FBiH, relations in the field of labor law are insufficiently regulated, especially when it comes to regulating the work of economic and social councils, employees' councils, social security of employees and employment mediation.

Although in Republika Srpska in the last few years there have been noticeable positive trends in the labour market, which are primarily reflected in the decrease in unemployment and the overall increase in employment, there is room for significant progress in this field. The challenge is the fact that a significant number of the working age population is inactive in the labour market, especially women. Apart from inactivity, the qualification and age structure of the unemployed is very unfavorable. About 30% of persons who are registered as unemployed is aged over 50 years, and about 20% of persons who are registered as unemployed is unskilled and semi-skilled.

The Law on Amendments to the Law on Employment Mediation and Social Security of the Unemployed strengthened the mediating role of the Employment Institute and obtained more precise data on active jobseekers. This enables better planning, determination of target groups and implementation of active labour market measures.

In the field of social dialogue between the Government and representatives of social partners at the level of Republika Srpska regarding the conclusion of the General Collective Agreement, in addition to a large number of initiatives of the Confederation of Trade Unions of Republika Srpska, no agreement was reached on the text of the General Collective Agreement. Also, the social dialogue of trade unions and employers' associations at lower levels of organization (sectors, fields and branches) has so far not given concrete results in terms of concluding special - branch collective agreements.

One of the obstacles to growth and competitiveness in the field of employment and labour market is the low level of employment of active job seekers and the relatively poor qualification and age structure of registered unemployed persons (more than 22% of the total number of unemployed are unskilled or semi-skilled workers) while those older than 50 of all qualification structures make up about 30% of the active supply on the labour market) .

The Labour Law, which has been in force since 2016, has significantly influenced the improvement of the situation on the labour market of Republika Srpska, in terms of reducing the rigidity of hiring and firing procedures, and better and more precise regulation of rights and obligations based on work. Although the implementation of this law was generally assessed as very positive, some problems and shortcomings were observed in the application of certain provisions. In this regard, a working group has been formed consisting of representatives of the Government, labour inspection and representative social partners, which has the task of considering potential amendments to this systemic law.

##### **1. Description of measure**

Improving the efficiency of the labour market system through the harmonization of legislation with European legislation and international documents, as well as through the implementation of effective employment policies and strengthening the role of mediation of public services in employment.

Partial success was achieved in the implementation of the measure Increasing the efficiency of the labour market and institutional strengthening of the Employment Institute through the improvement of services for users, as a continuation of the reforms of the Employment Institute, since this measure 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 2019 and 2020.

Through the planned amendments to the Labour Law, certain areas need to be regulated better and more precisely (representativeness of trade unions and employers' associations, determining the minimum scope of certain labour-based rights, procedures for protection of labour-based rights), and make certain technical corrections.

During 2021, it is necessary to begin the preparation and development of a new medium-term strategic document on employment and occupational safety and health.

a) Activities planned in 2021

- Developing the draft Law on the Council of Employees;
- Preparation of the Law on Employment Mediation and Social Security of the Unemployed and continuous implementation of the Law on Employment Mediation and Social Security of the Unemployed, and implementation of employment projects;
- Improving social dialogue by strengthening the role of the Economic and Social Council and the work of other tripartite bodies in the preparation and drafting of regulations and strategic documents and contribution to the overall measures of the Government of Republika Srpska to retain workers in Republika Srpska,
- Laws prepared and sent to the parliamentary procedure: Law on Amendments to the Labour Law, Law on Protection from Harassment at Work and Law on Amendments to the Law on Occupational Safety (Ministry of Labour and War Veterans and Disabled Persons' Protection – MLWVDP, in cooperation with social partners),
- Developed Occupational Safety Strategy 2021–2024 (MLWVDP, in cooperation with social partners),
- Continue implementation of the Programme for social welfare for workers who lost their jobs in the process of privatisation, bankruptcy and liquidation of companies (MLWVDP, in cooperation with social partners),
- Employment support projects need to be predominantly (90%) targeted at the private and real sectors,
- Insist on the system of incentives for employment in the private sector on the principles of equal rights and opportunities for all employers,
- Rulebook on the programme of improving knowledge and other issues related to the improvement of knowledge of persons for occupational safety and health adopted,
- Information on the implementation of the Employment Strategy 2016–2020 in Republika Srpska for the period 2018-2020 prepared,
- Information on the situation in the field of pension and disability insurance in Republika Srpska prepared; Information on implementation of the Action Plan for Employment in Republika Srpska in 2020

b) Activities planned in 2022

- Draft Law on the Economic and Social Council;
- Draft Law on Employment Mediation and Social Security of the Unemployed
- Information on the implementation of the Action Plan for the implementation of the Occupational Safety and Health Strategy in Republika Srpska 2021–2024 prepared for 2021,
- Prepared Information on the situation in the field of pension and disability insurance in Republika Srpska, Information on implementation of the Action Plan for Employment in Republika Srpska for 2021 and Information on implementation of the Action Plan for Employment in Republika Srpska for 2021,
- Developed Action Plan for Employment in Republika Srpska for 2022,

### c) Activities planned in 2023

- Information on the implementation of the Action Plan for the implementation of the Occupational Safety and Health Strategy in Republika Srpska 2021–2024 prepared for 2022,
- Action Plan for implementation of the Occupational Safety Strategy in Republika Srpska 2021–2024 developed for za 2023 (MLWVDP, in cooperation with social partners),
- Information on implementation of the Action Plan for Employment in Republika Srpska prepared for 2022 and the Information on the situation in the field of pension and disability insurance in Republika Srpska,
- Prepared Law on Termination of the Law on Records in the Field of Labour and Health Insurance, the Law on Amendments to the Law on Economic and Social Council, the Law on Amendments to the Law on Employment Mediation and Social Security of the Unemployed, the Law on Amendments to the Law on peaceful resolution of labour disputes and analysis of the implementation of the Labour Law (MLWVDP, in cooperation with social partners).

### 2. Results indicators

Indicator	Baseline (year)	Intermediate target (year)	Target (year)
Laws adopted within the planned deadlines, Implemented laws, Implemented projects and strategic documents in the field of employment.			
Total number of active job seekers in Republika Srpska	85,000	80,000	80,000
Number of registered collective agreements in Republika Srpska	3	4	3
Number of workers who passed in the Social Welfare Program in Republika Srpska	2,200	1,500	3,500

The Ministry of Labour and Social Policy of the Federation of BiH is responsible for the implementation of these activities, in terms of monitoring the implementation of projects and strategies in the field of employment, whereas their direct implementation is the responsibility of other institutions from the field of employment, i.e. the FBiH Employment Institute and cantonal employment services.

### 3. Expected impact on competitiveness

Implementation of labour, occupational safety and employment laws should have an impact on creating fair and secure working conditions for workers. Also, the implementation of strategic documents and projects in the field of employment should have an impact on increasing the employment rate. The adoption of the Law on Amendments to the Labour Law, which contains provisions related to the organization of work and certain rights and obligations from employment during the declared state of disaster or state of emergency in the Federation of Bosnia and Herzegovina, should also have an impact. The mentioned Law on Amendments to the Labour Law was prepared as part of activities to mitigate the crisis caused by the outbreak and spread of corona virus (COVID-19).

The Employment Institute of Republika Srpska is exempted from servicing health insurance services, by separating active job seekers from persons who are on record in order to exercise the right to health insurance and other rights whose realization is conditioned by the status of unemployment. By separating active from passive jobseekers, the mediating role of the Employment Institute has been strengthened with the purpose of mediation for persons actively seeking employment, and improved cooperation with employers.

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

The costs of monitoring the implementation of legislation within the competence of the FBiH Ministry of Labour and Social Policy are generally provided in the Budget of the Federation of Bosnia and Herzegovina, while funds for the implementation of employment projects are planned and provided by the financial plans of the Federal Employment Institute and cantonal employment services.

Regarding the unemployment benefits, the budget for 2020 planned KM 18,300,000, and as of 30 June 2020, a total of KM 11,649,816 was spent, which means that the execution is 64% compared to the annual plan. This means that the realization is higher by 14% compared to the execution of the periodic plan. Based on the aforementioned data, there is a rising tendency in the number of cash benefit users and the funds for its payment, because in July 2020, the amount of KM 3,112,513 was paid in the name of the cash benefits. According to the above, it can be predicted that the amount of about KM 25,000,000 will be required this year for payment of cash benefits, while the projection for 2021 would be KM 23,500,000, for 2022 about KM 24,000,000 and for 2023 about KM 24.500.000.

As for the amount of funds for active measures, the Employment Institute will not have funds for active measures in the next period, i.e. in the period from 2021-2023, so it cannot be stated that the source of funds for active measures is the Employment Institute of Republika Srpska.

The implementation of this measure requires additional costs. Cost analysis of the Employment Institute

	<b>2021</b>	<b>2022</b>	<b>2023</b>
Amount of funds for the payment of unemployment benefits	4,500,000	1,830,000	2,013,000
Amount of funds for active measures	2,100,000	1,630,000	1,613,000
Amount of funds for financing employment programmes for vulnerable categories	1,000,000	1,000,000	1,000,000
Other expenses (salaries, material expenses, buy-in years of service for unemployment, non - financial assets)	700,000	500,000	400,000
Amount of funds for the programme of social welfare for workers	5,400,000	5,000,000	5,000,000
<b>Total</b>	<b>13,700,000</b>	<b>9,960,000</b>	<b>10,026,000</b>

For the implementation of measure 1, additional funds from the budget of Republika Srpska are needed to mitigate the consequences of COVID 19, as well as funds from the Employment Institute of Republika Srpska. Regular funds from the budget of Republika Srpska will be used for the implementation of the programme of social welfare for workers.

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

Implementation of legislation in the field of labour and employment, i.e. the implementation of strategic documents and projects in the field of employment, is expected to bring positive impact and increase the employment rate.

Strengthening the mediation role of the Employment Institute and increasing the quality of mediation services as well as better targeting of active employment policies will certainly have an impact on greater employment support.

Bearing in mind that: 1) amendments to the Law on Employment Mediation and Social Security of the Unemployed increased the amount of cash benefits, 2) at the same time there were changes to the Law on Contributions that directly affected the significant reduction of regular income of the Institute, 3) due to consequences COVID 19 there has been a significant increase in the number of beneficiaries of cash benefits during unemployment, and the payment and regularity of payments of cash benefits during unemployment is in question, which has a direct impact on social outcomes.

#### 6. Expected impact on the environment

There is no negative impact on the environment.

## 7. Potential risks

<b>Risk</b>	<b>Probability (low or high)</b>	<b>Planned mitigating action</b>
Failure to adopt the planned laws, Failure of social partners to align in the process of adopting laws.	High High	Preparation of preliminary drafts and draft laws in accordance with the plan., Encouraging social dialogue, consultations with social partners.
Postponement of the implementation of the Law on Amendments to the Law on Employment Mediation and Social Security of the Unemployed from 1 January 2020 in Republika Srpska	Low	Implementation of the Law on Amendments to the Law on Employment Mediation and Social Security of the Unemployed from 1 January 2020 in Republika Srpska
No collective agreements have been concluded in Republika Srpska.	Low	Collective agreements have been concluded in Republika Srpska
The Law on Amendments to the Labour Law in Republika Srpska has not been prepared	Low	The Law on Amendments to the Labour Law in Republika Srpska has been prepared
The Law on Protection from Harassment at Work in Republika Srpska has not been prepared	Low	The Law on Protection from Harassment at Work in Republika Srpska has been prepared
The Law on Amendments to the Law on Occupational Safety in Republika Srpska has not been prepared	Low	The Law on Amendments to the Law on Occupational Safety in Republika Srpska has been prepared
The Employment Strategy in Republika Srpska 2021-2025 has not been prepared	Low	The Employment Strategy in Republika Srpska 2021-2025 has been prepared
The Occupational Safety Strategy in Republika Srpska 2021-2024 has not been prepared	Low	The Occupational Safety Strategy in Republika Srpska 2021-2024 has been prepared

### 5.3.8. Social protection and inclusion

#### a) Analysis of main obstacles

Poverty in the FBiH is around 17% and the legal framework needs to be revised to alleviate poverty. It is necessary to ensure better targeting and focus the limited financial resources towards the most vulnerable categories of the population, as well as to ensure timely payments. In the FBiH, it is necessary to regulate support for families with children, social services and social work activities.

In order to further improve the social protection system in Republika Srpska, it is necessary to perform a detailed analysis of the situation in this field, taking into account the complexity and sensitivity of this issue. In this process, there is a risk in terms of the accuracy of data obtained from local governments that are necessary for analysis, and the lack of funds necessary for the establishment and operation of the Institute for Social Protection as a development institution in the field of social protection.

#### b) Reform measures

#### 5.3.8.1. Improving the social protection system

##### 1. Description of measure

Continue activities on the development of an efficient, sustainable and fair system of social protection and protection of families with children that will guarantee basic and equal rights of socially vulnerable categories through harmonization of the legal framework and establishment of a fair system for social protection and protection of families and children, improving and supporting the social services system in order to reduce social exclusion. The second goal of the reform is 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. With this, we will ensure the implementation of the Strategy for Improving the Rights and Position of Persons with Disabilities in FBiH 2016-2021. Changes will be possible by establishing an efficient system of monitoring and controlling the spending of budget funds aimed at financing non-contributory benefits and by establishing a control system for the introduction of special categories of civilian victims of war into the system. The goal is to regulate the activities and financing of PWD organizations, to establish a non-discriminatory system of cash benefits for persons with disabilities, regardless of the cause of disability.

The key measures in the field of social protection in Republika Srpska in the period 2021–2023 are:

##### 1) Establishment of the Institute for Social Protection,

- 2) Development of the Social Protection Strategy of Republika Srpska,
- 3) Upgrading the SOTAC electronic database and networking with other sources of electronic data.

In Republika Srpska, the establishment of the Institute for Social Protection would enable monitoring and studying of social phenomena and problems, preparation of analyzes and reports on the situation in the field of social protection and proposing measures to improve social protection, development of standards, criteria and norms for performing professional activities in the field of social protection, and performing a number of professional tasks related to the development, monitoring and quality assurance of protection services. The social protection strategy responds to the needs of society and defines directions for further development of social protection policies, as well as more effective and efficient linking of social protection policies with development priorities and other sectors, through the development of integrative and sustainable social protection. By improving the performance of the SOTAC database, a tool will be established for faster and easier data entry and processing in the social protection system. By networking with other electronic data registers, it will be easier for users to submit applications for exercising their rights from social protection.

a) Activities planned in 2021

- Law on Support to Families with Children in the Federation of BiH
- Law on Social Services in the Federation of BiH
- Law on Social Work Activities in the Federation of BiH
- Adoption of bylaws and implementation of adopted laws.
- Continuation of activities that were not implemented in 2020 due to objective circumstances caused by the COVID-19 pandemic and aggravated working conditions
- In Republika Srpska, activities planned for 2021 relate to the harmonization and implementation of procedures for the establishment of the Institute for Social Protection, analysis of the state of social protection in Republika Srpska and the formation of a working group to develop a strategy; analysis of the state of the SOTAC database and upgrade of the existing database with the application.

b) Activities planned in 2022

- Law on the Basics of Social Protection in the Federation of BiH
- Adoption of bylaws
- 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
- In Republika Srpska, activities planned for 2022 relate to monitoring and harmonizing the work of the Institute for Social Protection, activities for drafting the text of the Social Protection Strategy of Republika Srpska and monitoring and networking the SOTAC database with other electronic data sources,

c) Activities planned in 2023

- Activities on the adoption of bylaws and the implementation of adopted laws.
- Implementation and continuation of activities that are in the initial phase or not implemented but are planned in the previous period
- Monitoring and harmonization of legislation in the field of activities of the Institute for Social Protection,
- In Republika Srpska, the activities planned for 2023 relate to monitoring and harmonization of legislation in the field of the Institute for Social Protection, the adoption of the Social Protection Strategy of Republika Srpska and monitoring and networking of the SOTAC database with other electronic data sources,

## 2. Results indicators

Indicator	Baseline (year)	Intermediate target (year)	Target (year)
Laws adopted within the planned deadlines			
Institute for Social Protection Established and operational		X	
Social Protection Strategy of Republika Srpska with action plans adopted			
Successful and continuous process of upgrading and networking of the SOTAC database with other electronic data sources			

## 3. Expected impact on competitiveness

We are not able to state in what way and to what extent the implementation of these measures will affect competitiveness, economic growth and employment growth, as the main objectives of the ERP.

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

According to preliminary estimates, the implementation of the Law on Support to Families with Children requires about KM 35,000,000.00 from the Budget of the Federation of BiH and about KM 7,600,000.00 from the budgets of cantons. Implementation of the Law on Protection of Civilian Victims of War amounts to around KM 26,000,000.00, 70% from the Budget of the Federation of BiH (under the law, the share of 30% is financed by cantons from their budgets); The Law on Associations of Persons with Disabilities and Representative Associations of Persons with Disabilities is planned in the annual amount of KM 500,000.00 KM from the Budget of the Federation of BiH after the adopted law. 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 the 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.

In Republika Srpska, it is not possible at this time to estimate the costs of the overall reform. Funds for the reform of the social protection system will be provided from the Budget of Republika Srpska, and part of the funds for financing the reform will be provided through the support of donors and international organizations.

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

Adoption of the Law on Support to Families with Children in the Federation of BiH and the Law on Basics of Social Protection in the Federation of BiH would mitigate the consequences of poverty, ensure fairness in terms of better targeting of beneficiaries, ensure equal access of citizens in exercising their rights under these laws, economically empowering families with children and mothers. The adoption of the Law on Social Services in the Federation of BiH and the Law on Social Work Activities in the Federation of BiH, is expected to have a positive impact on employment. This will indirectly alleviate the situation, exacerbated by the covid-19 crisis. 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. People with disabilities will have better conditions for comprehensive social integration and position in society.

The activities of the Institute for Social Protection will contribute to the improvement of the social protection system, whose goal is to preserve the social security of all citizens of Republika Srpska, as well as the quality of professional work and the development of social policy in Republika Srpska. The drafting of the Social Protection Strategy will contribute to the improvement of the social protection system and more appropriate social support to the citizens of Republika Srpska, as well as the reduction of social exclusion, improvement of intergenerational solidarity, empowerment and support to families and vulnerable categories. Upgrading the SOTAC electronic database in Republika Srpska and its networking with other electronic data sources will contribute to reduced use of paper documents and more efficient and faster provision of social protection rights. It is also a precondition for faster and more efficient functioning of social protection system in Republika Srpska, its modernization and development of information technology.

#### 6. Expected impact on the environment

There is 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, we note that there may be problems in the implementation of these activities related to non-support by cantons in adopting these laws, especially ensuring the financing necessary to implement them.

Also, one of the risks may be the aggravated implementation of previously planned activities, caused by the COVID-19 pandemic, which generally affects all processes, as well as the consequences that may arise in terms of the amount of the budget and financing of the planned reforms.

In Republika Srpska, in addition to the above-mentioned main obstacles, the potential risks are the lack of funds in the budget, as well as the potential lack of interest of donors for support.

<b>Risk</b>	<b>Probability (low or high)</b>	<b>Planned mitigating action</b>
Postponement of adoption	Medium	
Accuracy of data obtained from local self-government units and lack of financial resources		It is not possible to define alternative measures
Lack of financial resources necessary for the establishment and operation of the Institute for Social Protection		It is not possible to define alternative measures
Lack of funds in the budget and lack of interest of donors for support		
Situation analysis taking a long period		

## 6. COST AND FINANCING OF STRUCTURAL REFORMS

"Suppression of negative consequences caused by the Covid-19 pandemic" - Financing the strengthening of the Credit Guarantee Fund in the Development Bank is planned in the amount of 35 mil. KM, of which 25 mil. KM as a possible cover for activating a certain number of guarantees and 15 mil. KM with the purpose of interest regression for all users. Transfers to lower levels of government to help overcome the negative effects of the pandemic, 230 million. KM as transfers to cantons and municipalities. Economic Stabilization Fund - 150 mil. KM and Employment Project additional 50 mil. KM for the employment project.

"Development of the energy and gas market" - It is not necessary to provide special funds from the Budget of the Federation of Bosnia and Herzegovina for the adoption of planned laws and bylaws / implementing acts and the Program for restructuring the electricity sector in the Federation of Bosnia and Herzegovina.

"Improvement of energy efficiency and use of renewable energy sources" - To encourage the production of electricity from renewable energy sources, funds will be provided from the fee for stimulating production from renewable energy sources, which is paid by all end customers in accordance with the RES Law. For the implementation of energy efficiency measures, financial resources are provided from several sources of financing, such as: partly from the planned budget funds for these purposes, grant funds and credit funds from the Revolving Fund within the Environmental Protection Fund, other credit arrangements and future financial mechanisms to be defined and established through amendments to the Law on Energy Efficiency in the Federation of Bosnia and Herzegovina.

"Development and improvement of transport infrastructure" - The mentioned Investment Programs, as well as the drafting of the Law on Roads and Safety, are planned from the Budget of the Federation of BiH for each year. The costs of the measure for all three years amount to EUR 185,300,000

"Improving the competitiveness of agriculture, forestry and water management" - Financial resources for the implementation of this reform measure are planned in the Budget of the Federation of BiH within the regular funds. "Improve integrated waste management and the circular economy system" (WASTE) - The key source of financing for the recycling economy should be the revolving fund in the FBiH Environmental Protection Fund. This means that the initial financial resources for filling the revolving fund will be provided, partly from fees, but also from international funds. The costs of the measure for all three years amount to EUR 15,700,000

"Establishment of economic instruments in the field of environment and EE" (FOND) - Since this is a regulation, no financial resources are needed. The law on the fund has no direct financial implications. "Improvement of the legal framework governing the field of tourism" - The costs are planned within the Budget of the Federal Ministry of Environment and Tourism, as well as technical support from international organizations. The costs of the measure for all three years amount to EUR 15,025,000

"Improvement of the system of non-tax revenues" - The implementation of planned activities does not require additional costs for the Budget of the Federation of BiH, except for regular costs of salaries of employees on the implementation.

"Facilitated access to favorable financial resources for SMEs in order to increase investment, profits and jobs" - These activities will be carried out by staff of the Federal Ministry of Development, Entrepreneurship and Crafts, so that the implementation costs will be regular staff costs (no additional costs) , except for the funds provided in the Budget of the Federation of BiH for financial support to small and medium enterprises. The costs of the measure for all three years amount to EUR 14,950,000

"Increasing the economic activity of SMEs through the removal of administrative barriers" - These activities will be carried out by the staff of the Federal Ministry of Development, Entrepreneurship and Crafts, so that the implementation costs will be regular staff salaries (no additional costs), except for funds in the Federation Budget to improve entrepreneurial infrastructure. The costs of the measure for all three years amount to EUR 4,750,000. "Improvement of the legal framework in the field of trade" - The activities are planned to be carried out within the plan of regular salary costs of employees of the Federal Ministry

of Trade. Decisions for the establishment of the Registry have yet to be determined, the costs of implementing these activities can be estimated later and it will be necessary to provide funds in the Budget of the Federation of Bosnia and Herzegovina or some other source of funding. "Improving the connection between education and the labor market" - The costs of the measure for all three years amount to EUR 408,000, the financing of the measure is planned through the central budget for all three years of implementation.

"Increasing the efficiency of the labor market through effective employment policies and strengthening the role of mediation" - The costs of monitoring the implementation of legislation under the jurisdiction of the Federal Ministry of Labor and Social Policy are provided in the Budget of the Federation of Bosnia and Herzegovina, while funds for employment projects are planned and provided employment bureaus and cantonal employment services.

"Improvement of the social protection system" - The costs of the structural reform measure amount to about 35,000,000.00 KM from the Budget of the Federation of BiH and about 7,600,000.00 from the budget of the canton. Implementation of the Law on Protection of Civilian Victims of War amounts to around 26,000,000.00 KM, which is 70% from the Budget of the Federation of BiH (30% of funds by law are financed by cantons from their budgets); The Law on Organizations of Persons with Disabilities and Representative Organizations of Persons is planned in the amount of 500,000.00 KM per year from the Budget of the Federation of BiH according to the adopted law). Other rights for participation in the war (RVI), for compensation due to war (CZR), at work (disabled workers), etc. will be financed as before under special laws from previous sources, ie. Budget of F BiH.

Regarding the costs and sources of funding for structural reforms Republika Srpska, an estimate of the costs of activities and the source of funding for individual reforms is given in Chapter 5. In some cases, it was not possible to estimate costs and / or sources of funding at this time, while some activities do not require additional funding. funds. 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 by individual reforms.

## 7. INSTITUTIONAL ISSUES AND STAKEHOLDER INVOLVEMENT

Overview of institutional issues and stakeholder involvement in the process of drafting the BiH Economic Reform Program 2021-2023. was presented in Chapter 5 of the Program. Detailed overview of institutional issues and stakeholder involvement of both levels of government.

### BiH Council of Ministers

Approach to PER coordination 2021-2023 was aggravated by the aftermath of the 2020 corona virus pandemic. Nevertheless, the Directorate for Economic Planning had interactive communication and provided technical assistance to institutions and entity levels. The first step in the coordination of ERP 2021-2023 was the submission of all technical documents from the European Commission for the preparation of PER 2021-2023 (European Commission Assessment for PER 2020-2022, Joint Conclusions for the Western Balkans and Turkey for PER 2021-2023 and European Commission Guidelines for PER 2021-2023). In September 2020, the Directorate for Economic Planning held a meeting 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 Ministry of Finance and Treasury of BiH in order to improve the quality of Chapter 4: Fiscal Framework through the formation of a working group to draft this chapter. On September 10, 2020, the Council of Ministers of BiH adopted the Information on the technical documentation of the European Commission for the Program of Economic Reforms of Bosnia and Herzegovina for 2021-2023 (PER) for the Council of Ministers of BiH and the Action Plan for the Program of Economic Reforms 2021-2023. years. The technical documents were submitted as preparatory materials to the institutions on May 28, 2019, with an invitation to hold preparatory meetings for ERP 2021-2023. The DEP offered its technical support in the preparation process and was in constant and direct communication with each participant. The DEP and the European Commission (DG NEAR) are in constant communication regarding the reform measures and the planned workshop for the first draft PER 2021-2023. DG NEAR is fully informed about all DEP activities in the preparation process. The expert mission of the European Commission is planned for November 11-13, 2020. In the last phase of the preparation of the ERP document, there were difficulties in the preparation of the second draft of the PER, and the last contributions were submitted to the Directorate for Economic Planning in the week from 18 to 25 January 2021, which made it impossible to hold public consultations.

### Government of the Federation of BiH

Ministries and agencies from the FBiH also participated in supporting the preparation of the PER BiH. Coordination of contributions from the FBiH is performed by the Federal Institute for Development Programming and the FBiH Coordinator appointed by the FBiH Government to coordinate the ministry in the preparation of the PER. The Federal Ministry of Finance participates in parallel coordination with the State Ministry of Finance and as a result of this cooperation, the chapter Fiscal Framework is being prepared. The FBiH ministries that took part in the preparation of the PER are: the Federal Ministry of Energy, Mining and Industry; Federal Ministry of Transport and Communications; Federal Ministry of Finance; Federal Ministry of Development, Entrepreneurship and Crafts; Federal Ministry of Trade; Federal Ministry of Justice; Federal Ministry of Environment and Tourism; Federal Ministry of Agriculture, Water Management and Forestry; Federal Ministry of Education and Science; Federal Ministry of Labor and Social Policy. The FBiH Coordinator coordinates by sending EC Guidelines for PER Preparation, last year's PER and requesting ministries to propose structural reform measures and necessary additional elements to each FBiH Government structural measure, the Coordinator reviews materials, prepares proposals for improvements and organizes a series of meetings through which attempts are made to improve the quality of proposed structural measures, descriptions, indicators, etc. After a series of meetings, the ministries re-submit the revised material, which is re-examined and possibly, if there are any amendments left. The PER preparation process combines processes and initiatives from the work plans of ministries and strategic documents that are relevant to the PER preparation process from the point of view of EC guidelines. When it comes to the consultation process, it is necessary to emphasize that line ministries are

obliged and responsible for the implementation of the consultation process during the preparation and implementation of PER measures.

#### Republika Srpska

Within the process of making PER RS 2021–2023. At the 84th session held on August 20, 2020, the Government of the Republika Srpska considered and adopted the Information on the activities on the development of the Program of Economic Reforms of the Republika Srpska for the period 2021–2023. year and coordination of activities related to the preparation of the Program of Economic Reforms of BiH for the period 2021–2023. years. Also, the Government of Republika Srpska appointed the Republika Srpska Team for drafting PER RS 2021–2023, and instructed all ministries and institutions of Republika Srpska to participate in full capacity in the process of drafting PER RS 2021–2023, diagnose, analyze the situation, identify key obstacles to competitiveness and inclusive growth, as well as to make proposals for key reforms for the next period, which would remove previously identified obstacles, as well as new obstacles caused by the COVID 19 pandemic. BiH 2021–2023, is performed exclusively in a way that the Republika Srpska remains clearly visible in the process and document, in accordance with the constitutional powers and competencies of the institutions of the Republika Srpska. Within the process of drafting the document, technical assistance was provided in the form of workshops organized by the Center for Excellence in Finance (CEF) from Slovenia, held within the project Strengthening the capacity of line ministries to assess fiscal implications.

**ANNEX 1: TABLES TO BE CONTAINED IN THE ECONOMIC REFORM PROGRAMMES AND THEIR UPDATES**

**Table 1a: Macroeconomic prospects**

	ESA Code	2019	2019	2020	2021	2022	2023
		bn EUR	Rate of change				
1. Real GDP at market prices	B1*g	17.946	2.4	-3.0	2.5	3.1	3.4
2. Current GDP at market prices	B1*g	18.280	4.3	-3.1	3.6	4.7	4.6
<b>Components of real GDP</b>							
3. Private consumption expenditure	P3	13.361	2.7	-2.8	1.9	2.1	2.2
4. Government consumption expenditure	P3	3.410	0.9	2.5	-0.2	0.7	0.5
5. Gross fixed capital formation	P51	3.476	3.8	-9.5	5.7	8.7	7.7
6. Changes in inventories and net acquisition of valuables (% of GDP)	P52+P53	0.389	2.2	2.3	2.3	2.2	2.2
7. Exports of goods and services	P6	7.212	0.1	-9.2	5.5	5.9	7.1
8. Imports of goods and services	P7	9.901	1.4	-7.4	4.0	4.5	5.1
<b>Contribution to real GDP growth</b>							
9. Final domestic demand		20.2	2.9	-3.5	2.4	3.3	3.2
10. Change in inventories and net acquisition of valuables	P52+P53	0.4	0.2	0.1	0.1	0.0	0.1
11. External balance of goods/services	B11	-2.7	-0.7	0.4	0.0	-0.1	0.0

**Table 1b: Price developments**

	ESA Code	2019	2020	2021	2022	2023
1. GDP deflator	% yoy	1.9	-0.1	1.1	1.5	1.2
2. Private consumption deflator	% yoy	1.8	-0.1	1.4	1.5	1.6
3. HICP <sup>1</sup>	% yoy	:	:	:	:	:
4. National CPI change	% yoy	0.6	-0.8	1.2	1.3	1.4
5. Public consumption deflator	% yoy	2.9	0.4	0.7	2.5	2.5
6. Investment deflator	% yoy	0.9	-2.0	1.2	1.0	1.3
7. Export price deflator (goods & services)	% yoy	0.0	-2.0	1.6	2.4	2.1
8. Import price deflator (goods & services)	% yoy	0.4	-1.9	1.7	2.3	2.9

<sup>1</sup> Agency for Statistics of Bosnia and Herzegovina does not publish HICP.

**Table 1c: Labour markets developments**

	ESA Code	2019	2019	2020	2021	2022	2023
		Level	Level/Rate of change				
1. Population (thousands)			3,485.3	3,478.1	3,470.5	3,462.4	3,453.9
2. Population (growth rate in %)			-0.2	-0.2	-0.2	-0.2	-0.2
3. Working-age population (persons)			2,262	2,926	2,926	2,926	2,926
4. Participation rate			42.1	47.1	47.6	48.3	49.0
5. Employment, persons			803	1,154	1,174	1,201	1,231
6. Employment, hours worked			:	:	:	:	:
7. Employment (growth rate in %)			-2.3	43.7	1.7	2.3	2.5
8. Public sector employment (persons)			197.4	198.2	:	:	:
9. Public sector employment (growth in %)			2.0	0.4	:	:	:
10. Unemployment rate			15.7	16.3	15.7	15.1	14.2
11. Labour productivity, persons		43.7	4.9	-32.5	0.8	0.8	0.8
12. Labour productivity, hours worked			:	:	:	:	:
13. Compensation of employees	D1	16.4	5.9	:	:	:	:

Note: Population data for the observed years (as of December 31 of each observed year) are taken from the Presentation of population analysis and population projections for the period 2020-2070 in Bosnia and Herzegovina presented in December 2020 by the Agency for Statistics of Bosnia and Herzegovina in cooperation with the entity statistical institutions and the United Nations Population Fund (UNFPA). Therefore, the historical data do not completely coincide with the data presented in the previous Economic Reform Program (they referred to the mid-year estimate from the Demography bulletin). Source: <http://bhas.gov.ba/News/Read/42?lang=en>.

From 2020, the Agency for Statistics of Bosnia and Herzegovina started conducting the Labor Force Survey by quarters, and the data for K1 and K2 were published in December 2020. The Labor Force Survey was conducted in accordance with the recommendations and definitions of the International Labor Organization (ILO) and in accordance with the recommendations and regulations of the Statistical Office of the European Union (EUROSTAT), which enables comparability of data from the Survey with other countries. From 2006 to 2019, the sample for the Survey was defined separately for each year, ie. there was no repeated survey or panel part of the sample. Since 2020, a panel component has been introduced in the sample design and households have been re-surveyed four times. In this way, it is possible to monitor and observe changes in the situation on the labor market in quarterly and annual dynamics. Therefore, the comparability of data with data from annual surveys is not compatible, as shown by the data in the table. All survey data for 2020 represent the average of K1 and K2.

Projections on the working age population are not available, so the last available data from 2020 until the end of the period has been retained. Item 4. Participation rate - refers to the participation of the labor force in the working age population (survey data). Historical data on the working age population, labor force (employment and unemployment) and unemployment rates are taken from the Labor Force Survey of Bosnia and Herzegovina (for better comparison with other countries) and do not match the data from the textual part of the ERP (Chapter 3), because administrative data are presented in the text part.

The Agency for Statistics of Bosnia and Herzegovina does not publish data on the number of employees per working hour. Data on employees in the public sector are not published by the Agency for Statistics of Bosnia and Herzegovina. The administrative data listed in Table 1c (paragraph 8) is the sum of the number of employees in the areas of public administration, health and education (for 2020, the data refers to the average of the period I-IX). This data includes not only employees in public schools and health care (hospitals) but also employees in private schools and health care. Therefore, the data do not fully present the number of employees in the public sector (as in previous years). Also, projections for these areas of activity are not available.

Employee benefits are taken from currently available national accounts and are expressed in billions of KM (projections for this item are not available).

**Table 1d: Sectoral balances**

Percentage of GDP	ESA Code	2019	2020	2021	2022	2023
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	-2.2	-3.4	:	:	:
<i>of which:</i>						
- Balance of goods and services		-14.5	-14.4	:	:	:
- Balance of primary incomes and transfers		11.5	10.4	:	:	:
- Capital account		0.8	0.6	:	:	:
2. Net lending/borrowing of the private sector	B.9/ EDP B.9	-5.2	0.0	:	:	:
3. Net lending/borrowing of general government		2.2	-4.0	-2.5	-1.4	-0.6
4. Statistical discrepancy		0.0	0.0	:	:	:

**Table 1e: GDP, investment and gross value added**

	ESA Code	2019	2020	2021	2022	2023
<b>GDP and investment</b>						
GDP <i>level</i> at <i>current</i> market prices (in domestic currency)	B1g	35.8	34.6	35.9	37.6	39.3
Investment ratio (% of GDP)		19.2	17.6	18.1	19.0	19.9
<b>Growth of Gross Value Added, percentage changes at constant prices</b>						
1. Agriculture		-2.0	:	:	:	:
2. Industry (excluding construction)		-2.0	:	:	:	:
3. Construction		5.8	:	:	:	:
4. Services		4.8	:	:	:	:

Note: Projections for growth of gross value added are not available.



**Table 1f: External sector developments**

		2019	2020	2021	2022	2023
1. Current account balance (% of GDP)	% of GDP	-3.0	-4.0	-4.6	-4.7	-5.1
2. Export of goods	bn EUR	5.2	4.7	5.1	5.5	6.0
3. Import of goods	bn EUR	9.3	8.0	8.9	9.6	10.3
4. Trade balance	bn EUR	-4.1	-3.2	-3.8	-4.0	-4.3
5. Export of services	bn EUR	2.1	1.1	1.9	1.9	2.1
6. Import of services	bn EUR	0.7	0.4	0.6	0.6	0.7
7. Service balance	bn EUR	1.4	0.7	1.3	1.3	1.4
8. Net interest payments from abroad	bn EUR	-0.1	-0.1	-0.1	-0.1	0.0
9. Other net factor income from abroad	bn EUR	0.0	0.1	0.0	0.0	-0.1
10. Current transfers	bn EUR	2.1	1.8	1.8	1.9	1.9
11. <i>Of which</i> from EU	bn EUR	1.5	1.3	1.3	1.4	1.4
12. Current account balance	bn EUR	-0.6	-0.7	-0.8	-0.9	-1.0
13. Capital and financial account	bn EUR	0.5	0.6	0.8	0.9	1.0
14. Foreign direct investment	bn EUR	0.4	0.3	0.3	0.4	0.4
15. Foreign reserves	bn EUR	6.5	7.1	7.5	8.0	8.6
16. Foreign debt	bn EUR	11.5	11.6	12.8	13.2	13.2
17. <i>Of which</i> : public	bn EUR	4.2	4.4	5.3	5.4	4.9
18. <i>O/w</i> : foreign currency denominated	bn EUR	11.5	11.6	12.8	13.2	13.2
19. <i>O/w</i> : repayments due	bn EUR	:	:	:	:	:
20. Exchange rate vis-à-vis EUR (end-year)	NCU/EUR	1.95583	1.95583	1.95583	1.95583	1.95583
21. Exchange rate vis-à-vis EUR (annual average)	NCU/EUR	1.95583	1.95583	1.95583	1.95583	1.95583
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	:	:	:	:	:

DEP note: Historical data related to the current account balance (and % of GDP) in 2019 and 2020 are not the same in the introductory table of the Macro Framework (Chapter 3) compared to Table 1f. The difference was due to the period in which the Macro Framework was written (September 2020) and the data in Table 1f were completed in January 2021 (revised historical data).

**Table 1g: Sustainability indicators**

	Dimension	2016	2017	2018	2019	2020
1. Current Account Balance	% of GDP	-4.6	-4.7	-3.3	-3.0	-4.0
2. Net International Investment Position	% of GDP	-49.1	-44.6	-41.4	-36.9	-36.6
3. Export market shares	%, yoy	8.9	9.1	6.4	-4.0	-2.0
4. Real Effective Exchange Rate	%, yoy	-1.1	-0.6	0.7	-1.4	-0.7
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	38.9	33.8	32.4	31.1	35.2

Note: Data on general government debt were submitted by the MoFT, and other data in the table were taken from the CBBH.

**Table 2a: General government budgetary prospects – Bosnia and Herzegovina**

	ESA Code	2019	2019	2020	2021	2022	2023
		mill. KM	% of GDP				
Net lending (B9) by sub-sectors							
1. General government	S13	780.3	2.2	-4.0	-2.5	-1.4	-0.6
2. Central government	S1311	448.7	1.3	-3.3	-2.3	-1.5	-0.8
3. State government	S1312	:	:	:	:	:	:
4. Local government	S1313	119.7	0.3	-0.5	-0.2	0.1	0.1
5. Social security funds	S1314	211.9	0.6	-0.2	0.0	0.1	0.1
General government (S13)							
6. Total revenue	TR	14,324.0	40.1	38.5	37.2	36.9	36.5
7. Total expenditure	TE	13,543.7	37.9	42.5	39.8	38.3	37.2
8. Net borrowing/lending	EDP.B9	780.3	2.2	-4.0	-2.5	-1.4	-0.6
9. Interest expenditure	EDP.D41 incl. FISIM	258.0	0.7	0.7	0.8	0.9	0.8
10. Primary balance		1,038.3	2.9	-3.3	-1.7	-0.5	0.2
11. One-off and other temporary measures		:	:	:	:	:	:
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		7,481.9	20.9	19.4	18.9	18.7	18.4
12a. Taxes on production and imports	D2	6,073.6	17.0	15.6	15.2	15.1	14.7
12b. Current taxes on income and wealth	D5	1,404.4	3.9	3.9	3.7	3.7	3.6
12c. Capital taxes	D91	3.9	0.0	0.0	0.0	0.0	0.0
13. Social contributions	D61	5,277.5	14.8	15.0	14.7	14.6	14.7
14. Property income	D4	151.7	0.4	0.4	0.4	0.4	0.4
15. Other (15 = 16-(12+13+14))		1,412.9	4.0	3.6	3.3	3.1	3.1
16 = 6. Total revenue	TR	14,324.0	40.1	38.5	37.2	36.9	36.5
p.m.: Tax burden (D2+D5+D61+D91-D995)		12,759.4	35.7	34.4	33.5	33.4	33.1
Selected components of expenditures							
17. Collective consumption	P32	6,164.4	17.2	18.4	17.8	17.1	16.4
18. Total social transfers	D62 + D63	5,069.1	14.2	15.7	15.4	15.1	14.8
18a. Social transfers in kind	P31=D63	744.6	2.1	2.3	2.3	2.2	2.1
18b. Social transfers other than in kind	D62	4,324.5	12.1	13.4	13.1	12.9	12.6
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	258.0	0.7	0.7	0.8	0.9	0.8
20. Subsidies	D3	501.7	1.4	1.9	2.0	1.4	1.3
21. Gross fixed capital formation	P51	1,033.1	2.9	3.5	2.4	2.2	2.0
22. Other (22 = 23-(17+18+19+20+21))		517.4	1.4	2.3	1.4	1.6	1.9
23=7. Total expenditures	TE	13,543.7	37.9	42.5	39.8	38.3	37.2
p.m. compensation of employees	D1	3,726.2	10.4	11.3	11.2	10.7	10.2

**Table 2a: General government budgetary prospects – Institutions of Bosnia and Herzegovina**

	ESA Code	2019 mill. KM	2019	2020	2021	2022	2023
% of GDP							
Net lending (B9) by sub-sectors							
1. General government	S13	50.5	0.1	-0.2	-0.3	-0.2	-0.2
2. Central government	S1311	50.5	0.1	-0.2	-0.3	-0.2	-0.2
3. State government	S1312	:	0.0	0.0	0.0	0.0	0.0
4. Local government	S1313	:	0.0	0.0	0.0	0.0	0.0
5. Social security funds	S1314	:	0.0	0.0	0.0	0.0	0.0
General government (S13)							
6. Total revenue	TR	926.2	2.6	2.7	2.6	2.5	2.4
7. Total expenditure	TE	875.7	2.4	2.9	2.8	2.7	2.6
8. Net borrowing/lending	EDP.B9	50.5	0.1	-0.2	-0.3	-0.2	-0.2
9. Interest expenditure	EDP.D41 incl. FISIM	0.9	0.0	0.0	0.0	0.0	0.0
10. Primary balance		51.4	0.1	-0.2	-0.3	-0.2	-0.2
11. One-off and other temporary measures		:	:	:	:	:	:
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		750.0	2.1	2.3	2.2	2.1	2.0
12a. Taxes on production and imports	D2	750.0	2.1	2.3	2.2	2.1	2.0
12b. Current taxes on income and wealth	D5	:	0.0	0.0	0.0	0.0	0.0
12c. Capital taxes	D91	:	0.0	0.0	0.0	0.0	0.0
13. Social contributions	D61	:	0.0	0.0	0.0	0.0	0.0
14. Property income	D4	:	0.0	0.0	0.0	0.0	0.0
15. Other (15 = 16-(12+13+14))		176.2	0.5	0.4	0.4	0.4	0.4
16 = 6. Total revenue	TR	926.2	2.6	2.7	2.6	2.5	2.4
p.m.: Tax burden (D2+D5+D61+D91- D995)		750.0	2.1	2.3	2.2	2.1	2.0
Selected components of expenditures							
17. Collective consumption	P32	820.4	2.3	2.5	2.6	2.5	2.4
18. Total social transfers	D62 + D63	9.3	0.0	0.0	0.0	0.0	0.0
18a. Social transfers in kind	P31=D63	0.0	0.0	0.0	0.0	0.0	0.0
18b. Social transfers other than in kind	D62	9.3	0.0	0.0	0.0	0.0	0.0
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	0.9	0.0	0.0	0.0	0.0	0.0
20. Subsidies	D3		0.0	0.0	0.0	0.0	0.0
21. Gross fixed capital formation	P51	26.2	0.1	0.1	0.1	0.1	0.1
22. Other (22 = 23-(17+18+19+20+21))		18.9	0.1	0.2	0.1	0.1	0.1
23=7. Total expenditures	TE	875.7	2.4	2.9	2.8	2.7	2.6
p.m. compensation of employees	D1	661.3	1.8	2.0	2.1	2.0	1.9

**Table 2a: General government budgetary prospects – Federation of Bosnia and Herzegovina**

	ESA Code	2019	2019	2020	2021	2022	2023
		mill. KM	% of GDP				
Net lending (B9) by sub-sectors							
1. General government	S13	724.7	2.0	-1.8	-1.3	-0.5	-0.1
2. Central government	S1311	420.1	1.2	-1.3	-1.1	-0.6	-0.2
3. State government	S1312	:	0.0	0.0	0.0	0.0	0.0
4. Local government	S1313	133.9	0.4	-0.3	-0.2	0.1	0.1
5. Social security funds	S1314	170.7	0.5	-0.1	-0.1	0.0	0.0
General government (S13)							
6. Total revenue	TR	8,709.9	24.4	22.4	21.9	21.8	21.7
7. Total expenditure	TE	7,985.2	22.3	24.2	23.2	22.4	21.8
8. Net borrowing/lending	EDP.B9	724.7	2.0	-1.8	-1.3	-0.5	-0.1
9. Interest expenditure	EDP.D41 incl. FISIM	127.8	0.4	0.3	0.4	0.5	0.4
10. Primary balance		852.5	2.4	-1.4	-0.9	-0.1	0.3
11. One-off and other temporary measures		:	:	:	:	:	:
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		4,090.7	11.4	9.9	9.7	9.6	9.3
12a. Taxes on production and imports	D2	3,171.7	8.9	7.4	7.3	7.3	7.0
12b. Current taxes on income and wealth	D5	919	2.6	2.5	2.4	2.3	2.3
12c. Capital taxes	D91		0.0	0.0	0.0	0.0	0.0
13. Social contributions	D61	3,665.9	10.3	10.2	10.0	10.0	10.2
14. Property income	D4	66.3	0.2	0.1	0.1	0.1	0.1
15. Other (15 = 16-(12+13+14))		887.0	2.5	2.2	2.1	2.0	2.0
16 = 6. Total revenue	TR	8,709.9	24.4	22.4	21.9	21.8	21.7
p.m.: Tax burden (D2+D5+D61+D91-D995)		7,756.6	21.7	20.1	19.6	19.7	19.6
Selected components of expenditures							
17. Collective consumption	P32	3,936.0	11.0	11.3	11.0	10.6	10.1
18. Total social transfers	D62 + D63	2,864.6	8.0	8.8	8.7	8.6	8.4
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	2,864.6	8.0	8.8	8.7	8.6	8.4
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	127.8	0.4	0.3	0.4	0.5	0.4
20. Subsidies	D3	328.8	0.9	1.0	1.5	1.0	0.9
21. Gross fixed capital formation	P51	583.2	1.6	1.8	1.5	1.4	1.3
22. Other (22 = 23-(17+18+19+20+21))		144.8	0.4	0.9	0.1	0.3	0.7
23=7. Total expenditures	TE	7,985.2	22.3	24.2	23.2	22.4	21.8
p.m. compensation of employees	D1	1,996.8	5.6	5.9	5.7	5.5	5.2

**Table 2a: General government budgetary prospects – Republika Srpska**

	ESA Code	2019 mill. KM	2019	2020	2021	2022	2023
% of GDP							
Net lending (B9) by sub-sectors							
1. General government	S13	-12.2	0.0	-1.8	-0.9	-0.6	-0.3
2. Central government	S1311	-39.2	-0.1	-1.6	-0.9	-0.7	-0.4
3. State government	S1312	:	0.0	0.0	0.0	0.0	0.0
4. Local government	S1313	-14.2	0.0	-0.2	0.0	0.0	0.0
5. Social security funds	S1314	41.2	0.1	-0.1	0.0	0.1	0.1
General government (S13)							
6. Total revenue	TR	4,462.5	12.5	12.7	12.2	11.9	11.8
7. Total expenditure	TE	4,474.7	12.5	14.6	13.1	12.6	12.1
8. Net borrowing/lending	EDP.B9	-12.2	0.0	-1.8	-0.9	-0.6	-0.3
9. Interest expenditure	EDP.D41 incl. FISIM	128.9	0.4	0.4	0.4	0.4	0.5
10. Primary balance		116.7	0.3	-1.4	-0.5	-0.2	0.1
11. One-off and other temporary measures		:	:	:	:	:	:
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		2,427.4	6.8	6.7	6.4	6.4	6.4
12a. Taxes on production and imports	D2	1,967.2	5.5	5.4	5.2	5.2	5.2
12b. Current taxes on income and wealth	D5	456.3	1.3	1.3	1.3	1.2	1.2
12c. Capital taxes	D91	3.9	0.0	0.0	0.0	0.0	0.0
13. Social contributions	D61	1,611.6	4.5	4.8	4.7	4.6	4.5
14. Property income	D4	85.4	0.2	0.3	0.2	0.2	0.2
15. Other (15 = 16-(12+13+14))		338.1	0.9	1.0	0.8	0.7	0.6
16 = 6. Total revenue	TR	4,462.5	12.5	12.7	12.2	11.9	11.8
p.m.: Tax burden (D2+D5+D61+D91-D995)		4,039.0	11.3	11.5	11.1	11.0	10.9
Selected components of expenditures							
17. Collective consumption	P32	1,297.7	3.6	4.2	3.8	3.6	3.5
18. Total social transfers	D62 + D63	2,127.5	6.0	6.6	6.5	6.3	6.1
18a. Social transfers in kind	P31=D63	744.6	2.1	2.3	2.3	2.2	2.1
18b. Social transfers other than in kind	D62	1,382.9	3.9	4.3	4.2	4.1	4.0
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	128.9	0.4	0.4	0.4	0.4	0.5
20. Subsidies	D3	154.7	0.4	0.8	0.5	0.4	0.4
21. Gross fixed capital formation	P51	420.9	1.2	1.4	0.7	0.6	0.5
22. Other (22 = 23-(17+18+19+20+21))		345.0	1.0	1.2	1.2	1.2	1.1
23=7. Total expenditures	TE	4,474.7	12.5	14.6	13.1	12.6	12.1
p.m. compensation of employees	D1	991.1	2.8	3.2	3.1	2.9	2.8

**Table 2a: General government budgetary prospects – Brčko District**

	ESA Code	2019 mill. KM	2019	2020	2021	2022	2023
% of GDP							
Net lending (B9) by sub-sectors							
1. General government	S13	17.3	0.0	-0.2	0.0	0.0	0.0
2. Central government	S1311	17.3	0.0	-0.2	0.0	0.0	0.0
3. State government	S1312	:	0.0	0.0	0.0	0.0	0.0
4. Local government	S1313	:	0.0	0.0	0.0	0.0	0.0
5. Social security funds	S1314	:	0.0	0.0	0.0	0.0	0.0
General government (S13)							
6. Total revenue	TR	225.4	0.6	0.7	0.6	0.6	0.6
7. Total expenditure	TE	208.1	0.6	0.9	0.6	0.6	0.6
8. Net borrowing/lending	EDP.B9	17.3	0.0	-0.2	0.0	0.0	0.0
9. Interest expenditure	EDP.D41 incl. FISIM	0.4	0.0	0.0	0.0	0.0	0.0
10. Primary balance		17.7	0.0	-0.2	0.0	0.0	0.0
11. One-off and other temporary measures		:	:	:	:	:	:
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		213.8	0.6	0.6	0.6	0.6	0.6
12a. Taxes on production and imports	D2	184.7	0.5	0.5	0.5	0.5	0.5
12b. Current taxes on income and wealth	D5	29.1	0.1	0.1	0.1	0.1	0.1
12c. Capital taxes	D91	:	0.0	0.0	0.0	0.0	0.0
13. Social contributions	D61	:	0.0	0.0	0.0	0.0	0.0
14. Property income	D4	:	0.0	0.0	0.0	0.0	0.0
15. Other (15 = 16-(12+13+14))		11.6	0.0	0.0	0.0	0.0	0.0
16 = 6. Total revenue	TR	225.4	0.6	0.7	0.6	0.6	0.6
p.m.: Tax burden (D2+D5+D61+D91-D995)		213.8	0.6	0.6	0.6	0.6	0.6
Selected components of expenditures							
17. Collective consumption	P32	110.3	0.3	0.4	0.4	0.4	0.3
18. Total social transfers	D62 + D63	67.7	0.2	0.2	0.2	0.2	0.2
18a. Social transfers in kind	P31=D63	0.0	0.0	0.0	0.0	0.0	0.0
18b. Social transfers other than in kind	D62	67.7	0.2	0.2	0.2	0.2	0.2
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	0.4	0.0	0.0	0.0	0.0	0.0
20. Subsidies	D3	18.2	0.1	0.1	0.0	0.0	0.0
21. Gross fixed capital formation	P51	2.8	0.0	0.1	0.0	0.0	0.0
22. Other (22 = 23-(17+18+19+20+21))		8.7	0.0	0.0	0.0	0.0	0.0
23=7. Total expenditures	TE	208.1	0.6	0.9	0.6	0.6	0.6
p.m. compensation of employees	D1	77.0	0.2	0.3	0.3	0.3	0.3

**Table 2b: General government budgetary prospects – Bosnia and Herzegovina**

	ESA Code	2019	2020	2021	2022	2023
mill. KM						
<b>Net lending (B9) by sub-sectors</b>						
1. General government	S13	780.3	-1,380.0	-915.0	-519.2	-248.2
2. Central government	S1311	448.7	-1,145.0	-832.8	-578.1	-330.8
3. State government	S1312	:	:	:	:	:
4. Local government	S1313	119.7	-165.4	-68.5	21.5	33.9
5. Social security funds	S1314	211.9	-69.6	-13.7	37.4	48.7
<b>General government (S13)</b>						
6. Total revenue	TR	14,324.0	13,329.0	13,362.6	13,854.3	14,354.7
7. Total expenditure	TE	13,543.7	14,709.0	14,277.6	14,373.5	14,602.9
8. Net borrowing/lending	EDP.B9	780.3	-1,380.0	-915.0	-519.2	-248.2
9. Interest expenditure	EDP.D41 incl. FISIM	258.0	249.6	295.3	339.4	332.4
10. Primary balance		1,038.3	-1,130.4	-619.7	-179.8	84.2
11. One-off and other temporary measures		:	:	:	:	:
<b>Components of revenues</b>						
12. Total taxes (12 = 12a+12b+12c)		7,481.9	6,735.5	6,772.5	7,032.0	7,209.9
12a. Taxes on production and imports	D2	6,073.6	5,393.8	5,440.4	5,654.5	5,776.4
12b. Current taxes on income and wealth	D5	1,404.4	1,336.9	1,328.0	1,373.3	1,429.1
12c. Capital taxes	D91	3.9	4.8	4.1	4.2	4.4
13. Social contributions	D61	5,277.5	5,194.5	5,265.5	5,498.8	5,785.7
14. Property income	D4	151.7	142.9	136.7	141.9	147.9
15. Other (15 = 16-(12+13+14))		1,412.9	1,256.1	1,187.9	1,181.6	1,211.2
16 = 6. Total revenue	TR	14,324.0	13,329.0	13,362.6	13,854.3	14,354.7
p.m.: Tax burden (D2+D5+D61+D91-D995)		12,759.4	11,930.0	12,038.0	12,530.8	12,995.6
<b>Selected components of expenditures</b>						
17. Collective consumption	P32	6,164.4	6,369.6	6,389.1	6,434.0	6,432.7
18. Total social transfers	D62 + D63	5,069.1	5,431.0	5,514.5	5,681.4	5,800.5
18a. Social transfers in kind	P31=D63	744.6	799.8	811.0	824.4	839.3
18b. Social transfers other than in kind	D62	4,324.5	4,631.2	4,703.5	4,857.0	4,961.2
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	258.0	249.6	295.3	339.4	332.4
20. Subsidies	D3	501.7	658.5	702.8	516.7	518.9
21. Gross fixed capital formation	P51	1033.1	1201.5	857.3	815.8	775.0
22. Other (22 = 23-(17+18+19+20+21))		517.4	798.8	518.6	586.2	743.4
23=7. Total expenditures	TE	13,543.7	14,709.0	14,277.6	14,373.5	14,602.9
p.m. compensation of employees	D1	3,726.2	3,920.9	4,004.6	4,012.4	4,023.3

**Table 2b: General government budgetary prospects – Institutions of Bosnia and Herzegovina**

	ESA Code	2019	2020	2021	2022	2023
mill. KM						
<b>Net lending (B9) by sub-sectors</b>						
1. General government	S13	50.5	-63.5	-93.4	-87.9	-66.8
2. Central government	S1311	50.5	-63.5	-93.4	-87.9	-66.8
3. State government	S1312	:	:	:	:	:
4. Local government	S1313	:	:	:	:	:
5. Social security funds	S1314	:	:	:	:	:
<b>General government (S13)</b>						
6. Total revenue	TR	926.2	926.8	929.0	927.6	936.5
7. Total expenditure	TE	875.7	990.3	1,022.4	1,015.5	1,003.3
8. Net borrowing/lending	EDP.B9	50.5	-63.5	-93.4	-87.9	-66.8
9. Interest expenditure	EDP.D41 incl. FISIM	0.9	0.9	0.9	0.9	0.8
10. Primary balance		51.4	-62.6	-92.5	-87.0	-66.0
11. One-off and other temporary measures		:	:	:	:	:
<b>Components of revenues</b>						
12. Total taxes (12 = 12a+12b+12c)		750.0	780.0	780.0	780.0	780.0
12a. Taxes on production and imports	D2	750.0	780.0	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))		176.2	146.8	149.0	147.6	156.5
16 = 6. Total revenue	TR	926.2	926.8	929.0	927.6	936.5
p.m.: Tax burden (D2+D5+D61+D91-D995)		750.0	780.0	780.0	780.0	780.0
<b>Selected components of expenditures</b>						
17. Collective consumption	P32	820.4	867.4	939.6	944.8	939.7
18. Total social transfers	D62 + D63	9.3	7.5	7.5	7.5	7.5
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	9.3	7.5	7.5	7.5	7.5
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	0.9	0.9	0.9	0.9	0.8
20. Subsidies	D3	:	:	:	:	:
21. Gross fixed capital formation	P51	26.2	41.6	46.1	40.9	34.1
22. Other (22 = 23-(17+18+19+20+21))		18.9	72.9	28.3	21.4	21.2
23=7. Total expenditures	TE	875.7	990.3	1,022.4	1,015.5	1,003.3
p.m. compensation of employees	D1	661.3	696.3	746.1	747.4	750.2



**Table 2b: General government budgetary prospects – Federation of Bosnia and Herzegovina**

	ESA Code	2019	2020	2021	2022	2023
		mill. KM				
Net lending (B9) by sub-sectors						
1. General government	S13	724.7	-617.4	-479.3	-195.7	-50.3
2. Central government	S1311	420.1	-458.2	-397.3	-231	-90.1
3. State government	S1312	:	:	:	:	:
4. Local government	S1313	133.9	-108.3	-58.3	27.6	35.1
5. Social security funds	S1314	170.7	-50.9	-23.7	7.7	4.7
General government (S13)						
6. Total revenue	TR	8,709.9	7,759.5	7,842.2	8,205.7	8,530.1
7. Total expenditure	TE	7,985.2	8,376.9	8,321.5	8,401.4	8,580.4
8. Net borrowing/lending	EDP.B9	724.7	-617.4	-479.3	-195.7	-50.3
9. Interest expenditure	EDP.D41 incl. FISIM	127.8	118.8	148.8	171.3	151.1
10. Primary balance		852.5	-498.6	-330.5	-24.4	100.8
11. One-off and other temporary measures		:	:	:	:	:
Components of revenues						
12. Total taxes (12 = 12a+12b+12c)		4,090.7	3,414.4	3,469.7	3,612.0	3,669.1
12a. Taxes on production and imports	D2	3,171.7	2,561.00	2,622.00	2,730.90	2,747.20
12b. Current taxes on income and wealth	D5	919	853.4	847.7	881.1	921.9
12c. Capital taxes	D91	:	:	:	:	:
13. Social contributions	D61	3,665.9	3,540.1	3,579.9	3,771.4	4,015.4
14. Property income	D4	66.3	51.8	53.3	54.9	56.6
15. Other (15 = 16-(12+13+14))		887.0	753.2	739.3	767.4	789.0
16 = 6. Total revenue	TR	8,709.9	7,759.5	7,842.2	8,205.7	8,530.1
p.m.: Tax burden (D2+D5+D61+D91-D995)		7,756.6	6,954.5	7,049.6	7,383.4	7,684.5
Selected components of expenditures						
17. Collective consumption	P32	3,936.0	3,904.40	3,953.00	3,986.80	3,974.80
18. Total social transfers	D62 + D63	2,864.6	3,061.2	3,108.2	3,234.7	3,305.0
18a. Social transfers in kind	P31=D63	:	:	:	:	:
18b. Social transfers other than in kind	D62	2,864.6	3,061.2	3,108.2	3,234.7	3,305.0
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	127.8	118.8	148.8	171.3	151.1
20. Subsidies	D3	328.8	358.4	537.6	370.0	372.1
21. Gross fixed capital formation	P51	583.2	627.4	539.8	536.0	515.0
22. Other (22 = 23- (17+18+19+20+21))		144.8	306.7	34.1	102.6	262.4
23=7. Total expenditures	TE	7,985.2	8,376.9	8,321.5	8,401.4	8,580.4
p.m. compensation of employees	D1	1,996.8	2,040.5	2,054.8	2,058.3	2,061.0

**Table 2b: General government budgetary prospects – Republika Srpska**

	ESA Code	2019	2020	2021	2022	2023
mill. KM						
<b>Net lending (B9) by sub-sectors</b>						
1. General government	S13	-12.2	-629.4	-335.5	-228.9	-124.5
2. Central government	S1311	-39.2	-553.6	-335.3	-252.5	-167.3
3. State government	S1312	:	:	:	:	:
4. Local government	S1313	-14.2	-57.1	-10.2	-6.1	-1.2
5. Social security funds	S1314	41.2	-18.7	10.0	29.7	44.0
<b>General government (S13)</b>						
6. Total revenue	TR	4,462.5	4,416.3	4,365.5	4,487.3	4,646.1
7. Total expenditure	TE	4,474.7	5,045.7	4,701.0	4,716.2	4,770.6
8. Net borrowing/lending	EDP.B9	-12.2	-629.4	-335.5	-228.9	-124.5
9. Interest expenditure	EDP.D41 incl. FISIM	128.9	128.9	144.7	166.3	179.7
10. Primary balance		116.7	-500.5	-190.8	-62.6	55.2
11. One-off and other temporary measures		:	:	:	:	:
<b>Components of revenues</b>						
12. Total taxes (12 = 12a+12b+12c)		2,427.4	2,328.8	2,308.1	2,417.5	2,529.9
12a. Taxes on production and imports	D2	1,967.2	1,867.3	1,851.5	1,948.9	2,046.1
12b. Current taxes on income and wealth	D5	456.3	456.7	452.5	464.4	479.4
12c. Capital taxes	D91	3.9	4.8	4.1	4.2	4.4
13. Social contributions	D61	1,611.6	1,654.4	1,685.6	1,727.4	1,770.3
14. Property income	D4	85.4	91.1	83.4	87.0	91.3
15. Other (15 = 16-(12+13+14))		338.1	342.0	288.4	255.4	254.6
16 = 6. Total revenue	TR	4,462.5	4,416.3	4,365.5	4,487.3	4,646.1
p.m.: Tax burden (D2+D5+D61+D91-D995)		4,039.0	3,983.2	3,993.7	4,144.9	4,300.2
<b>Selected components of expenditures</b>						
17. Collective consumption	P32	1,297.7	1,463.3	1,363.3	1,367.7	1,383.5
18. Total social transfers	D62 + D63	2,127.5	2,285.1	2,317.2	2,355.4	2,397.9
18a. Social transfers in kind	P31=D63	744.6	799.8	811.0	824.4	839.3
18b. Social transfers other than in kind	D62	1,382.9	1,485.3	1,506.2	1,531.0	1,558.6
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	128.9	128.9	144.7	166.3	179.7
20. Subsidies	D3	154.7	267.9	165.2	146.7	146.8
21. Gross fixed capital formation	P51	420.9	490.3	263.7	227.8	211.6
22. Other (22 = 23-(17+18+19+20+21))		345.0	410.2	446.9	452.3	451.1
23=7. Total expenditures	TE	4,474.7	5,045.7	4,701.0	4,716.2	4,770.6
p.m. compensation of employees	D1	991.1	1,094.9	1,105.9	1,107.8	1,113.2

**Table 2b: General government budgetary prospects – Brčko District**

	ESA Code	2019	2020	2021	2022	2023
mill. KM						
<b>Net lending (B9) by sub-sectors</b>						
1. General government	S13	17.3	-69.7	-6.8	-6.7	-6.6
2. Central government	S1311	17.3	-69.7	-6.8	-6.7	-6.6
3. State government	S1312	:	:	:	:	:
4. Local government	S1313	:	:	:	:	:
5. Social security funds	S1314	:	:	:	:	:
<b>General government (S13)</b>						
6. Total revenue	TR	225.4	226.4	225.9	233.7	242.0
7. Total expenditure	TE	208.1	296.1	232.7	240.4	248.6
8. Net borrowing/lending	EDP.B9	17.3	-69.7	-6.8	-6.7	-6.6
9. Interest expenditure	EDP.D41 incl. FISIM	0.4	1.0	0.9	0.9	0.8
10. Primary balance		17.7	-68.7	-5.9	-5.8	-5.8
11. One-off and other temporary measures		:	:	:	:	:
<b>Components of revenues</b>						
12. Total taxes (12 = 12a+12b+12c)		213.8	212.3	214.7	222.5	230.9
12a. Taxes on production and imports	D2	184.7	185.5	186.9	194.7	203.1
12b. Current taxes on income and wealth	D5	29.1	26.8	27.8	27.8	27.8
12c. Capital taxes	D91	:	:	:	:	:
13. Social contributions	D61	:	:	:	:	:
14. Property income	D4	:	:	:	:	:
15. Other (15 = 16-(12+13+14))		11.6	14.1	11.2	11.2	11.1
16 = 6. Total revenue	TR	225.4	226.4	225.9	233.7	242.0
p.m.: Tax burden (D2+D5+D61+D91-D995)		213.8	212.3	214.7	222.5	230.9
<b>Selected components of expenditures</b>						
17. Collective consumption	P32	110.3	134.5	133.2	134.7	134.7
18. Total social transfers	D62 + D63	67.7	77.2	81.6	83.8	90.1
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	67.7	77.2	81.6	83.8	90.1
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	0.4	1.0	0.9	0.9	0.8
20. Subsidies	D3	18.2	32.2	:	:	:
21. Gross fixed capital formation	P51	2.8	42.2	7.7	11.1	14.3
22. Other (22 = 23-(17+18+19+20+21))		8.7	9.0	9.3	9.9	8.7
23=7. Total expenditures	TE	208.1	296.1	232.7	240.4	248.6
p.m. compensation of employees	D1	77.0	89.2	97.8	98.9	98.9

**Table 3: General government expenditure by function**

**Bosnia and Herzegovina**

% of GDP	COFOG Code	2019	2020	2021	2022	2023
1. General public services	1	7.2	8.8	7.9	7.5	7.3
2. Defence	2	0.8	0.9	0.9	0.9	0.9
3. Public order and safety	3	3.1	3.4	3.3	3.1	3.0
4. Economic affairs	4	2.7	2.9	2.7	2.3	2.3
5. Environmental protection	5	0.3	0.3	0.3	0.3	0.3
6. Housing and community amenities	6	0.8	1.1	1.0	0.9	0.9
7. Health	7	5.1	6.2	5.9	5.6	5.4
8. Recreation. culture and religion	8	0.7	0.7	0.6	0.6	0.6
9. Education	9	3.9	4.3	4.1	3.9	3.8
10. Social protection	10	13.2	13.8	13.0	13.1	12.8
<b>11. Total expenditure (item 7 = 23 in Table 2)</b>	<b>TE</b>	<b>37.9</b>	<b>42.5</b>	<b>39.8</b>	<b>38.3</b>	<b>37.2</b>

in mill. KM	COFOG Code	2019	2020	2021	2022	2023
1. General public services	1	2,582.7	3,036.1	2,846.4	2,834.0	2,873.3
2. Defence	2	303.1	310.1	340.5	335.6	336.5
3. Public order and safety	3	1,119.6	1,184.9	1,167.9	1,177.0	1,188.3
4. Economic affairs	4	964.3	999.1	953.6	881.9	885.3
5. Environmental protection	5	115.3	119.2	116.1	115.7	117.5
6. Housing and community amenities	6	276.1	381.4	366.7	353.5	360.2
7. Health	7	1,830.4	2,162.4	2,133.5	2,087.3	2,120.0
8. Recreation. culture and religion	8	242.2	252.6	214.2	224.1	229.0
9. Education	9	1,396.9	1,484.3	1,456.1	1,458.6	1,479.3
10. Social protection	10	4,713.2	4,779.0	4,682.6	4,905.8	5,013.5
<b>11. Total expenditure (item 7 = 23 in Table 2)</b>	<b>TE</b>	<b>13,543.8</b>	<b>14,709.1</b>	<b>14,277.6</b>	<b>14,373.5</b>	<b>14,602.9</b>

**Institutions of Bosnia and Herzegovina**

% of GDP	COFOG Code	2019	2020	2021	2022	2023
1. General public services	1	0.8	1.0	0.9	0.9	0.8
2. Defence	2	0.8	0.8	0.9	0.8	0.8
3. Public order and safety	3	0.7	0.8	0.8	0.7	0.7
4. Economic affairs	4	0.1	0.2	0.2	0.2	0.2
5. Environmental protection	5	0.0	0.0	0.0	0.0	0.0
6. Housing and community 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
<b>11. Total expenditure (item 7 = 23 in Table 2)</b>	<b>TE</b>	<b>2.4</b>	<b>2.9</b>	<b>2.8</b>	<b>2.7</b>	<b>2.6</b>

in mill. KM	COFOG Code	2019	2020	2021	2022	2023
1. General public services	1	268.5	336.6	328.7	326.9	313.8
2. Defence	2	281.3	287.3	317.9	312.8	313.2
3. Public order and safety	3	244.9	269.5	274.0	274.2	274.3
4. Economic affairs	4	50.3	55.8	60.0	60.0	60.0
5. Environmental protection	5	6.4	6.4	6.9	7.0	7.0
6. Housing and community amenities	6	:	:	:	:	:
7. Health	7	5.2	5.9	6.9	6.6	7.0
8. Recreation. culture and religion	8	6.2	14.0	14.0	14.0	14.0
9. Education	9	2.7	2.8	3.0	3.0	3.0
10. Social protection	10	10.2	12.0	11.0	11.0	11.0
<b>11. Total expenditure (item 7 = 23 in Table 2)</b>	<b>TE</b>	<b>875.7</b>	<b>990.3</b>	<b>1,022.4</b>	<b>1,015.5</b>	<b>1,003.3</b>

### Federation of Bosnia and Herzegovina

% of GDP	COFOG Code	2019	2020	2021	2022	2023
1. General public services	1	4.6	5.0	4.8	4.6	4.5
2. Defence	2	0.1	0.1	0.1	0.1	0.1
3. Public order and safety	3	1.5	1.6	1.5	1.5	1.4
4. Economic affairs	4	1.2	1.3	1.3	1.2	1.2
5. Environmental protection	5	0.2	0.3	0.2	0.2	0.2
6. Housing and community amenities	6	0.4	0.5	0.4	0.4	0.4
7. Health	7	3.0	3.2	3.1	3.0	2.9
8. Recreation. culture and religion	8	0.3	0.3	0.3	0.3	0.3
9. Education	9	2.4	2.6	2.5	2.4	2.4
10. Social protection	10	8.6	9.3	8.9	8.6	8.4
<b>11. Total expenditure (item 7 = 23 in Table 2)</b>	<b>TE</b>	<b>22.3</b>	<b>24.2</b>	<b>23.2</b>	<b>22.4</b>	<b>21.8</b>

in mill. KM	COFOG Code	2019	2020	2021	2022	2023
1. General public services	1	1,650.9	1,731.8	1,719.7	1,736.9	1,773.3
2. Defence	2	21.7	22.8	22.6	22.8	23.3
3. Public order and safety	3	528.1	554.0	550.1	555.6	567.3
4. Economic affairs	4	444.8	466.6	463.3	468.0	477.8
5. Environmental protection	5	83.1	87.2	86.6	87.4	89.3
6. Housing and community amenities	6	149.9	157.2	156.1	157.7	161.1
7. Health	7	1,064.0	1,116.1	1,108.3	1,119.4	1,142.9
8. Recreation. culture and religion	8	111.0	116.8	116.0	117.2	119.6
9. Education	9	867.1	909.6	903.2	912.3	931.4
10. Social protection	10	3,064.6	3,214.8	3,195.6	3,224.1	3,294.4
<b>11. Total expenditure (item 7 = 23 in Table 2)</b>	<b>TE</b>	<b>7,985.2</b>	<b>8,376.9</b>	<b>8,321.5</b>	<b>8,401.4</b>	<b>8,580.4</b>

## Republika Srpska

% of GDP	COFOG Code	2019	2020	2021	2022	2023
1. General public services	1	1.6	2.4	2.0	1.8	1.8
2. Defence	2	0.0	0.0	0.0	0.0	0.0
3. Public order and safety	3	0.9	1.0	0.9	0.9	0.8
4. Economic affairs	4	1.3	1.4	1.2	0.9	0.9
5. Environmental protection	5	0.1	0.1	0.1	0.1	0.1
6. Housing and community amenities	6	0.3	0.6	0.6	0.5	0.5
7. Health	7	2.1	2.9	2.8	2.5	2.4
8. Recreation. culture and religion	8	0.3	0.3	0.2	0.2	0.2
9. Education	9	1.4	1.5	1.4	1.3	1.3
10. Social protection	10	4.5	4.4	4.0	4.4	4.3
<b>11. Total expenditure (item 7 = 23 in Table 2)</b>	<b>TE</b>	<b>12.5</b>	<b>14.6</b>	<b>13.1</b>	<b>12.6</b>	<b>12.1</b>

in mill. KM	COFOG Code	2019	2020	2021	2022	2023
1. General public services	1	585.8	837.6	707.0	674.4	691.7
2. Defence	2	0.1	0.0	0.0	0.0	0.0
3. Public order and safety	3	328.5	337.1	323.2	326.4	324.8
4. Economic affairs	4	469.2	476.7	430.3	353.9	347.5
5. Environmental protection	5	25.8	25.6	22.6	21.3	21.2
6. Housing and community amenities	6	123.6	221.3	208.4	193.6	196.9
7. Health	7	734.8	1,002.5	989.4	930.5	934.1
8. Recreation. culture and religion	8	107.3	94.7	69.5	77.8	77.2
9. Education	9	488.8	528.4	505.5	498.5	500.1
10. Social protection	10	1,610.8	1,521.8	1,445.1	1,639.8	1,677.1
<b>11. Total expenditure (item 7 = 23 in Table 2)</b>	<b>TE</b>	<b>4,474.7</b>	<b>5,045.7</b>	<b>4,701.0</b>	<b>4,716.2</b>	<b>4,770.6</b>

## Brčko District

% of GDP	COFOG Code	2019	2020	2021	2022	2023
1. General public services	1	0.2	0.4	0.3	0.3	0.2
2. Defence	2	0.0	0.0	0.0	0.0	0.0
3. Public order and safety	3	0.1	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
<b>11. Total expenditure (item 7 = 23 in Table 2)</b>	<b>TE</b>	<b>0.6</b>	<b>0.9</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>

in mill. KM	COFOG Code	2019	2020	2021	2022	2023
1. General public services	1	77.5	130.1	91.0	95.8	94.5
2. Defence	2	:	:	:	:	:
3. Public order and safety	3	18.1	24.3	20.6	20.8	21.9
4. Economic affairs	4	:	:	:	:	:
5. Environmental protection	5	:	:	:	:	:
6. Housing and community amenities	6	2.6	2.9	2.2	2.2	2.2
7. Health	7	26.4	37.9	28.9	30.8	36.0
8. Recreation. culture and religion	8	17.7	27.1	14.7	15.1	18.2
9. Education	9	38.3	43.5	44.4	44.8	44.8
10. Social protection	10	27.6	30.4	30.9	30.9	31.0
<b>11. Total expenditure (item 7 = 23 in Table 2)</b>	<b>TE</b>	<b>208.2</b>	<b>296.2</b>	<b>232.7</b>	<b>240.4</b>	<b>248.6</b>

**Table 4: General government debt developments**

% of GDP	ESA Code	2019	2020	2021	2022	2023
1. Gross debt		31.1	35.2	37.1	36.1	34.9
2. Change in gross debt ratio		-1.5	4.2	1.8	-0.9	-1.3
<b>Contributions to change in gross debt</b>						
3. Primary balance		-2.9	3.3	1.7	0.5	-0.2
4. Interest expenditure	EDP D.41	0.7	0.7	0.8	0.9	0.8
5. Real growth effect		-0.8	0.9	-0.8	-1.1	-1.2
6. Inflation effect		-0.6	0.0	-0.4	-0.5	-0.4
7. Stock-flow adjustment		2.2	-0.8	0.5	-0.7	-0.3
<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		2.3	2.2	2.4	2.6	2.4
<b>Other relevant variables</b>						
8. Liquid financial assets						
9. Net financial debt (9 = 1 - 8)						

**Table 5: Cyclical developments**

% of GDP	ESA Code	2019	2020	2021	2022	2023
1. Real GDP growth (%. yoy)	B1g	2.4	-3.0	2.5	3.1	3.4
2. Net lending of general government	EDP. B.9	2.2	-4.0	-2.5	-1.4	-0.6
3. Interest expenditure	EDP. D.41	0.7	0.7	0.8	0.9	0.8
4. One-off and other temporary measures		0.2	-0.6	-0.6	-1.2	-1.0
5. Potential GDP growth (%. yoy)		3.0	2.6	2.7	3.0	3.1
Contributions:						
- labour		:	:	:	:	:
- capital		:	:	:	:	:
- total factor productivity		:	:	:	:	:
6. Output gap		2.3	-1.4	-1.8	-0.6	1.2
7. Cyclical budgetary component		0.8	-0.5	-0.6	-0.2	0.4
8. Cyclically-adjusted balance (2-7)		1.4	-3.5	-1.9	-1.2	-1.0
9. Cyclically-adjusted primary balance (8+3)		2.1	-2.8	-1.1	-0.3	-0.2
10. Structural balance (8-4)		1.2	-2.9	-1.3	0.0	0.0

**Table 6: Divergence from previous programme**

	2019	2020	2021	2022	2023
<b>1. GDP growth (%. yoy)</b>					
Previous programme	3.0	3.5	3.6	3.8	:
Latest update	2.4	-3.0	2.5	3.1	3.4
Difference (percentage points)	-0.6	-6.5	-1.1	-0.7	:
<b>2. General government net lending (% of GDP)</b>					
Previous programme	0.1	0.2	0.5	0.8	:
Latest update	2.2	-4.0	-2.5	-1.4	-0.6
Difference	2.1	-4.2	-3.0	-2.2	:
<b>3. General government gross debt (% of GDP)</b>					
Previous programme	31.7	32.2	31.7	29.7	:
Latest update	31.1	35.2	37.1	36.1	34.9
Difference	-0.6	3.0	5.4	6.4	:



**Table 7: Long-term sustainability of public finances**

Percentage 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)	:	:	:	:	:	:	:
<b>Assumptions</b>							
Labour productivity growth	:	:	:	:	:	:	:
Real GDP growth	:	:	:	:	:	:	:
Participation rate males (aged 20-64)	:	:	:	:	:	:	:
Participation rates females (aged 20-64)	:	:	:	:	:	:	:
Total participation rates (20-64)	:	:	:	:	:	:	:
Unemployment rate	:	:	:	:	:	:	:
Population aged 65+ over total population	:	:	:	:	:	:	:

**Table 7a: Contingent liabilities**

% of GDP	2020	2021
Public guaranties	2.3	2.3
<i>Of which: linked to the financial sector</i>	:	:

**Table 8: Basic assumptions on the external economic environment underlying the programme framework**

	Dimension	2019	2020	2021	2022	2023
1. Short-term interest rate	Annual average	-0.4	-0.4	-0.4	-0.4	-0.2
2. Long-term interest rate	Annual average	0.4	0.3	0.4	0.6	0.8
3. USD/EUR exchange rate	Annual average	1.12	1.09	1.08	1.08	1.09
4. Nominal effective exchange rate	Annual average	:	:	:	:	:
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	2.9	-3.8	4.7	3.7	:
7. EU GDP growth	Annual average	1.5	-7.4	4.1	3	:
8. Growth of relevant foreign markets	Annual average	:	:	:	:	:
9. World import volumes. excluding EU	Annual average	-0.5	-10.3	6.3	4.1	:
10. Oil prices (Brent, USD/barrel)	Annual average	64	42.8	47.5	49.2	:

Source for items 6, 7 and 9: [https://ec.europa.eu/info/sites/info/files/economy-finance/ip136\\_en\\_2.pdf](https://ec.europa.eu/info/sites/info/files/economy-finance/ip136_en_2.pdf)

Source for item 10:

[https://www.ecb.europa.eu/pub/pdf/other/ecb.projections202009\\_ecbstaff~0940bca288.en.pdf](https://www.ecb.europa.eu/pub/pdf/other/ecb.projections202009_ecbstaff~0940bca288.en.pdf)

**Table 9: Selected employment and social indicators<sup>2</sup>**

	Izvor podataka	X-2	X-1	X	X+1	X+2
1. Labour market participation rate (%) total (20-64 years old)						
- male						
- female						
2. Employment rate (%) total (20-64 years old)						
- male						
- female						
3. Unemployment rate (%) total						
- male						
- female						
4. Long-term unemployment rate (%) total						
- male						
- female						
5. Youth unemployment (15-24 years old) rate (%) total						
- male						
- female						
6. Young people (15-24 years old) not in employment, education or training (NEET) in %						
7. Early school leavers, in % (Eurostat definition)						
8. PISA rating						
9. PIAAC rating						
10. Participation rate in early childhood education and care						
11. GINI coefficient						
12. Inequality of income distribution S80/S20 (Income quintile ratio)	e					
13. Social protection expenditure in % of GDP	e					
14. Health expenditure in % of GDP	e					
15. At-risk-of-poverty before social transfers, % of population	e					
16. Poverty rate (Please indicate which data are available for your country)						
17. Poverty gap (Please indicate which data are available for your country)						
<b>Other indicators used in the EU Social Scoreboard</b>						
18. Real adjusted GDHI – per capita in PPS (Index 2008=100)						
19. Impact of social transfers (other than pensions) on poverty reduction						
20. Self-reported unmet need for medical care						
21. Individuals' level of digital skills (% of individuals with basic or above basic overall digital skills)						

<sup>2</sup> Given the disparate availability of data and variety of definitions used for indicators, countries should use EUROSTAT data when available. In case of data from national or international sources, a footnote should be added for each indicator indicating how it is defined. In case no data are available for an indicator, please see whether any data would be available for a similar indicator and explain so. **It is recommended that year X = 2017.** In case that no data are available for the year 2017, the data available for previous years (2016, 2015) shall be introduced in the respective columns. For all indicators the values shall be inserted in the table, not the year-on-year change of the values as in some other tables.