

**ECONOMIC REFORM PROGRAMME
OF BOSNIA AND HERZEGOVINA 2023-2025
(ERP BIH 2023-25)**

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1. OVERALL POLICY FRAMEWORK AND OBJECTIVES

The Economic Reform Program of Bosnia and Herzegovina 2023-2025 was created in accordance with important events both within BiH and in the international environment. The exit from the crisis caused by the pandemic and the elections held in BiH gave indications of a more peaceful period in which we will focus on sustainable economic development and addressing the remaining obligations on the way to the EU. However, Russia's aggression against Ukraine caused one crisis to spill over into another and everything was reflected in the global international environment and, consequently, in Bosnia and Herzegovina, which had already been burdened by internal turmoil. Growing inflation and the energy crisis have an additional negative impact and they are a challenge to the country's economic policymakers.

But, what is particular for Bosnia and Herzegovina, and what gives an additional boost, is the fact that Bosnia and Herzegovina is submitting its ninth Economic Reform Programme as a candidate country for the membership in the European Union. This is also an obligation for the commitment of all those responsible for the implementation of the Policy Guidelines specified in the Joint Conclusions of the Economic and Financial Dialogue from June 2022.

In the circumstances of growing uncertainty, fiscal and monetary policy have an important role. The implementation of fiscal policy measures was key to the recovery from the Covid-19 crisis and growth in the previous period, where exports and private consumption were the main drivers for growth. In the next programme period, a moderate GDP growth of up to 3% is expected, supported by the implementation of structural reforms.

The Council of Ministers of Bosnia and Herzegovina, at its 51st session held on 6 June 2022, adopted the Draft Law on the Budget of the Institutions of Bosnia and Herzegovina and International Obligations for 2022 of BAM 1.073 billion, after the implementation of two decisions on temporary financing in the specified year¹. As for the budget for 2022, the budget of Republika Srpska² and the budget of Brčko District³ were adopted on time, while the budget of the Federation of Bosnia and Herzegovina was adopted with a delay, at the beginning of 2022⁴.

The recovery, after the strong impact of Covid-19 on economic activity in 2020, led to a strong growth in revenue of the general government sector, which was higher than before the pandemic. In addition to the strong recovery of private consumption, increased import, and the recovery of service sector, one of the factors that affected the growth of revenue on this basis was also a significant increase in prices, which was particularly pronounced in the second part of 2021. The increase in the general price level led to an increase in the prices that represent the tax base for the calculation of VAT, which continued in 2022. According to currently available data, revenue growth is faster and twice as high as public expenditure growth. Governments at all levels focused on improving the living standards of the population caused by the increase in price levels, through various measures that were in place. These measures had a significant impact on expenditures. In accordance with the available data, a positive fiscal balance is to be expected. This coincides with the fiscal goal of Bosnia and Herzegovina, which is still to achieve a primary surplus, or reduce the primary deficit in 2022, while controlling public spending so that consolidated public spending at the level of Bosnia and Herzegovina does not exceed 40% of GDP.

¹ The Council of Ministers of Bosnia and Herzegovina, at the 51st session held on 06 June 2022, adopted the Draft Law on the Budget of the Institutions of Bosnia and Herzegovina and International Obligations for 2022 of BAM 11.073 billion. https://www.vijeceministara.gov.ba/saopstenja/sjednice/saopstenja_sa_sjednica/default.aspx?id=38078&langTag=bs-BA. It was adopted by the Parliamentary Assembly of Bosnia and Herzegovina, at the 30th session of the House of Representatives, held on 27 June 2022, and at the 12th emergency session of the House of Peoples, held on 30 June 2022.

² The National Assembly of Republika Srpska, at its 26th special session, held on 15 December 2021, adopted the Budget of Republika Srpska for 2022 of BAM 4.024 billion, the Law on the Execution of the Budget of Republika Srpska for 2022, and a set of laws on salary increases. <https://www.narodnaskupstinars.net/?q=la/vijesti/okon%C4%8Dana-26-posebna-sjednica-usvojen-bud%C5%BEet-i-set-zakona-opove%C4%87anju-plata>

³ The Assembly of Brčko District, at the 7th extraordinary session, held on 16 December 2021, adopted the District Budget for 2022 of BAM 239.2 million.

⁴ At the session held on 28 March 2022, the proposed budget was accepted by the House of Representatives of the Federation of Bosnia and Herzegovina. At the session held on 31 March 2022, the House of Peoples of the Parliament of the Federation of Bosnia and Herzegovina adopted the Budget Proposal of the Federation of Bosnia and Herzegovina for 2022 of BAM 5.598 billion.

Structural reforms are the main instrument that can ensure a better disposal of the factors of production. Therefore, as a candidate country for the EU membership, we are determined to continue the started activities in all domains. The focus is on structural reforms in which it is possible to recognise what has been carried out so far and what still needs to be carried out. The key areas for which all levels of government are determined, and which comply with the recommendations of the EC for BiH, refer to measures to increase the efficiency of the labour market, improve the business environment through cooperation and coordination of all levels of government, and manage public finances.

Preliminary statistical data for 2022 indicate that, despite challenges, such as increased inflationary pressures and weakening global economic growth, the trend of growth in economic activity from the previous year continued in Bosnia and Herzegovina. Therefore, according to BHAS data (national accounts statistics, expenditure approach (Q1-Q3 2022)) for the period January-September 2022, Bosnia and Herzegovina recorded a relatively strong real economic growth of about 4.4% compared to the same period of the previous year.⁵ However, what is worth noting is that in the second half of 2022, the growth trend slowed down significantly compared to the beginning of the year, which is confirmed by the registered economic growth rates per quarters, Q1 5.0%, Q2 5.8%, and Q3 2.6%. By looking at the structure of the achieved growth, it can be concluded that domestic demand, through increased consumption and gross investment, was the main support for GDP growth. On the other hand, despite the double-digit growth rates of exports and imports, which led to an increase in the volume of foreign trade by 1/3 (exceeding BAM 10 billion), the trade deficit increased and had a negative impact on the economic growth in Bosnia and Herzegovina in 2022.

In mid-2022, the Directorate for Economic Planning of BiH, in the role of technical coordinator for the preparation of the BiH ERP, prepared Information for all institutions involved in the preparation of the Economic Reform Programme. The information contained originals and translations of all documents resulting from the process of developing the BiH Economic Reform Programme (Assessment of the European Commission, Joint Conclusions, Guidelines for developing the Economic Reform Programme). The information was adopted with a significant delay at the 57th session of the Council of Ministers of Bosnia and Herzegovina (9 November 2023).

Through the coordinator, all relevant institutions involved in the preparation of the Economic Reform Programme were informed about the content of these documents with the aim of using the suggestions and recommendations from these documents in the preparation of the new Economic Reform Programme 2023–2025. Furthermore, in the period of preparing the Economic Reform Programme 2023-2025, the Directorate also consulted with them in the form of online meetings or live meetings, when possible.

In the previous period, within the framework of the FISR2 (CEF) project and within the coordination role, several meetings and trainings were held with ERP coordinators. At the meetings, the importance of following the new EC Guidelines was emphasised several times in terms of the wording, description, costing, proposal of new measures, compliance with deadlines, and the transmitted positions of the EC from the ERP Launch Event 2022 held in June this year.

In accordance with the recommendations of the EC, the Directorate for Economic Planning of BiH made efforts to strengthen the coordination role in terms of expanding the scope of coordination in the preparation of Economic Reform Programme. Unfortunately, we have to emphasise that this year's BiH ERP was carried out in the limiting circumstances of the work of the Council of Ministers of Bosnia and Herzegovina, and such situation resulted in the delayed adoption of the ERP Activity Plan, which is the basis for the coordination and preparation of the BiH ERP. Despite everything, the Directorate continued to perform the role of technical coordinator for the development of BiH ERP.

The final Economic Reform Programme 2023-2025 was developed on the basis of submissions from the competent institutions according to the proposed Activity Plan by deadlines and principal bodies.

The Entity coordinators made submissions to the Directorate for Economic Planning for the ERP Economic Reform Programs 2023-2025 after the procedure of adoption by the Entity governments. The

⁵ Agency for Statistics of Bosnia and Herzegovina, Announcement 'Gross domestic product, expenditure approach quarterly data for Q3 2022', 30 December 2022.

Reform Program of BiH 2023- 2025 was adopted by the Council of Ministers of BiH at the 4 th session held on 20. March 2023.

List of abbreviations

BiH-Bosnia and Herzegovina

FBIH-Federation of Bosnia and Herzegovina

BD BiH- Brčko District of Bosnia and Herzegovina

RS-Republika Srpska

ERP BiH - Economic Reform Program of Bosnia and Herzegovina

FISR 2-Fiscal Implementation of Structural Reforms

CEF- Centre for Excellence in Finance

EC -European Commission

GDP-GDP

LPP- Unique list of priority projects

IPA- Instrument for Pre-Accession Assistance

GFS-Government Finance Statistics

EDP- Excessive Deficit Procedures

IAS-International Accounting Standards

IFRS - International Financial Reporting Standards

NPL - Non-performing loan

IFC - International Finance Corporation

DOB BiH- Document of the Indicative Budget of Bosnia and Herzegovina

BHAS - Bosnia and Herzegovina Agency for Statistics

DEP-Directorate for Economic Planning

UNCTAD - United Nations Conference on Trade and Development

FDI-Foreign direct investments

CPI - Consumer Price Index

MLVDP RS - Ministry of Labour and Veterans and Disability Protection of the Republika Srpska

MSTDHEIS RS-Ministry for Scientific and Technological Development, Higher Education and Information Society of the Republika Srpska

ES RS- Employment Service of Republika Srpska

MEE RS - Ministry of Economy and Entrepreneurship of the Republika Srpska

AIIFS RS - Agency for Intermediary, IT and Financial Services of The Republika Srpska

MF RS-Ministry of Finance of the Republika Srpska

MALSG RS - Ministry of Administration and Local Self-Government of the Republika Srpska

MPPCE RS- Ministry of Physical Planning, Construction and Ecology of the Republika Srpska

RAGPA RS- Republic Administration for Geodetic and Property Affairs of the Republika Srpska

MEIIC RS - Ministry of European Integration and International Cooperation

RISM - Republic Institute for Standardization and Metrology

CBQI RS - Coordination Body for Quality Infrastructure of the Republika Srpska

MAWMF RS - Ministry of Agriculture, Water Management and Forestry of the Republika Srpska

MEC RS-Ministry of Education and Culture of the Republika Srpska

EPEEF RS – Environmental Protection and Energy Efficiency Fund of the Republika Srpska

MHSW RS - Ministry of Health and Social Welfare of the Republika Srpska

TA RS- Tax Administration of Republika Srpska

FMC -Financial Management and Control

RRS - Railways of Republika Srpska

ULG - LOCAL SELF-GOVERNMENT UNITS

MCA BiH - Ministry of Civil Affairs of Bosnia and Herzegovina

MOFTER BIH - Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina

MCT BiH - Ministry of Communications and Transport of Bosnia and Herzegovina.

GS BIH - General Secretariat of the Council of Ministers of Bosnia and Herzegovina

CRA BIH -Communications Regulatory Agency of Bosnia and Herzegovina

DEI BiH - Directorate for European Integration of Bosnia and Herzegovina

CHU BiH - Central Harmonization Unit of Bosnia and Herzegovina

SMEs- Small and medium-sized enterprises

FMF-Federal Ministry of Finance

FMDEC-Federal Ministry of Development, Entrepreneurship and Crafts

FMEME- Federal Ministry of Energy, Mining and Environment

FMET- Federal Ministry of Environment and Tourism

FMAWMF - Federal Ministry of Agriculture, Water Management and Forestry

FMLSP - Federal Ministry of Labour and Social Policy

PWD-Persons with disabilities

TA FBIH- Tax Administration of the Federation of Bosnia and Herzegovina

OECD- Organisation for Economic Co-operation and Development

PIFC-Public Internal Financial Control

ESA- European System of Accounts

IECP BIH - Integrated Energy and Climate Plan of Bosnia and Herzegovina

S3 BiH- Smart Specialization Strategies of Bosnia and Herzegovina

CEFTA - Central European Free Trade Agreement

WTO- World Trade Organization

IPARD- Instrument for Pre-Accession Assistance for Rural Development

RAH- Register of Agricultural Holdings

FADN- Register of domestic animals, and establish a system for collecting and analyzing agricultural accounting data

AMIS - Agricultural Market Information System

2. IMPLEMENTATION OF THE POLICY GUIDANCE

1. If needed, use the free fiscal space in the budget for 2022 to mitigate potential adverse shocks through targeted support to vulnerable households and companies.

Economic market disruptions in the world and here in Bosnia and Herzegovina as well, arising from the COVID-19 pandemic and from the Russian-Ukrainian conflict, have resulted in a higher price of energy products (gas, fuel, electricity...), which have caused and led to an input price increase in food production (cereals and other stock market products), because of which the demand for these products increased in the world. All of this contributed to increase in the price of the most important raw materials in agricultural production (seeds, mineral fertilizers, protective agents, concentrates in animal production, etc.).

Understanding the situation in the agriculture sector, the budget of the Federation of Bosnia and Herzegovina for 2022 included funds granted to the FBiH Ministry of Agriculture, Water Management and Forestry for agriculture incentives, increased by BAM 19 million compared to the budget of the previous year, and BAM 106,000,000.00 has been allocated. Therefore, taking into account the situation with producers in the agricultural sector of the Federation of BiH, in these circumstances of disturbances in the prices of products and inputs in production on the market, in the Financial Support Programme for 2022, we have increased the amounts of financial support per unit for all productions in the production incentive model, about 15% on average compared to the previous year, which is roughly also the inflation level of 2022. We have also introduced new measures in crop production to increase the sowing of land and production of our own feed for farm animals.

Therefore, the allocation of funds within the production incentive model for crop production increased from BAM 11.2 million in 2021 to BAM 17.4 million in 2022, and financial support for animal production increased from BAM 59.1 million to BAM 70.7 million in 2022.

Furthermore, in the Financial Support Programme for 2022, measures to increase competitiveness through the rural development model for investments in agricultural holdings in the Federation of BiH were retained and increased to BAM 16.7 million in 2022.

The Government of the Federation of Bosnia and Herzegovina adopted the Regulation on assistance to the population due to the rise in consumer price index (Official Gazette of Federation of BiH, 55/22, 77/22, and 86/22), which regulates assistance to the population through cash payments to pensioners, one-off financial assistance to beneficiaries of veterans' and disability protection rights and persons with disabilities and civilian victims of war, assistance to recipients of permanent financial assistance, one-off financial compensation to unemployed persons, other substantive assistance, and other one-off assistance. The objective of the Regulation is to ensure financial and substantive support in order to improve the substantive status of the most vulnerable categories of the population, due to the significant rise of the consumer price index. For the implementation of this Regulation, financial resources are provided by redistribution of funds between budget beneficiaries and from the current reserve of the Government of the Federation of Bosnia and Herzegovina to the relevant divisions and economic codes.

The response of the Government of Republika Srpska to the crisis caused by the Covid-19 pandemic included assistance to all the affected sectors in order to mitigate the negative economic consequences. In 2020 and 2021, the Government of Republika Srpska undertook a series of measures with the aim of assisting the health sector and economic operators and entrepreneurs – operators in economic activity, to overcome the consequences caused by the global Covid-19 pandemic as successfully as possible by preserving jobs, paying salaries, and maintaining liquidity of those whose economic activity was reduced. All the measures of the Government of Republika Srpska contributed to the fact that, after the Republic of Serbia, Republika Srpska has the lowest GDP decline rate in 2020. The labour market maintained stability and there was an increase in the number of the employed and a decrease in the number of the unemployed, as well as an increase in average salaries and pensions during the pandemic. The decisive approach of the Government of Republika Srpska in implementing the response to the crisis caused by the pandemic led to a faster recovery of the economy in 2021.

Regarding the crisis caused by the crisis in Ukraine, in 2022 the Government of Republika Srpska implemented a series of measures with the aim of mitigating inflationary shocks and improving the

economic and social position of all categories of the population, for which BAM 212.7 million was additionally disbursed during the year.

Provided that the economic recovery is well established, return to the fiscal policy of debt stabilisation from 2023 and foresee a gradual improvement of the primary balance in the medium-term fiscal plans.

In the circumstances of uncertainty regarding macroeconomic trends, the fiscal policy at all levels of government in BiH will be conducted to ensure the stability of the economy and preservation of standard of the population. Fiscal policy at all levels of government will be focused on the further implementation of structural reforms that will lead to the relief of the economy and improvement of the business environment, taking into account the fiscal position. On the other hand, the fiscal policy at all levels of government in BiH will be focused on the continuation of infrastructure and capital projects. The borrowing policy will be conducted in accordance with defined fiscal rules in the Entities. In accordance with the available fiscal space, pension and salary policies will be conducted and legal measures will be taken to help the most vulnerable categories of the population, i.e., the most vulnerable households.

According to the trends in revenue and expenditure, a balance of public finances is expected in 2024 and 2025, and a surplus of 0.7% GDP in 2024 and 1.6% GDP in 2025. The main adjustment was made to capital expenditures and expenses and other current expenditures.

According to estimates at all levels of government in BiH, the total debt at the end of 2022 will be increased compared to 2021. The projected balance of external debt in the original currency in 2022 is based on the amount of withdrawn loan funds increased by the estimated withdrawals for investment projects in implementation and withdrawals to finance budget spending, and reduced by the estimated amount of principal service of the external debt, which significantly increases in 2023 (Macrofinancial Assistance II loan of the European Commission in the amount of EUR 50 million, RS Eurobond in the amount of EUR 168 million, and part of the principal repayment for the IMF RFI loan (Rapid Finance Instrument) to combat the negative consequences of reduced economic activity caused by the Covid-19 pandemic in the amount of SDR 87.44 million, all falling due).

In 2020, the state of emergency and decrease in economic activity led to a decrease in revenue recovered, and the measures taken by the Government of Republika Srpska in response to the pandemic resulted in an increase in expenditures, which ultimately resulted in a high share of the consolidated budget deficit in GDP of 5.6%, and the threshold of the consolidated budget deficit of 3%, provided for by the Law on Fiscal Responsibility⁶, was exceeded. Therefore, there was an infringement of the consolidated budget deficit rule, while the debt rule was not infringed.

There was a significant improvement in the fiscal balance already in 2021. However, the crisis in 2022 affected a significant increase in expenditures, due to the measures introduced by the Government of Republika Srpska as a response to the new crisis, but on the other hand, inflation contributed to a significant increase in revenue. Therefore, it is planned that the deficit of the general government will remain within the legal framework, which will be maintained in the next three-year period.

Increase the share of government capital spending in GDP through measures to improve the management of public investments and through accelerated implementation of the investment projects that were the subject of a clear positive assessment of costs and benefits.

The of improving management and reporting in the domain of public investments is to expand the scope of public investment projects, strengthen identification of priorities in accordance with sectoral strategies, and connect public investments with budgeting.

⁶ Official Gazette of Republika Srpska, 94/15 and 62/18.

One of the basic prerequisites for the improvement of procedures for evaluation, identification of priorities, and selection of public investment projects is the compliance with and improvement of the applicable legislation and subordinate legislation governing the domain of public investments.

With the aim of improving the management of public investments in Republika Srpska, the Public Investment Programme of Republika Srpska, in addition to the priority projects of ministries/institutions, has also included priority projects of local self-government units since 2022, in order to create a comprehensive Single List of priority projects as an integral part of the Proposed Public Investment Programme of Republika Srpska, and a guide for the selection, preparation, and implementation of PPP projects was adopted. With further improvement of the Public Investment Programme, the content of this document will increasingly reflect the investment priorities that should serve to achieve sectoral policies and strategic goals defined within the competence of the institutions of Republika Srpska. All users should base the selection of capital investments on long-term planning based on a detailed analysis of resources and needs, and all project implementers should monitor the effects of public fund spending and contribution to the achievement of government goals.

In order to improve the efficiency of tax collection, ensure efficient exchange of information on taxpayers between tax administrations in the country, and particularly clarify the constitutional competences for establishing a central (i.e. nationwide) register of bank accounts of physical persons, in accordance with the EU acquis

In the ERP 2023-2025, the structural measure of Restructuring the FBIH Tax Administration is planned, among other things, in order to improve the collection of taxes and all other public revenues in FBIH. Namely, the FBIH Tax Administration is a signatory to the Memorandum on the information exchange between the tax administrations in BiH, and the information is being exchanged. However, the use of this information for the purpose of collection of public revenues in FBIH has not been achieved in full capacity.

With the aim of information exchange, the Memorandum on Institutional Cooperation and Information Exchange was concluded between the Indirect Taxation Authority (ITA), Tax Administration of Republika Srpska, Tax Administration of the Federation of BiH, Tax Administration of the Brčko District of BiH, Agency for Intermediary, IT and Financial Services of Republika Srpska (APIF), and Financial Information Agency of the Federation of BiH (FIA/AFIP)⁷.

The information exchanged helps to identify non-compliance with tax regulations by taxpayers for which individual administrations are responsible.

In accordance with the Entity competencies, in both Entities, bank account registers of business entities and physical persons have been established by law, in accordance with the EU acquis. The account register of business entities, maintained by the Agency for Intermediary, IT and Financial Services in Banja Luka (APIF), was already modernised in 2012 in order to improve payment transactions and strengthen financial discipline by strengthening the procedure for forced collection of claims on funds and protection of creditors.

With the aim of information exchange, the Memorandum on Institutional Cooperation and Information Exchange was concluded between the Indirect Taxation Authority (ITA), Tax Administration of Republika Srpska, Tax Administration of the Federation of BiH, Tax Administration of the Brčko District

⁷ The Memorandum includes the following information: 1) Registration and deregistration, including information on the allocation and deletion of identification numbers in the system of indirect and direct taxes, addresses, information on owners and the responsible person, with elements from the register of taxpayers, for taxpayers and businesses units; 2) Foreign trade operations (import and export of goods and services); 3) Amount of indirect and direct taxes with other information recorded in tax returns; amount of indirect taxes based on tax assessments for taxpayers who did not submit a tax return and changes to tax assessments submitted by the taxpayer (amended return); 4) Exchange of information on final consumption of taxpayers from VAT returns and information from fiscal cash registers; 5) Exchange of indirect and direct tax refunds, including income tax refunds; 6) Generated turnover of goods and services of taxpayers, including income and expenses; 7) Tax controls, including the amount of assessment and period for which the assessment was made; 8) Information on compulsory tax collection; 9) Exchange of risk profile taxpayers, and 10) Information on registered and deregistered taxpayers for social insurance, including information from tax records and income tax.

of BiH, Agency for Intermediary, IT and Financial Services of Republika Srpska (APIF), and Financial Information Agency of the Federation of BiH (FIA/AFIP)⁸.

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In Republika Srpska, the register of accounts of physical persons was established in 2019 under the Law on Amendments to the Law on Internal Payment Transactions⁹. This Law incorporated the EU acquis with reference to the establishment of such register and ensuring the protection of personal data – Directive (EU) 2018/843, Directive (EU) 2015/849, Directive (EU) 2015/2366, and Regulation (EU) 2016/679. Sources of the European Union law define the obligation of member countries to establish registers of bank accounts, which include the minimum information necessary to identify accounts and the owners of such accounts, whereby the member countries are left to select the method for the establishment of such registers and their institutional solution.

In 2022, the Law on Internal Payment Transactions¹⁰ was strengthened in the segment of supplementing the information that should be included in the Register of accounts of physical persons.

The registers were established not only for efficient tax collection, but also for the prevention of money laundering and financing of terrorist activities, and execution of all forced collections from legitimate creditors.

Also, in the Federation of BiH, the establishment of a register of accounts of physical persons is in progress (the legal framework is provided). In accordance with the agreement between the competent authorities and defined security protocols, the two registers will have the capacity to exchange information, pursuant to the law.

2. Prepare a report on potential liabilities, with special emphasis on those that refer to the response to Covid crisis, and prepare a strategy to prevent the emergence of new unforeseen liabilities and manage risks related to existing potential liabilities

The guarantee programme was established under the decision of the Government of Republika Srpska in July 2020¹¹ and revised at the beginning of December 2020¹² as a Covid-19 measure to support the economy. The guarantee programme is managed by the Guarantee Fund of Republika Srpska in the name and on behalf of Republika Srpska. The goal of organising the Guarantee Programme is to facilitate access to loan funds from banks and microcredit organisations. The programme is intended for micro, small, and medium-sized enterprises, entrepreneurs, including agricultural holdings, and it is

⁸ The Memorandum includes the following information: 1) Registration and deregistration, including information on the allocation and deletion of identification numbers in the system of indirect and direct taxes, addresses, information on owners and the responsible person, with elements from the register of taxpayers, for taxpayers and businesses units; 2) Foreign trade operations (import and export of goods and services); 3) Amount of indirect and direct taxes with other information recorded in tax returns; amount of indirect taxes based on tax assessments for taxpayers who did not submit a tax return and changes to tax assessments submitted by the taxpayer (amended return); 4) Exchange of information on final consumption of taxpayers from VAT returns and information from fiscal cash registers; 5) Exchange of indirect and direct tax refunds, including income tax refunds; 6) Generated turnover of goods and services of taxpayers, including income and expenses; 7) Tax controls, including the amount of assessment and period for which the assessment was made; 8) Information on compulsory tax collection; 9) Exchange of risk profile taxpayers, and 10) Information on registered and deregistered taxpayers for social insurance, including information from tax records and income tax.

⁹ Official Gazette of Republika Srpska, 58/19.

¹⁰ Official Gazette of Republika Srpska, 38/22.

¹¹ Decision on the Guarantee Programme to support the economy to mitigate the consequences of the COVID-19 pandemic caused by the SARS-CoV-2 virus (Official Gazette of Republika Srpska, 64/20).

¹² Official Gazette of Republika Srpska, 122/20.

implemented through a portfolio guarantee for partial securing of claims on a loan approved by a financial intermediary.

The total amount of guarantee within the programme is BAM 50 million, and the lending potential of financial intermediaries is BAM 238 million. The Guarantee Fund of Republika Srpska, in accordance with the announced public invitation, entered into guarantee contracts¹³ with 11 financial organisations (9 banks and 2 microcredit companies) that committed to invest a total of BAM 187,030,000 in loan funds.

The analysis of the report on investments within the Guarantee Programme showed that in 24 months 392 loans were realised in the total amount of BAM 54,980,629, or 29.4% of the contracted amount through 9 financial organisations (8 banks and 1 microcredit company). The investments were accompanied by guarantees in the amount of BAM 38,486,440.30.

As at 31 August 2022, the portfolio includes 368 active loans/guarantees, and 22 loans in the amount of BAM 2,797,000 KM have been repaid in full. In addition to loans fully repaid, the actual balance of active loans is BAM 51,913,629, and the guarantees amount to BAM 36,339,540.30.

Strengthen analytical capacities of government institutions, at all levels of government, particularly the BiH Ministry of Finance and Treasury, with the aim to improve the preparation and quality of ERP in accordance with the EU requirements

As part of the process of preparing and developing economic reform programmes in accordance with the EU requirements, technical assistance was provided in the form of workshops organised by the Centre of Excellence in Finance (CEF) from Slovenia, held as part of the project: Strengthening the capacity of the relevant ministries to assess the fiscal implications of structural reforms, financed from the funds of the Multi-Beneficiary Instrument of the Pre-Accession Assistance (IPA). In this regard, representatives of Bosnia and Herzegovina at all levels of government are actively involved in the implementation of project activities. The project is regional in nature and aims to provide support to the ministries of finance and relevant ministries, and to other institutions in candidate countries and potential candidates for EU membership, in the process of developing economic reform programmes in the segment of fiscal information consolidation and the development of structural part of the programmes.

In addition, the improvement of ERP quality and implementation of structural reforms is the objective of the project (IPA2018), which starts in February 2023. The project beneficiaries are institutions at all levels of government involved in the development of the BiH ERP.

Invest more in building the country's statistical capacity for macroeconomic statistics, regional accounts, labour force survey, and government finance statistics, and continue efforts to improve the coverage and timeliness of all statistical data

Statistics of government finances - Central Bank of Bosnia and Herzegovina has established a permanent compilation of tables for GFS and EDP statistics and regular transmission to Eurostat, and Eurostat has started publishing this information. Consolidation of information for table 2 for the three previous years and for EDP complete Annex 1 (1,2,3,4) and partial Annex 3 was made. The work continues within the IPA 2019 MBP regarding quarterly statistics.

In its work, the Institute for Statistics of Republika Srpska, in accordance with strategic, programme, and planning documents, continuously strengthens statistical capacities and strives to ensure and increase the coverage of statistical information. In compliance with the principles of the European Statistics Code of Practice, including the principle of timeliness of publication of statistical information, the Institute ensures a high level of quality of statistical products and services.

Statistical capacities are improved by harmonising current methodologies and practices with the EU acquis and standards, primarily within the framework of expert support during the implementation of

¹³ In the period from March 2021 to February 2022, one financial organisation signed three annexes to the contract, which increased the contracted portfolio.

international cooperation projects in which the Institute participates together with other statistics institutions in BiH. This is a continuous process, and it will continue in the future.

3. Carefully assess and analyze price trends, with the support of statistics agencies, through the improvement of price statistics, including timely updating of consumer price index weights and announcement of base inflation

The Republika Srpska Institute of Statistics regularly monitors trends of consumer prices with continuous analysis and updating of weights in accordance with the methodology of consumer prices. New consumption values obtained from the Household Consumption Survey, which are the source for obtaining new weightings, are not available yet, and as soon as they become operational (published), the new weightings will be applied in the price statistics.

Ensure transparent and accurate reporting on the quality of assets, adequate provisioning

The legal framework for the financial sector is being updated continuously in accordance with market requirements, international standards, and sources of the European Union law.

The obligation of banks is to develop financial reports and valuation of assets in accordance with the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS). Therefore, the banks started applying IFRS 9 on 1 January 2018. The Republika Srpska Banking Agency defined a transition period and retained the existing regulatory requirement for the calculation of expected credit.

A new decision on the credit risk management and identification of expected credit losses¹⁴, which came into effect on 1 January 2020, and the Instruction for the classification and valuation of financial assets¹⁵ caused significant changes in the classification of assets.

The decision on the form and content of reports submitted by banks to the Republika Srpska Banking Agency¹⁶ stipulates the obligation to submit new reports on assets, liabilities, capital, income and expenses, and other total result.

It should also be emphasised that on 1 October 2021, the European Commission adopted the Commission Implementing Decision number (EU) 2021/1753 on the equivalence of the supervisory and regulatory requirements of some third countries and territories for the purposes of the treatment of exposures in accordance with Regulation (EU) no 575/2013 of the European Parliament and the Council, under which Bosnia and Herzegovina is included in the ranks of third countries that apply in their banking sector a supervisory and regulatory framework identical to that applied in the European Union. The final decision of the European Commission represents the achievement of a strategic goal that is of great importance for Republika Srpska, banking system, the economy, and citizens.

Improve the framework for dealing with non-performing loans, e.g. by further reducing institutional and legal obstacles and reducing the lack of data, particularly in the real estate sector.

This matter refers to the Entity Banking Agencies. Therefore, an analysis of obstacles was made and suggestions for settling problem loans were considered.

In Republika Srpska, non-performing loans (NPLs) have been declining in recent years, owing to multi-year activities¹⁷:

¹⁴ Official Gazette of Republika Srpska, 4/19, 109/19, 73/21.

¹⁵ Available on the website of the Republika Srpska (<https://abrs.ba/sr/category/c220>).

¹⁶ Official Gazette of Republika Srpska 121/21.

¹⁷ Diagnostic review of banks, with the aim of identifying the real state of banks and the burden of their balances with accumulated problematic loans; reform of the regulatory framework for the banking sector (implemented in the period 2017–2020), with the aim of strengthening the capacity of banks to deal with NPLs, which, among other things, improved capital

Table 1: Share of non-performing loans in total loans

Description	2016	2017	2018	2019	2020	2021	30 June 2022
Non-performing loans of legal entities	13.8%	13.4%	11.4%	7.2%	5.5%	4%	3.6%
Non-performing loans of physical persons	9.7%	9.740%	7.4%	6.5%	5%	4%	3.4%
Total non-performing loans	11.9%	11.1%	9.5%	6.9%	5.2%	4%	3.5%
Total non-performing loans (in million BAM)	546.1	539.3	477.6	376.9	287.5	226.8	201.6

Source: Republika Srpska Banking Agency¹⁸

The Republika Srpska Ministry of Finance, as the processor of laws governing the banking sector, will analyse the Republika Srpska Law on Banks¹⁹ in 2023 in order to identify provisions that represent an obstacle to the circulation of NPLs and to improve the provisions governing the purchase and sale of bank placements.

-Preserve the integrity of currency board arrangement and independence of the central bank and appoint members of the Board of Directors without further delay.

The integrity of currency board and independence of the central bank were not violated, the institution functioned properly and implemented the law, and the currency board is stable and enjoys the public trust. Members of the Governing Council have not been appointed.

4. With the aim of improving the business environment and strengthening the single economic space, simplify the procedures for registration of companies and issuance of licenses and permits, and harmonise them throughout the country.

In the Federation of BiH, the implementation of the Integrated System for Electronic Registration of Business Entities in FBIH, implemented by the IFC and financed by the Government of Switzerland, is underway. IFC prepared a draft of the Regulation on keeping the register of business entities in FBIH, and the procedure to submit it to the Government of FBIH for adoption in the upcoming period is in progress. This regulation prescribes keeping the Register of Business Entities, securing, using, and storing the content of register data, keeping the collection of documents in electronic form, converting documents stored in the collection of documents in hardcopy into electronic form, and other matters of importance for keeping the register.

The legal framework was created for the adoption of the Law on Amendments to the Law on Companies in order to harmonise it with the Law on Amendments to the Law on the Registration of Business Entities of the Federation of Bosnia and Herzegovina, by which the procedure for registration of business entities in the Federation of Bosnia and Herzegovina is significantly simplified and accelerated.

Business registration procedures (both legal entities and entrepreneurs) in Republika Srpska have been significantly simplified. Since 2013, the one-stop registration system has been in operation, and the number of days, procedures, and costs have been significantly simplified. In the technical and legislative segment, the project of e-registration of business entities has been completed. Putting the system into

requirements, treatment of restructured claims, management of risks and bad assets, transactions with the loan portfolio, increased transparency of bank operations and collateral management, modernised supervision and assessments, and organised restructuring of systemically important banks and introduced instruments for separating bad from good assets; prescribing the mandatory application of IFRS 9, with the aim of timely recognition of credit losses and write-offs; consistent implementation of the improved regulatory framework by the Republika Srpska Banking Agency; passing: in 2016, the new Republika Srpska Law on Bankruptcy¹⁷, in 2019 the new Law on Liquidation Procedure.

¹⁸ Reports of the Republika Srpska Banking Agency for the period 1.1.2016 – 31.12.2016, 1.1.2017 – 31.12.2017, 1.1.2018 – 31.12.2018, 1.1.2019 – 31.12.2019, 1.1.2020 – 31.12.2020, 1.1.2021 – 31.12.2021, 1.1. – 30.6.2022 available at the RS Banking Agency (<https://www.abrs.ba/sr/izvjestaji/c3>).

¹⁹ Official Gazette of Republika Srpska, 4/17, 19/18, and 54/19.

operation requires additional preparations regarding the training and technical assumptions that do not refer to the project itself.

As for the harmonisation of procedures for the registration of business entities in BiH, they are already defined by the Framework Law on the Registration of Business Entities. The Government of Republika Srpska offered the Federation of BiH all its experiences in the previous stages of the reform in terms of establishing a one-stop registration system. It should be emphasised that significant progress has been made in Republika Srpska in simplifying procedures for legal entities and entrepreneurs in such a way that the system is much simpler, cheaper, and uniform for the entire Republika Srpska.

When it comes to other permits, certificates, and licenses, in 2021 the Government of Republika Srpska launched an extensive project to optimise administrative procedures at the Republika Srpska level, which includes an analysis of the procedures and formalities identified in the unified register of formalities (i.e. permits, approvals, licenses issued by the Republika Srpska administrative bodies and publicly available at www.pscsrpska.vladars.net) from the position of their justification, the requirement of necessary documents, time, and costs in obtaining them.

With the aim of encouraging the digitisation of public services and complementing the development of infrastructure for e-Government, adopt a law on electronic identity and trust services for electronic transactions with a single supervisory authority in line with the EU acquis and ensure that the Indirect Taxation Authority, whose ability to fulfil its vital nationwide role in the country must be preserved, start issuing electronic signatures.

The development strategy of the Federation of BiH lists the digitisation of public services, i.e. the digital transformation of society, as priority activities for the upcoming period. Under the conclusion of the Government of the Federation of BiH from 2022, the Financial Information Agency (FIA) becomes the central body for the development of electronic services and the digitisation process in the Federation of BiH. The FBiH Ministry of Transport and Communications is fully involved in the digitisation process and offers all its available capacities as assistance to all interested institutions, and above all to the FIA, as stated in the conclusion of the Government of the Federation of BiH. In order to develop the IT sector, the FBiH Ministry of Transport and Communications drafted the Law on the Information System of the Federation of BiH, which is harmonised with the NIS Directive of the EU and is currently in the adoption procedure by the Parliament. This Law will directly affect the quality of providing electronic services when it comes to computer security/cyber security.

Regarding the Law on electronic identity and trust services for electronic transactions with a single supervisory authority in accordance with the EU acquis, we can inform you that the drafting and adoption of this Law is in the work programme of the BiH Ministry of Communications and Transport, the Ministry has given full support to its adoption, and we are in continuous communication with the state ministry on this matter.

In order to improve the business environment and strengthen the single economic space, simplify the company registration procedure and the issuance of licenses and permits, the implementation of the Electronic Company Registration Project is underway.

We believe that a prerequisite for the digital transformation of society in the Federation of BiH is the urgent establishment and development of the Agency for Information Society of the Federation of BiH, and in accordance with the conclusion of the Government, it should be the FIA, which should be prepared for these activities as soon as possible. According to the information we have in the Federation of BiH, various institutions at different administrative levels are developing electronic services on their own initiative, which, according to our experience, are poorly visible or not used at all, which could change with the development of the Agency that would make these services visible to users, and there would not be the need to develop the same services separately by institutions, and duplicate the work, costs would be reduced, efficiency and interoperability of the system would increase, and users would know who to turn to for assistance or simply share information.

In the FBiH Budget for 2023, funds are planned for the FBiH Tax Administration to establish an interoperability system by introducing electronic signature, in order to digitalise public services in PU.

Republika Srpska drafted the text of the BiH Law on e-Signature and initiated activities with the relevant institutions in the country with the aim of harmonising it with the constitutional arrangements of BiH and the provisions of the EU eIDAS Directive two years ago. The Ministry of Scientific and Technological Development, Higher Education and Information Society (MSTDHEIS) reported this proposal to the Delegation of the EU in BiH and to the European Commission through the Subcommittee for Information Society.

In the upcoming period, the Ministry of Scientific and Technological Development, Higher Education and Information Society will seek support from the EU, following the example of the support provided to the Indirect Taxation Administration, established Certification Body of this Ministry, with the aim of launching the service of mass issuing of qualified electronic certificates for e-signatures and e-stamps.

5. Adopt a comprehensive, nationwide Public Finance Management Strategy in BiH with a performance-based monitoring and reporting system

All levels of government in BiH adopted the Joint Socioeconomic Reforms for the period 2019-2022, wherefore comprehensive and individual public finance management strategies, in addition to serving as the main guideline for strengthening the legal and institutional framework and system for public finance management, reflect a firm commitment to their implementation.

In 2022, FBiH and RS adopted the Report on the implementation of their individual public finance management strategy for 2021. The institutions of BiH and BD have not yet adopted their reports.

On 30 March 2021, the Government of the Federation of BiH adopted the Strategy for the reform of public finance management in the Federation of BiH 2021-2025, and on 27 October 2022 adopted the Report on the implementation of strategy for the reform of public finance management in the Federation of Bosnia and Herzegovina for 2021, which includes an updated action plan for the upcoming period.

On 30 June 2022, the Government of the Federation of BiH approved the proposal for the Comprehensive Strategy for the management of public finances in BiH 2021-2025, an integral part of which is the strategy of the Federation of BiH referred to above, which foresees annual reporting on the implementation of activities to achieve the planned measures.

The Government of the Federation of BiH, under the Conclusion of the Government of the Federation of BiH V. number: 982/2022 of 30 June 2022 approved the Proposal for a comprehensive strategy for the management of public finances in Bosnia and Herzegovina 2021-2025, in accordance with the Action Plan of the Strategic Framework of FBiH Public Administration Reform for 2020.

When it comes to the adoption of the Comprehensive Public Finance Management Strategy in BiH 2021-2025, the Government of Republika Srpska approved the Proposal for the Comprehensive Public Finance Management Strategy in BiH 2021-2025, and to the framework for monitoring and reporting on the Comprehensive Public Finance Management Strategy in BiH 2021-2025²⁰ (hereinafter: the CPFMS in BiH).

The CPFMS in BiH is a content and time overview of the strategies of four levels of government²¹ in a harmonised structure, and the individual strategies of all levels of government form an integral part of the Comprehensive Strategy (annexes). Out of 278 activities, 11 activities (4%) were identified as horizontally dependent activities, or activities whose implementation requires cooperation of at least two levels of government.

The management and implementation coordination are, in accordance with the constitutional competences and institutional responsibilities in the domain of public finances, conditioned by individual public finance management strategies, which are an integral part of the CPFMS in BiH.

²⁰ Conclusion of the Government of Republika Srpska number: 04/1-012-2-2350/22 of 30 June 2022

²¹ Republika Srpska Public Finance Management Strategy 2021-2025; Brčko District of Bosnia and Herzegovina Public Finance Management Reform Strategy 2021-2025; Public Finance Management Improvement Strategy of the institutions of Bosnia and Herzegovina 2021-2025, and Federation Bosnia and Herzegovina Public Finance Management Reform Strategy 2021-2025.

Create/update in both Entities publicly available registers of public enterprises with a complete and searchable list of all public enterprises, including comprehensive financial statements, audits, and information on the organisation of enterprises. Establish central units for the supervision of public enterprises in both Entities and allocate sufficient human resources

In FBIH, progress has been made by ensuring the availability of public enterprise performance indicators on the FIA FBIH website. The supervision function in FBIH is located in the General Secretariat of the Government of FBIH. In the coming period, it is planned to fill the vacancies.

Identification of fiscal risks and financial supervision over the operations of public companies are measures established under the Public Finance Management Strategy of Republika Srpska for the period 2021-2025²².

In October 2021, the Government of Republika Srpska established a system for coordination of the supervision of public enterprises in Republika Srpska²³ in order to strengthen supervision and contribute to the economic development of Republika Srpska. The coordination system implies the establishment of an organisational unit for coordination of the supervision of public enterprises in the General Secretariat of the Government of Republika Srpska (Central Unit for Financial Supervision of Public Enterprises), and introduction of the function of analysing fiscal risks of public enterprises at the Republika Srpska Ministry of Finance.

Fiscal risks, which are concentrated in public enterprises in Republika Srpska, are currently the greatest fiscal challenge for the upcoming period. In this regard, ERP RS 2023-2025 defines a new reform: 'Reform of public enterprises in Republika Srpska', which includes the reform of the Republika Srpska Railways, electricity market reform, including the restructuring and reorganisation of MH Elektroprivreda RS and the establishment of a centralised supervision and introduction of the function of analysing fiscal risks of public enterprises.

6. Strengthen coordination mechanisms in the country regarding employment policies and establish an interdepartmental working group that will include relevant ministries, their agencies, and stakeholders for the development and drafting of the Youth Guarantee Implementation Plan, adopt and start implementation thereof

In order to create and develop the Youth Guarantee Implementation Plan, which is currently in the preparation phase, the FBiH Ministry of Labour and Social Policy has appointed representatives who will participate in the high-level Working Group, Expert Working Group at the technical level, and the coordinator and substitute coordinator who will participate in the implementation of the Guarantee for Youth Programme.

As part of the interdepartmental working group in Republika Srpska, a coordinator for the implementation of the Youth Guarantee programme was appointed. For Republika Srpska, the coordination is carried out by the Ministry of Labour and Veterans and Disability Protection with the relevant institutions in Republika Srpska. The Republika Srpska Employment Strategy 2021–2027²⁴ is in line with the Economic and Investment Plan (EIP) for the Western Balkans with the priority area 6, which refers to increasing support for the development of human capital, and point 10, which refers to support for the establishment of Youth Guarantee schemes in the Western Balkans.

Develop a system for monitoring and forecasting the needs for skills in the labour market in order to facilitate the alignment of the education, training, and retraining and upskilling systems with the needs of the labour market

²² Decision on the adoption of the Proposal for the Republika Srpska Public Finance Management Strategy 2021–2025 was published in the Official Gazette of Republika Srpska, 54/21.

²³ Decision on the establishment of a coordination system for the public enterprise supervision in Republika Srpska (Official Gazette of Republika Srpska, 92/21).

²⁴ Official Gazette of Republika Srpska, 4/22.

In order to improve the domain of employment, in the segment of facilitation of the system of education, training, and retraining and upskilling with the needs of the labour market, it is necessary, among other things, to implement one of the reform objectives which refers to the increase of personal employability and the improvement of alignment of skills with the needs of the labour market.

In addition, in order to promote quality employment, as well as equal opportunities and access to the labour market, it is necessary to stimulate the demand for labour, promote productivity and the possibility of employment by improving the functioning of the labour market, active support for employment, effective and inclusive public employment services, social dialogue and labour inspections with the effective implementation of labour market regulations throughout the territory, and resolve the issue of high unemployment and inactivity, especially among young people, women, and long-term unemployed persons, and those most vulnerable on the labour market.

One of the main priorities in this area is, among other things, the adoption of the new Law on Mediation in Employment and Social Security of Unemployed Persons; further strengthening the adoption, at the Cantonal level, of the new model of service provision by the Cantonal employment services (profiling, client segmentation, individual counselling and guidance, individual employment planning); reshaping active labour market programmes in order to remediate effectively the challenges in the labour market faced by the unemployed on record and improving the monitoring system in order to obtain better information for the purpose of designing services and programmes and improving the system for monitoring and forecasting the needs for skills in the labour market to make it easier to align the system of education, training and retraining and upskilling with the needs of the labour market.

In order for structural reforms to be beneficial for the individual, it is necessary to affect the quality of educational outcomes and skills mismatch, promote the capacity of private sector to create new jobs, strengthen the provision of services and employment programmes, and improve labour market management.

In 2022, the FBiH Ministry of Education and Science implemented a programme titled 'Support for training programmes, professional training, and development of adults with a focus on women for easier integration into the labour market', which aims to improve the skills and competences of adults with the focus on women through training programmes, professional training, or professional development for their easier integration into the labour market. The programme is intended for public secondary schools that conduct and implement training, professional training, or improvement programmes and for non-governmental organisations that implement such programmes in cooperation with public secondary schools. In 2022, 8 projects/programmes of secondary schools and non-governmental organisations were supported in this programme, and the total amount of allocated funds was BAM 50,000.00.

In addition, in 2022 the FBiH Ministry of Education and Science implemented a programme called 'Support to programmes for the development of functional knowledge and skills of preschool children and students of public primary and public secondary schools', which aims to support projects for equipping and procurement of teaching aids in order to encourage the application of modern and innovative methods and forms of education, to improve the quality and inclusiveness of education and contribute to the development of functional knowledge and skills of preschool children and students of public primary and public secondary schools. In 2022, within this programme, 30 projects of public preschool institutions, public primary and secondary schools were supported, and the total amount of allocated funds was BAM 222,645.00.

In the domain of higher education, as part of the Transfer for the Implementation of the Bologna Process, Support was implemented for public higher education institutions for projects relating to the needs of the labour market for study programme of the study cycles I and II. The University of Sarajevo, University of Mostar, University of Tuzla, University of Zenica, University of Bihać, and University "Džemal Bijedić" in Mostar each applied for one project and were supported linearly, in equal amounts, with the total of BAM 110,000.00.

Monitoring and predicting the needs for skills in the labour market with the aim of harmonising the education and training system and providing retraining and upskilling with the needs of the labour market

is a regular activity that is still carried out by the Republika Srpska Employment Service. This measure is in accordance with the Republika Srpska Employment Strategy²⁵.

Improve access to early childhood education and care services for children/families from vulnerable groups and rural areas

In 2022, as part of the implementation of the FBiH Ministry of Education and Science programme titled 'Support to programmes for the development of functional knowledge and skills of preschool children and students of public primary and public secondary schools', 4 projects of public preschool institutions were supported, and the total amount of allocated funds was BAM 28,709.00.

In the Federation of BiH, the Unified Register of Children with Disabilities was established and the interdepartmental liaison of three areas - health, social protection, and education. This process is coordinated by the FBiH Ministry of Labour and Social Policy. In this regard, an intersectoral commission was appointed, which includes representatives of non-governmental organisations, parents of children with disabilities, and representatives of the FBiH Ministry of Labour and Social Policy, FBiH Ministry of Health, and FBiH Ministry of Education and Science. Information on preschool children, including children included in programmes of preschool institutions, are also entered into the register, and the information is being entered into the Register.

In 2022, the FBiH Law on Social Protection Institutions was adopted (Official Gazette of Federation of BiH, 64/22). The Law regulates the functioning of 5 public institutions of social care, founded by the Parliament of the Federation of BiH, including: Institution for welfare and health care – Bakovići, Institution for welfare and health care – Drin, Institution for welfare and health care – Ljubuški, Institution for welfare, health care, and education – Pazarić, and Institution for welfare and education - Sarajevo. Of these institutions, the beneficiaries are children in the last two, and the services they provide include: welfare and social support, health care, education with the aim of implementing the procedure of continuous development and preparation of beneficiaries for independent life in the community, including rehabilitation, reintegration, and resocialisation of persons who need this type of protection.

As part of the implementation of the Strategic Plan for the Improvement of Early Growth and Development of Children in FBiH 2020-2025, the Eat Healthy, Grow Healthy programme is implemented, the aim of which is to strengthen the capacity of educational institutions for the promotion of healthy nutrition, physical activity, and the cultivation of healthy habits. The programme is implemented in cooperation with the FBiH Ministry of Education and Science, which was designated by the FBiH Government to coordinate the activities defined in the Strategic Plan for the Improvement of Early Growth and Development of Children in the FBiH 2020 - 2025, Federal Ministry of Health, FBiH Public Health Institute, which is the implementer of the Eat Healthy, Grow Healthy Programme, and UNICEF BiH, which allocated the funds for its implementation. In 2022, five educational institutions from the territory of Zenica-Doboj Canton and Tuzla Canton participated in this programme, including: Public preschool institution "Dječije obdanište Vareš", JU "Dječiji vrtić" Maglaj, JU OŠ "Vladimir Nazor" Zenica, JU "Dječije obdanište" Živinice, JU "Dječije obdanište" Doboj Istok, and Primary School in Teočak. The representatives of these educational institutions were presented with certificates 'Educational Institution - Friend of Healthy Nutrition', in accordance with the international accreditation scheme developed by the World Health Organisation for the promotion of healthy nutrition and prevention of diseases related to improper nutrition.

As part of the implementation of the Strategic Plan for the Improvement of Early Growth and Development of Children in FBiH 2020-2025, a Working Group was formed for the application of the International Classification of Functioning, Disability and Health (ICF) in the Federation of BiH, developed by the World Health Organisation. The working group for the application of the International Classification of Functioning, Disability and Health (ICF) in the Federation of BiH prepared a series of documents: Criteria for the formation and work of expert bodies for the assessment and coordination of assessment of children with disabilities in Bosnia and Herzegovina, Protocol on handling and

²⁵ Strategic objective 2: Increase internal mobility and labour availability, Priority 2.2. Coordination of the development of education system, the economy, and labour market.

cooperation in the assessment process and referral of children with disabilities, Guidelines for the assessment and referral of children with disabilities, and Manual for the development, implementation, and monitoring of a personally directed support plan. An implementation map for the recommendations/plan for the beginning of the reform process in this domain was agreed upon, with the agreement that these activities will initially begin in two selected Cantons: Zenica-Doboj Canton and Herzegovina-Neretva Canton.

In the domain of student standards, students with disabilities and Roma students who applied to the Public Call and met the criteria established by the Call are supported. Also, the Ministry has extremely good cooperation with Offices for assistance to students with disabilities organised at public higher education institutions in the Federation of Bosnia and Herzegovina. Owing to this cooperation, it can be said that the number of students with disabilities supported by the Ministry is growing in accordance with the efforts of the Ministry to reach every student with disabilities.

In the Strategy for the development of preschool, primary, and secondary education for the period 2022-2030, one of the strategic goals is to increase the inclusion of children in preschool education, which defines measures and activities that will contribute to improving access to preschool education. Activities that refer to raising awareness of the public and decision-makers about the importance of early learning and possible effects on later development and learning are implemented continuously. In this regard, additional efforts are being made to make the general public aware that investing in learning in the early years gives a much higher return than investing in learning later in a child's development.

The Ministry of Family, Youth and Sports (MFYS) is currently carrying out activities in the development of the Strategy for Improving the Rights and Position of the Child in Republika Srpska (2022–2028). One of the objectives of this document will refer to ‘Improving systemic measures of support and services for children’, including children from vulnerable groups and rural areas.

3. MACROECONOMIC FRAMEWORK

Macroeconomic indicators for the period 2020-2025

Indicator	Official data		Projections			
	2020	2021	2022	2023	2024	2025
Nominal GDP in million BAM	35,447	39,921	43,994	46,758	49,270	52,003
Nominal growth in %	-3.0	12.6	10.2	6.3	5.4	5.5
GDP deflator (previous year = 100)	100.2	104.7	107.3	104.5	102.6	102.4
Real GDP in million BAM (previous year = 100)	35,372	38,136	41,009	44,732	48,032	50,769
Real growth in %	-3.2	7.6	2.7	1.7	2.7	3.0
Inflation measured by the consumer price index in %	-1	2	13.1	6.7	3.1	2.2
Consumption in million BAM	32,197	34,342	38,192	39,964	41,087	42,461
Real growth in %	-2.3	4.3	1.0	0.3	0.5	1.1
Government spending in million BAM	7,128	7,536	8,327	8,677	8,946	9,214
Real growth in %	1.4	3.1	1.8	0.4	0.6	0.5
Private consumption in million BAM	25,69	26,806	29,865	31,287	32,141	33,247
Real growth in %	-3.2	4.6	0.8	0.3	0.4	1.2
Investments (gross) in fixed assets in million BAM	7,679	8,367	9,180	9,609	10,139	10,916
Real growth in %	-4.2	4.8	2.5	2.8	3.6	5.7
Government investments in million BAM	1,674	1,193	1,431	1,512	1,678	1,846
Real growth in %	82.7	-31.5	14.9	3.5	7.8	6.8
Private investments in million BAM	6,005	7,174	7,748	8,097	8,462	9,071
Real growth in %	-15.4	14.9	0.5	2.7	2.9	5.5
Imports in million BAM	16,645	21,084	26,234	27,830	29,490	31,609
Nominal growth in %	-14.6	26.7	24.4	6.1	6.0	7.2
Real growth in %	-13.4	20.5	12.0	4.7	4.6	5.7
Export in million BAM	11,870	16,485	20,429	22,346	24,331	26,621
Nominal growth in %	-17.2	38.9	23.9	9.4	8.9	9.4
Real growth in %	-15.8	24.6	15.2	6.6	6.8	7.3
National gross savings in % of GDP	19.0	23.5	22.4	23.2	24..	26.3
Current account balance in million BAM	-1,286	-802	-1,765	-1,422	-1,067	-836
Growth in %	29.6	-37.2	117.4	-19.4	-24.9	-21.6
Current account balance in % of GDP	-3.6	-2.0	-4.0	-3.0	-2.2	-1.6

Note: In accordance with the previous agreement of the representatives of Bosnia and Herzegovina and the European Commission, during the preparation of this Program, the basic scenario that was used for the creation of the DOB of BiH (*Document of Framework Budget of BiH Institutions*) in September 2022 was retained. This approach was used to ensure the consistency and compatibility of the macroeconomic and fiscal framework. On the other hand, an alternative scenario for the needs of ERP (*Enterprise resource planning*) was created in November 2022 based on the available data.

3.1. Latest economic developments

Economic trends in 2021

The pandemic year, both in the world and in Bosnia and Herzegovina, was marked by a health and economic crisis that manifested itself in a 3.2%²⁶ drop in GDP. However, already at the beginning of 2021, there was a gradual stabilization of epidemiological and economic conditions in the external environment (EU27 countries), which had a positive effect on economic activity in the country. In fact, the recovery of primarily export and later domestic demand resulted in a relatively strong recovery of economic activity in the country. Thus, according to official BHAS²⁷ data, Bosnia and Herzegovina recorded a real GDP growth of 7.6% in 2021 compared to the previous year. However, it is worth pointing out that this relatively high rate of economic growth is largely a consequence of the low base (base effect) from the previous year, given that Bosnia and Herzegovina recorded a drop in GDP of over 3% in the previous year. On the other hand, if the economic growth in Bosnia and Herzegovina in 2021 is observed comparatively by country, it can be concluded that it was in the range of the regional average of the countries of the Western Balkans, which was 7.5%. By looking at the structure of this relatively strong economic growth, it can be concluded that it was achieved mainly thanks to the increase in domestic demand (consumption and investments), while the contribution of the external sector, despite high growth rates, was negative.

Final consumption in 2021 increased by 4.3% compared to the previous year, while its contribution to economic growth amounted to almost 4 p.p. (private consumption 3.4 p.p., public consumption 0.6 p.p.). In addition to consumption, a significant contribution to economic growth was made in the framework of investments that achieved a double-digit growth rate, and their contribution to economic growth amounted to about 5 p.p. However, when interpreting this investment growth, it is necessary to take into account the fact that this investment growth was achieved mainly thanks to an increase in private investments of almost 15%, while public investments realized in 2021 were reduced due to the base effect of the pandemic year. What is particularly worth highlighting is the extremely high jump in inventories, which have increased many times, so that they participated in the overall economic growth with 4 percentage points, which is more than half of the achieved economic growth in the country in 2021. On the other hand, the recovery of foreign trade exchange was quite encouraging both in the domain of goods and in the domain of services. In fact, the economic recovery of export markets primarily in EU countries (GDP growth over 5%) resulted in a strengthening of export demand for BiH products and an increase in total foreign trade merchandise exchange with the world. Thus, according to the available statistical data for the year 2021, the total foreign trade exchange in Bosnia and Herzegovina increased by almost 1/3 (9 billion BAM in nominal terms), whereby the real growth of exports amounted to about 24.5%, while imports increased by 20.5%, which led to an increase in the foreign trade deficit of about 10%, while the contribution to economic growth was negative and amounted to 1.5 p.p.

Currently available preliminary data from BHAS (national accounts statistics for Q1) and certain short-term statistical indicators for Q1 2022 indicate that the trend of economic activity growth in the country and the world has continued. In fact, according to Eurostat data for Q1 2022, despite major challenges such as the Ukrainian crisis and increased inflationary pressures in EU countries, the trend of economic activity growth continued, resulting in economic growth of over 4.7%²⁸. On the other hand, according to the currently available BHAS data for Q1 2022, an economic growth of 5.5% was registered in Bosnia and Herzegovina compared to the same period of the previous year. Certain short-term indicators indicate that the growth trend of economic activity continued during the second quarter, but at a slightly lower intensity compared to the beginning of the year.

However, in the context of the analysis of economic trends in 2022, it is worth pointing out that due to the intensification of the Ukrainian crisis and interruptions in supply chains, there was a strong increase in world prices (energy and food), which resulted in an additional increase in inflationary pressures both

²⁶ Agency for Statistics of Bosnia and Herzegovina, Press release, "Gross domestic product, expenditure approach for the year 2020", February 28, 2022.

²⁷ Agency for Statistics of Bosnia and Herzegovina, Press release, "Gross domestic product, expenditure approach for the year 2021", October, 2022

²⁸ Eurostat, Euroindicators, „Preliminary flash estimate for second quarter of 2022 „,52/2022 - 29 April 2022

in the country and abroad. Thus, most countries record double-digit price growth rates, while in Bosnia and Herzegovina, according to BHAS data, a 12.2% increase in the consumer price index was registered for the 7 months of 2022 compared to the same period of the previous year. In accordance with the latest developments in the international economic environment, international institutions revised the economic growth projections for 2022. Thus, according to IMF data, the projection of global economic growth for 2022 has been revised to 3.2%²⁹, while DG ECFIN predicts that economic growth in EU countries will slow down significantly in the second half of the year, and at the end of 2022 it could amount to 2.7% compared to the previous year. This slowdown in economic activity and the strengthening of inflationary pressures will certainly be reflected in the economic trends in Bosnia and Herzegovina as well. Thus, according to the DEP's projections, in the second half of 2022, there could be a slowdown in economic growth in Bosnia and Herzegovina, with the expected rate of economic growth at the end of 2022 being 2.7%.³⁰

If the structure of the projected economic growth in 2022 is observed in more detail, it is expected that final consumption should represent a key pillar of economic growth with an expected growth rate of about 1% in real terms, whereby its contribution to economic growth would be about 1 p.p. In fact, although the expected nominal growth of final consumption is 11.2% compared to the previous year, an extremely high jump above all in consumer prices of over 10% will significantly reduce the contribution of consumption to overall economic growth. On the other hand, during the current year, despite major economic challenges and increased risks, a low base and an election year could result in only a slight increase, primarily in public investments, while stagnation is expected in private investments. What is definitely worth pointing out is that DEP faced a great challenge when making macroeconomic projections to assess the movement of stocks, given that during the previous year there was an inexplicable increase in them, which accounted for as much as half of the economic growth in the country. The growth trend in foreign trade goods exchange from the previous year continued in the first half of 2022.

Thus, according to the currently available BHAS data, due to the increase in export demand (EU GDP growth of 5%), interruptions in supply chains, and the double-digit increase in world prices, Bosnia and Herzegovina achieved an increase in total foreign trade of about 1/3, which is a consequence of the simultaneous export and import growth by about 30%. DEP's projection is that despite the expected slowdown in foreign trade, Bosnia and Herzegovina could achieve export growth of around 15% and imports of around 12%, which would result in a slight increase in the foreign trade deficit, while the contribution to overall economic growth in 2022 would be neutral.

Labor market

Although the pandemic of the Covid-19 virus was present in 2021, the labor market in Bosnia and Herzegovina shows a trend of gradual growth in the demand for labor with the easing/relaxation of epidemiological measures. In the period I-XII 2021, the average number of employed persons was around 821.9³¹ thousand and is higher by 1.1% compared to 2020. Looking at the number of employed persons by area of activity, the most significant growth in 2021 was in the area of processing industry, information and communications, and health and social protection activities. The growth in the number of employed persons was reflected in the decrease in the number of unemployed persons, which in 2021 amounted to 394.4 thousand, which is 5% less compared to 2020. The average net salary in 2021 was 998 BAM and is nominally higher by 4.4% compared to 2020 with slower real growth (2.4%) because inflation in the observed year was 2%.

In the first half of 2022, the average number of employed persons in Bosnia and Herzegovina was about 835 thousand and is 2.2% higher than in the same period of 2021. The most significant growth in the number of employed persons in the first half of 2022 was in the field of industry and trade, which at the same time employ the most persons in Bosnia and Herzegovina. Along with the growth in the volume of production in the manufacturing industry, there was an increase in the number of persons employed in

²⁹ <https://www.imf.org/en/Publications/WEO/Issues/2022/07/26/world-economic-outlook-update-july-2022>

³⁰ Projection of DEP BiH, September 2022

³¹ Temporary data. Data on the number of employed persons until September 2021 are final, and for the other months are provisional.

this industry by 3.1% y/y.³² In the field of wholesale and retail trade³³, repair of motor vehicles and motorcycles, the number of employed persons increased by 3.3% y/y in the observed period.³⁴ Although the growth rates of the number of employees in certain areas of activity were higher, their contribution to the growth of the total number of employees was lower. Thus, the number of employed persons has increased significantly in the field of information and communication activities (9.4% y/y) as well as in the area of providing accommodation and preparing and serving food (5% y/y).³⁵ The survey unemployment rate is gradually decreasing and in Q1 2022 it was 16.7% and 15.7% in Q2 2022. In the period I-VI 2022, the average net salary nominally increased by 10.7% y/y and amounted to 1,085 BAM. However, taking into account the strong price growth of 11.5% in the observed period, the real growth of the average net salary was negative (-0.8%). Taking into account the developments on the labor market in the first half of 2022, it can be assumed that by the end of the year, the number of employed persons could be higher by about 2% y/y, with a nominal increase in the average net salary of 11%-12% y/y.

Inflation

In Bosnia and Herzegovina, inflation of 2% y/y was registered in the period I-XII 2021. Prices in the section of food and non-alcoholic beverages (the largest share in the consumer price index) in the period I-XII 2021 increased by 3.5% y/y, which was significantly affected by the increase in food prices. In this way, this section, along with transportation, had the greatest impact on inflation in Bosnia and Herzegovina. Due to higher prices of oil and oil derivatives in the period I-XII 2021, prices in the transportation section were higher by 5.9% y/y. In the section of housing, water, electricity, gas and other energy products, prices increased by 1.3% y/y and had a slightly smaller contribution to the growth of overall inflation in Bosnia and Herzegovina compared to food and transport. On the contrary, the most significant reduction in prices was in the clothing and footwear section, where prices were lower by 8.9% y/y with multi-year deflationary pressure, which only partially slowed the growth of overall inflation in Bosnia and Herzegovina.

In Bosnia and Herzegovina, in the period I-VII of 2022, a strong increase in the prices of products and services is noticeable. Inflation measured by the consumer price index amounted to 12.2% y/y. The growth in the prices of energy products (especially oil) and food products has significantly contributed to the growth of the overall price level in Bosnia and Herzegovina. In this way, external price pressures had a major impact on overall inflation through the transfer of cost pressures from producer prices to consumer prices. In addition to the increase in the price of food products, prices in the food and non-alcoholic beverages section increased by 18.8% in the observed period. In addition, due to the high prices of oil and oil derivatives in the period I-VII 2022, prices in the transportation section were higher by 26.1% y/y. In the section of housing, water, electricity, gas and other energy products, prices increased by 10.2% y/y in the period I-VII 2022 and had a slightly smaller contribution to the growth of overall inflation in Bosnia and Herzegovina compared to food and transport. Given that the prices of crude oil on the world energy market in 2022 are extremely high, it can be assumed that the level of inflation in 2022 will be higher compared to the previous year. In the latest³⁶ projections for the eurozone, the ECB predicts inflation of 8.1% y/y, with the price of crude oil at \$105.4/barrel, which is 48.2% higher than the previous year. In addition, in EC projections (summer 2022) it is expected that the price of crude oil in 2022 for the Eurozone would predict inflation of 8.1% y/y, with the price of crude oil at \$105.4/barrel, which is 48.2% more compared to the previous year. In addition, in EC projections (summer 2022) it is expected that the price of crude oil in 2022 could be significantly higher compared to the previous year and amount to \$108.2/barrel (53% y/y) with faster inflation growth in EU of 8.3% y/y. Based on the

³² The contribution to the growth of the total number of employees was about 0.6 p.p.

³³ The total turnover of distribution trade in Bosnia and Herzegovina, calendar adjusted, in the first half of 2022 achieved growth in the amount of 26.9% compared to the same period of the previous year (in Q1 the growth was 27.4% and in Q2 26.6 %). Distributive trade includes all forms of trade activities, from the procurement of goods from the manufacturer to the delivery of goods to the final consumer on the domestic market. It includes: wholesale trade for one's own account, mediation in wholesale trade, retail trade and repairs of motor vehicles and motorcycles, and trade in items for personal or household use. Source: BHAS, Business statistics, distribution trade turnover indices in Bosnia and Herzegovina.

³⁴ The contribution to the growth of the total number of employees was about 0.6 p.p.

³⁵ In the period January - June 2022, tourists made 594,485 visits, which is 77.8% more, and 1,295,674 overnight stays, which is 68.3% more compared to the same period in 2021. Source: BHAS, Business statistics, tourism, cumulative January-June 2022.

³⁶ ECB projections from September 2022

above, it can be concluded that inflation in Bosnia and Herzegovina could remain high until the end of the year and average around 13% y/y. However, it is important to take into account the risks for the realization of the projections (at the end of the text), which could significantly affect the trend of inflation.

Bank loans and deposits

Credit growth during 2021 achieved a moderate growth rate and a partial recovery of activity. Total credit growth at the end of the fourth quarter of 2021 was 3.6% y/y, driven primarily by the growth of household loans, whose rate was 5.5% y/y. In contrast to credit activity, non-financial private companies record continuously higher deposit growth rates, which were in double digits throughout 2021 (at the end of the fourth quarter of 2021, the deposit growth rate was 17.6% y/y).

External sector

Balance of payments

Data from the balance of payments of Bosnia and Herzegovina indicate that in 2022 unfavorable trends were recorded in the country's foreign trade exchange and balance of payments³⁷, which was largely caused by disruptions in global supply chains, the war in Ukraine and the rise in prices of raw materials and energy, which led to the disruption of economic activities in the main foreign trade partners.

According to official data for Q1 2022 and DEP's projections for the other 3 quarters, the current account deficit in the balance of payments of Bosnia and Herzegovina would amount to about 1.8 billion BAM (or about 4% of GDP). The increase in the nominal import of goods and services in the observed period would be around 24.4%, while the growth in the nominal export of goods and services would be around 23.9%. It could be expected that the current net inflows of money from abroad in 2022 will achieve a growth of 6.7% (mostly thanks to the growth of remittances of citizens from abroad).

According to available data for Q1 2022³⁸ the current account deficit is 321% higher compared to the same period last year. In nominal terms, the current account deficit amounted to 417 million BAM, while in the same period last year it was 99 million BAM. It is evident that this increase in the current account deficit (despite the increase in the net inflow of money from abroad by about 100 million BAM) occurred under the influence of an increase in the foreign trade deficit, which is higher by 419 million BAM (in Q1 2021 it was 965 million BAM, while in Q1 2022 amounted to 1.385 billion BAM).

According to the available data of the CBBH (Central Bank of BiH), the foreign trade deficit for Q1 2022 is higher by 43.4% (y/y). The import of goods and services increased by 41.1%, while at the same time the export of goods and services achieved a growth of 40.4%. Citizens' remittances from abroad increased by 14% in Q1 2022.

Foreign trade commodity exchange

The improvement of epidemiological conditions and the strengthening of economic activity in the world after the pandemic year resulted in a strong recovery of foreign trade in goods in Bosnia and Herzegovina. Thus, according to BHAS (BiH Agency for Statistics) data, Bosnia and Herzegovina recorded growth in all foreign trade indicators for 2021. From a value point of view, the total foreign trade in goods in Bosnia and Herzegovina in 2021 amounted to almost 36 billion BAM, which represents an increase of 8.5 billion BAM or 30.9% compared to the previous year. The export of goods from Bosnia and Herzegovina in 2021 amounted to 14.3 billion BAM, which represented an increase of almost 3.8 billion BAM, or almost 36%. The import of goods amounted to 21.6 billion and increased by almost 28% compared to the previous year. Based on these indicators, it can be concluded that foreign trade in Bosnia and Herzegovina has recovered quite well after the pandemic, which was hinted at in earlier reports. In fact, Bosnia and Herzegovina, at least within the framework of foreign trade goods exchange, managed to fully compensate for the losses from the previous year, and even surpass the results of foreign trade goods exchange from 2018 and 2019, which were relatively successful. However, when interpreting these indicators, it is worth pointing out that the displayed growth rates represent nominal increases and are influenced by both the base and the price effect. In fact, according to the available data of BHAS for the

³⁷ At the time of creating this document, official CBBH data were available for Q1 2022, while data from DEP projections were used for the rest of the year.

³⁸ Data source: CBBH, Balance of Payments Statistics, June 2022

year 2021, an increase in export and import prices in Bosnia and Herzegovina of about 15% was recorded compared to the same period of the previous year, so that the real increases are significantly lower than the nominal ones.³⁹ On the other hand, in addition to the increase in goods, the improvement of the epidemiological situation resulted in an increase in the export of services (tourism), which further strengthened the growth of foreign trade in Bosnia and Herzegovina in 2021.

On the other hand, currently available data on foreign trade in goods for the period January-July 2022 indicate that the growth trend from the previous year has continued. Thus, according to BHAS data, Bosnia and Herzegovina for the period January-July 2022 exported goods worth 10.5 billion BAM, which represents an increase of 37.5% compared to the same period of the previous year.⁴⁰ However, when interpreting these rather high growth rates, it is necessary to keep in mind the price effect that most likely led to such high increases. In fact, according to IMF data, during the first 7 months of 2022, there was an increase in world prices of about 50%, with the largest increases recorded in the energy category (oil 66.5% and natural gas 213%, followed by food prices which were increased by 20.5%).⁴¹

On the other hand, according to currently available projections in the EU countries, economic growth of 2.7% is expected in 2022, which should enable stable export demand and the continuation of the growth trend of foreign trade in Bosnia and Herzegovina.⁴² In accordance with these trends and DEP's assumptions from the basic scenario for 2022, a relatively good recovery can be expected in Bosnia and Herzegovina in the framework of foreign trade in goods with the world, especially in the domain of trade in goods. In fact, according to DEP's projections, in 2022 in Bosnia and Herzegovina total exports are expected to grow by more than 15% in real terms, driven by the growth of exports of goods with an expected growth rate of 15.8%, while the expected growth of exports of services is around 13%.⁴³ However, the trend of increasing world prices will certainly have an impact on the movement of Bosnian exports during 2022. Therefore, the expected nominal growth rates are significantly higher than the real ones, so in accordance with this, at the end of 2022, nominal growth of total exports of around 24% can be expected. On the other hand, given that Bosnia and Herzegovina is a fairly import-dependent economy, in 2022, a real growth in total imports of around 12% can be expected with uniform growth rates of imports of goods and services. As is the case with export trends, the expected increase in import prices would result in a significantly higher import growth rate in nominal terms of 25% at the end of 2022. Such export and import trends should ultimately result in an increase in the foreign trade deficit at the end of 2022 so that the trade balance would have a neutral impact on the projected economic growth in 2022.

Foreign direct investments

After the significant growth of foreign direct investments in the world in 2021 (77% y/y UNCTAD), at the beginning of 2022 there will be a worsening of the geopolitical and epidemiological situation. The war that started in Ukraine in February changed the geopolitical and economic situation almost immediately. The positive trends in economic developments from the previous year were interrupted by serious disruptions in global economic flows.

As a result of international community sanctions, Russian capital is frozen and withdrawn, with the consequent liquidation of certain companies. As a confirmation of the above, it is not surprising that the values of the world's leading indices DJIA, Nasdaq, StoxxEurope600 recorded double-digit rates of decline in the ninth month of 2022.

A similar situation was recorded in Bosnia and Herzegovina. The capital of Sberbank BH dd has been withdrawn from the country, and investments in the oil and gas industry, which is majority owned by Russian companies, have been stopped (oil refinery, liquefied gas terminal, announced gasification). Thus, after the registered increase of SDU in 2021 (of 22.1% y/y), there was a sharp drop in investment

³⁹ Agency for Statistics of Bosnia and Herzegovina, Announcement, "Indices of Unit Values of Exports and Imports of BiH, Fourth Quarter 2021", February 22, 2022.

⁴⁰ Agency for Statistics of Bosnia and Herzegovina, Announcement, "Foreign trade in goods in Bosnia and Herzegovina for July 2022 - previous data", August 20, 2022.

⁴¹ <https://www.imf.org/en/Research/commodity-prices>

⁴² In the process of projecting economic trends in the external environment (export demand), available data from DG ECFIN "European Economic Forecasts" Summer 2022 (Interim) from July 2022 were used.

⁴³ DEP BiH projection, September 2022

in the first quarter of 2022 (45.7% y/y)⁴⁴. Based on the above, it is estimated that in 2022, SDU could achieve only 1.3% of GDP.

3.2. Medium-term macroeconomic scenario

Projection of economic trends for the period 2023-2025

A very important determinant for economic trends in Bosnia and Herzegovina in the period 2023-2025 in addition to internal dynamics, economic developments in the external environment, especially in the EU27 countries, will also be presented. In fact, despite the stabilization of the epidemiological conditions related to the global Covid 19 pandemic, already at the beginning of 2022, there was an additional complication of the international political and economic conditions related to the events in Ukraine. The negative economic consequences of these events on the world economy are already visible and are manifested through trade, financial and price shocks that will certainly not bypass Bosnia and Herzegovina. In fact, earlier reports showed that the external environment (the EU and the countries of the region) represent a very important structural determinant of all economic developments in Bosnia and Herzegovina. Reference international institutions in the world such as the IMF - the International Monetary Fund, the World Bank and the European Commission indicate in certain publications that the latest international events will have negative economic consequences for the world economy.⁴⁵ The negative economic consequences are already visible and are reflected in the rise in world energy and food prices, instability in the financial markets, which could ultimately threaten the recovery of the world economy from the previous year. Official projections of economic trends in the world indicate that negative economic consequences will have negative economic consequences in the medium term in addition to short-term ones. In fact, the latest available projections of global economic growth as well as in the EU for the period 2023-2025 were revised downwards, while the projections of price movements-inflation and interest rates were revised upwards. Thus, according to the latest IMF report (World Economic Outlook from July), it is expected that the growth of the world economy in 2023 should be below 3%, which has happened only a few times since 1970. In its summer edition of the European Economic Forecast Summer 2022, DG ECFIN predicts economic growth of only 1.5% in 2023, which is almost 1 p.p. lower compared to the spring edition, while the inflation projection is around 5%.⁴⁶

Given that external dynamics represent a very important structural determinant of all economic developments in Bosnia and Herzegovina, it is worth pointing out that the latest developments will play a major, if not decisive, role for the prospects of economic growth in the coming period, which especially applies to the year 2023. Apart from external dynamics, a very important factor for economic growth in the country during the program period 2023-2025 will also represent the institutional capacity of the country in the implementation of structural reforms in order to strengthen the contribution of internal dynamics in its creation. Further complicating both external and internal dynamics would have very negative consequences for the economy of Bosnia and Herzegovina and decrease its potential growth.

Bearing in mind the stated external and internal circumstances, according to DEP projections in the period 2023-2025 economic growth can be expected in Bosnia and Herzegovina with an average economic growth rate of around 2.5% on an annual basis (2023: 1.7%, 2024: 2.7% and 2025: 3.0%). It is assumed that the key pillar of economic growth during this period should be domestic demand through an increase in private consumption and investments. In fact, the sustainable growth of economic activity in the country with the expected increase in industrial production and construction works, followed by a slight increase in the number of employees and income from exports (goods and services) should preserve the stability of the disposable income of citizens. If it is taken into account that private consumption in the GDP structure makes up about 78%, it can be expected that it will represent a key pillar of economic growth during the program period. On the other hand, bearing in mind the high level of public spending within the GDP in Bosnia and Herzegovina and the efforts made through the process of fiscal consolidation in Bosnia and Herzegovina during this period, a gradual stabilization of public finances is expected through the reduction of public expenditures and the simultaneous increase of public income in

⁴⁴ According to the latest available CBBH data for the first quarter of 2022, the total SDU in Bosnia and Herzegovina reached BAM 192.0 million (net financial liabilities) decreased by 45.7% compared to the same period last year.

⁴⁵ <https://www.imf.org/en/News/Articles/2022/03/05/pr2261-imf-staff-statement-on-the-economic-impact-of-war-in-ukraine>

⁴⁶ European Commission, "DG ECFIN, „European Economic Forecast“ Summer 2022 (Interim), July 2022

order to limit the growth of public spending. Thus, in the period 2023-2025, a uniform growth of public spending of around 0.5% on an annual basis is expected. If it is taken into account that during this period the projected rate of economic growth would be higher in relation to the growth of public consumption, the share of it in GDP would partially decrease to around 18% at the end of 2025. In this period of time, it is expected that, through fiscal policy measures, part of the funds from current consumption should be channelled for the purpose of strengthening investment spending in Bosnia and Herzegovina. Therefore, with the improvement of the business environment, unlike previous years, investments could have a more significant growth and therefore a greater contribution to the expected GDP growth.

In the period 2023-2025 in Bosnia and Herzegovina, an increase in gross investment in fixed assets is expected at an average annual growth rate of about 4% (2023: 2.8%, 2024: 3.6%, 2025: 5.7%). In this time frame, in addition to the increase in private investments, which make up the majority of total investments (about 80% of total investments), as stated earlier, a significant contribution of public investments is also expected. It is believed that the progress in the process of European integration combined with the improvement of the business environment through reform processes could increase the interest of both domestic and foreign investors in investments in Bosnia and Herzegovina. On the other hand, considering the structure and position of the economy of Bosnia and Herzegovina, it is considered that public investments will represent a somewhat more important lever for stimulating economic growth in the medium term. Projects within the construction of road infrastructure and energy projects, as well as the availability of funds from international financial institutions, with their adequate and timely implementation, could result in an annual increase of public investments of over 6%, for the period from 2023 to 2025. Thus, in the medium-term time frame, the share of public investments within GDP in Bosnia and Herzegovina would be increased to around 3.5% of GDP. Stabilization of the external environment along with improvement of the industrial base and raising competitiveness in the country are a prerequisite for improving foreign trade exchange with the world. Only under the condition of the materialization of the mentioned external assumptions in the period 2023-2025, an increase in foreign trade exchange with the world can be expected. In this case, an average annual export growth of 6.8% can be expected in Bosnia and Herzegovina, while the projected growth of goods and services would be fairly uniform. Thus, during this period, thanks to this export growth, the share of exports in GDP would be increased to around 50% at the end of 2025.

On the other hand, it is expected that imports in this time period should move at a slightly slower annual growth rate of 5%. During this period, fairly balanced growth in the import of goods and growth in the import of services is expected. The consequence of this trend in import growth would be the stabilization of the share of imports in GDP to around 60% of GDP at the end of 2025. Slightly stronger export growth compared to import growth in the medium term would result in a gradual stabilization of the foreign trade balance as a share of GDP at around 10%, i.e. a slightly positive contribution to economic growth, while the coverage of imports by exports should be almost 80% by 2025. %.

Labor market

Projections on the labor market in the period 2023-2025 are based on the business environment in the EU and Bosnia and Herzegovina, that is, the assumed movement of demand, trade and investment. These components of economic growth also significantly determine developments on the labor market. In its projections (September 2022), the ECB predicts a slowdown in economic growth in 2023 and 2024, a modest growth in the number of employed persons of 0.2% y/y with a slight increase in the unemployment rate. According to DEP projections in Bosnia and Herzegovina in 2023, GDP growth of 1.7% y/y is expected, which is slower economic growth compared to the previous year. The assumed movement of investments and trade should be reflected in the number of employed persons as well as in wages. As in previous years, the business environment in the areas that traditionally employ the most people in Bosnia and Herzegovina (industry, trade and certain service industries) could significantly determine the volume of employment with a slightly smaller contribution from public⁴⁷ sector. Thus, in 2023-2025, the total number of employed persons in Bosnia and Herzegovina could be increased by 1.1%-1.5% y/y, while the average net salary could be increased by 3%-5% y/y. However, one should

⁴⁷ The analysis refers to the activities of public administration, health and education.

take into account the risks for the realization of projections that could significantly affect the assumed growth of basic indicators on the labor market.⁴⁸

Monetary and exchange rate policy and inflation

During 2021, there were no changes in the area of monetary and exchange rate policy. The rules of the currency board require that the reserve money (monetary base) is always 100% covered by foreign exchange reserves, which was complied with, based on the available data in 2021 (fixed exchange rate of the convertible mark in relation to the euro, i.e. 1 BAM=0.51129 EUR) . The reserve requirement policy has not changed since last year's Economic Reform Program, so in 2021 the reserve requirement rate was 10%.

After an extremely high rate of inflation in the previous year, in 2023, a somewhat slower price growth is expected both in the EU and in Bosnia and Herzegovina. Projected inflation rates in 2023 could mainly be the result of a gradual weakening of external price pressures, i.e. somewhat lower prices of energy and food products compared to the previous year. According to ECB projections, the price of crude oil in 2023 could be lower by 14.8% y/y and would amount to \$89.8/barrel, and inflation in the Eurozone could slow down and amount to 5.5% y/y (in the previous year was 8.1%). In addition, it is expected that food prices will also begin to decrease due to the reduction of cost pressures related to energy sources as well as fertilizer prices. The EC has a similar prediction in its summer projections, according to which inflation in the EU could amount to 4.6% in 2023, and the price of crude oil could be lower by 11.6% y/y. If, in addition to the above external price determinants, utility prices are taken into account without large fluctuations in Bosnia and Herzegovina, inflation of around 6.7% y/y can be expected in 2023.⁴⁹

Production of inflation projections in Bosnia and Herzegovina in the period 2024-2025, as in previous years, is based on the movement of energy and food prices on the world market, as well as inflation projections in the EU. The ECB predicts that inflation in the Eurozone could amount to 2.3% in 2024 with a decrease in crude oil prices by 6.9% y/y which would amount to \$83.6/barrel. When it comes to the movement of the food index on the world market, the latest available projections⁵⁰ of the World Bank indicate that the food price index could be lower by around 0.5% y/y in 2024. Based on the aforementioned trends in external determinants of inflation and stable utility prices in Bosnia and Herzegovina, inflation of around 3.1% in 2024 and 2.2% in 2025 can be expected.

Financial sector

In 2021, there was a high degree of business uncertainty associated with the epidemiological situation, disruptions in domestic and international demand, in international supply and transport chains. All this had an effect on the reduced credit activity of companies, which in 2022 recorded a slight recovery. Uncertainty about the movement of prices and production costs, as well as disruptions in supply, are still present. The restrictive monetary policy that is in force in the world's leading economies and higher interest rates will affect the slowdown of economic growth in trade partner countries, and therefore the growth rate of total loans in 2022 and 2023 will be at moderate rates between 4%- 4.8%. The mentioned period will be accompanied by pronounced volatility on the financial market and higher financing costs for the banking sector, which will also be transferred to loan prices.

In the period from 2024-2025 with the growth of economic activity, stabilization of energy prices and improvement in the optimism of investors and consumers, there will be more intensive credit activity with an average growth rate between 6.3% - 7% y/y.

EXTERNAL SECTOR

Balance of payments of Bosnia and Herzegovina

Based on DEP projections, the expected nominal decrease in the foreign trade deficit of goods and services in 2023 would be 5.5%, and the continuation of the negative growth rate of the foreign trade deficit could also occur in 2024, when a decrease of 5.9% is expected, and in 2025, when the foreign

⁴⁸ From the mentioned risks, it will depend on whether the growth rates of the number of employed persons and net wages will be faster or slower than assumed in the basic scenario.

⁴⁹ As in the previous year, the assumed price increase will depend on the risks that could increase/decrease inflation.

⁵⁰ According to the World Bank projections (April 2022).

trade deficit would be smaller by 3.3%. The import of goods and services in the period 2023-2025 would move in the range of 6%-7.2%, while on the other hand, the export of goods and services, in the mentioned time period, would nominally increase between 8.9%-9.4 %.

As a share of GDP, the current account deficit for 2023, according to DEP projections, would amount to around 3%, while for the period 2024-2025 could expect a decrease in the deficit (in the interval from 1.6% to 2.2% of GDP). It is expected that current net inflows from abroad could nominally increase by 0.5% in 2023, while for the period 2024-2025, one could expect the nominal growth rate to be between 0.7% and 1.5%.

Given that it is very difficult to estimate the sources of financing the current account deficit, it can be expected that the current account deficit will continue to be financed by inflows of financial resources from abroad (through trade credits, direct foreign investments and through possible new borrowings on the international financial market).

Projection of foreign trade exchange trends for the period 2022-2024

During the period 2023 - 2025, it is expected that the movement of economic activity in the external environment (economic growth, inflation, interest rates, supply chains) in addition to internal dynamics in Bosnia and Herzegovina will determine the movement of foreign trade exchange with the world. Facing the world economy, it is possible to expect an improvement in foreign trade exchange in Bosnia and Herzegovina. Therefore, in the event that the aforementioned circumstances are overcome, DEP's projection is that in Bosnia and Herzegovina in the period 2023-2025 could expect a real increase in total exports with annual growth rates of 6.6% in 2023, 6.8% in 2024 and 7.3% in 2025 in real terms, respectively.⁵¹ This increase in exports is due to stable export demand, expansion of the production base and increased competitiveness in the country. On the other hand, the increase in economic activity in the country, i.e. the growth of domestic demand within the population sector and the corporate sector through somewhat faster growth in consumption and investments should also result in an increase in imports into Bosnia and Herzegovina. According to DEP's projections, import growth rates are expected to be slightly lower than export growth rates and should range from 4.7% in 2023, 4.6% in 2024, and 5.7% in 2025.⁵² Higher export growth rates than imports in the medium term should result in an increase in the representation of exports in GDP to around 50%, while total exports (goods + services) would amount to around 60% by the end of 2025. The result of such export and import trends would be a gradual stabilization of the total foreign trade deficit at around 10% of GDP, with a slightly positive contribution to economic growth of 0.3 p.p. on an annual basis and improved coverage of imports by exports to almost 80% by 2025.

Foreign direct investments

Inflationary trends along with a significant slowdown in economic growth in the world and disruptions and shortages in the supply of energy and raw materials will inevitably have a negative effect on further investments in the coming period. It is expected that there will be stalls and delays in the construction of already planned infrastructure and energy projects (Vukosavlje-Brčko highway⁵³, Banja Luka-Prijedor highway⁵⁴, Trebinje airport and HES Gornja Drina, TE Ugljevik 3⁵⁵). Based on the above, it is estimated that SDU could reach 1.8% of the GDP share in the coming year 2023.

With the gradual calming down of the situation on the international market and the reduction of energy prices, SDU would gradually begin to recover in the coming years (in 2024 and 2025) and would reach about 1.9% of the share in GDP.

⁵¹ A more detailed presentation of export growth rates: 2023 total exports 6.6% (goods 7.1%, services 4.9%), 2024 total exports 6.8% (goods 6.2%, services 8.9 %), and in 2025 total export 7.3% (goods 7.0%, services 8.5%).

⁵² A more detailed presentation of import growth rates: 2023 total import 4.7% (goods 4.9%, services 0.4%), 2024 total import 4.6% (goods 4.6%, services 3.7 %), and in 2025 total import 5.7% (goods 5.7%, services 5.1%)

⁵³ <https://vladars.net/sr-SP-Cyrl/Vlada/Premijer/Media/Vijesti/Pages/vukosavlje-brcko.aspx>

⁵⁴ <http://www.autoputevirs.com/aprs/Doc.aspx?cat=5&subcat=24&id=24&lang=cir&txt=295>, signed a concession contract with a Chinese company „China Shadong Int. Economic & technical cooperation Group Ltd.

⁵⁵ <https://balkangreenenergynews.com/rs/firme-iz-kine-poljske-potpisale-ugovor-o-izgradnji-termoelektrane-ugljevik-3/>

3.3 Alternative scenario and risks

Indicator	Official data		Projections			
	2020	2021	2022	2023	2024	2025
Nominal GDP in million BAM	35,447	39,921	43,816	45,677	47,692	50,015
Nominal growth in %	-3.0	12.6	9.8	4.2	4.4	4.9
GDP deflator (previous year = 100)	100.2	104.7	107.6	103.2	102.2	102.1
Real GDP in million BAM (previous year = 100)	35,372	38,136	40,722	44,255	46,650	48,993
Real growth in %	-3.2	7.6	2.0	1.0	2.1	2.7
Inflation measured by the consumer price index in %	-1	2	14.2	7.1	3	2.1
Consumption in million BAM	32,197	34,342	38,385	40,167	41,292	42,673
Real growth in %	-2.3	4.3	1.1	0.3	0.5	1.1
Government spending in million BAM	7,128	7,536	8,327	8,677	8,946	9,214
Real growth in %	1.4	3.1	1.8	0.4	0.6	0.5
Private consumption in million BAM	25,069	26,806	30,058	31,490	32,347	33,459
Real growth in %	-3.2	4.6	0.9	0.3	0.4	1.2
Investments (gross) in fixed assets in million BAM	7,679	8,367	9,180	9,547	10,075	10,847
Real growth in %	-4.2	4.8	5.0	2.1	3.6	5.7
Government investments in million BAM	1,674	1,193	1,431	1,512	1,678	1,846
Real growth in %	82.7	-31.5	14.9	3.5	7.8	6.8
Private investments in million BAM	6,005	7,174	7,748	8,035	8,397	9,001
Real growth in %	-15.4	14.9	3.3	1.9	2.9	5.5
Imports in million BAM	16,645	21,084	26,234	27,582	29,227	31,326
Nominal growth in %	-14.6	26.7	24.4	5.1	6.0	7.2
Real growth in %	-13.4	20.5	14.9	1.9	4.6	5.7
Export in million BAM	11,870	16,485	20,493	21,792	23,728	25,961
Nominal growth in %	-17.2	38.9	24.3	6.3	8.9	9.4
Real growth in %	-15.8	24.6	18.0	4.5	7.6	8.1
National gross savings in % of GDP	19.4	23.1	21.3	20.6	21.6	22.6
Current account balance in million BAM	-1,125	-923	-1,836	-1,898	-1,604	-1,423
Growth in %	20.3	-17.2	94.8	3.4	-15.5	-11.3
Current account balance in % of GDP	-3.2	-2.4	-4.2	-4.2	-3.4	-2.8

What characterized **economic developments** in the first half of 2022, both in Bosnia and Herzegovina and in the world, was increased inflationary pressures. Namely, the post-pandemic economic recovery, broken supply chains and ultimately the crisis in Ukraine led to a sudden jump in world prices, primarily of energy and food, which was reflected in the prices of other goods and services in the world. Thus, the growth of world prices in the first half of 2022, according to IMF data, amounted to almost 50%, with the most significant increases in the categories of energy 97% (crude oil 66.5%, natural gas 213%) and food 20, 5%. These global price movements resulted in a sharp increase in the prices of goods and services in Bosnia and Herzegovina in 2022.⁵⁶ Thus, in Bosnia and Herzegovina, in the period January-September 2022, the CPI consumer price index grew by 13.3% compared to the same period of the previous year. It is very certain that this rising price trend will have a negative impact on economic

⁵⁶ <https://data.imf.org/?sk=471DDDF8-D8A7-499A-81BA-5B332C01F8B9&sId=1547558078595>

growth. Accordingly, relevant international institutions dealing with economic growth projections have significantly revised economic growth projections for both 2022 and 2023-2025. Thus, in the last report, the European Commission significantly revised the economic growth projections for the EU27 countries, which amount to 3.3% in 2022, 0.3% in 2023, and 1.6% in 2024.⁵⁷ Weakening of global economic growth and deterioration of economic conditions in the main trading partners, increased inflationary pressures in the country conditioned the development of an alternative scenario of economic developments in Bosnia and Herzegovina. Before the actual presentation of the alternative scenario, it is necessary to bear in mind that during the previous years the external environment (primarily the EU countries) represented the main structural determinant of most economic developments in Bosnia and Herzegovina through trade and capital flows. Thus, due to the increase in risks caused by the outbreak of the Ukrainian crisis and the increase in inflationary pressures, the DEP revised the projections of economic growth for the period 2022-2025.⁵⁸ According to the projections from the alternative scenario, the projected rate of economic growth is lower by about 0.7 p.p. compared to the basic scenario. However, when making the projection due to the overcomposition of the growth structure, it can be concluded that private consumption will represent the key pillar of economic growth. On the other hand, these events in the international environment would slow down and prolong the planned economic recovery of the country in the medium term of 2023-2025. The assumption is that it would be much more difficult for Bosnia and Herzegovina to achieve economic growth than before the outbreak of the Covid 19 pandemic (around 3% annually), and the approach to the potential level of GDP would be prolonged. Due to the high level of trade integration with the EU countries, a lower level of export demand would lead to a slower recovery of exports, a lower level of production and therefore would affect the aggregate supply of Bosnia and Herzegovina. On the other hand, the weakening of economic activity in the external environment would undoubtedly lead to a slower recovery of domestic aggregate demand, because the lower level of production would slow down the planned increases in employment and wages, which, along with the weaker inflow of citizens' remittances from abroad, would weaken the 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 investments in both the private and public sectors. On the other hand, internal challenges and internal risks in Bosnia and Herzegovina pose a threat to the realization of the projections from the basic scenario. Internal risks are represented by a complex decision-making system and the slow pace of implementing structural reforms in the country. Possible delays in the implementation of intervention - anti-inflationary measures, as well as the implementation of general structural reforms, could have a negative impact on overall economic growth. Partial implementation of the structural reforms foreseen in the program (business environment, labor market, education, energy market, transport and social protection), as well as the migration of young and educated professionals would undoubtedly result in a decrease in productivity and slower GDP growth than projected in the basic scenario. The technological structure and high level of export orientation of industrial production in Bosnia and Herzegovina, especially the processing industry, simultaneously makes it susceptible to economic trends in the international economy. A very certain continuation of negative economic trends in the external environment (weakening of economic growth, inflation and a jump in energy prices) would have a negative impact on the physical volume, employment, investments and productivity within the industrial sector in Bosnia and Herzegovina. The weaker economic recovery of the main trading partners, the demanding business environment, as well as the low level of implementation of product market reforms (digital transformation, research, development and innovation) could represent a burden and slow down the planned recovery of industrial production in Bosnia and Herzegovina in the medium term.

The alternative scenario or projections on the labor market are significantly determined by the events in the environment or the business environment both in Bosnia and Herzegovina and in the world. Therefore, significant uncertainties surrounding the events between Ukraine and Russia (as an external factor) could have a bad impact on economic activity in Bosnia and Herzegovina, which would further reflect on the labor market. With slower economic growth, smaller volume of investments, trade and generally worse business conditions, the growth in the number of employed persons and earnings could be lower than assumed in the basic scenario. In addition, the continuous reduction of the labor force

⁵⁷ DG ECFIN, European Economic Forecast, November 2022

⁵⁸ DEP projections (alternative scenario), November 2022

(through population migration) and the degree of implementation of the planned structural reforms in Bosnia and Herzegovina could affect the observed indicators of the labor market as well as the level of purchasing power and living standards. All the mentioned changes at the same time represent basic risks for projections that would slow down and delay the strengthening of the labor market in Bosnia and Herzegovina.

As in previous years, the basic risks for inflation projections are divided into external and domestic factors. One of the dominant external factors that could affect the overall price level are the events between Ukraine and Russia. This could produce additional inflationary pressures through the growth of energy prices (oil and gas). Higher energy prices would also increase input costs, i.e. costs would be shifted from producers to consumers. At the same time, an increase in the prices of food products could also be present. In this way, the total inflation could be slightly higher compared to the basic scenario, especially in the current year and in 2023. On the contrary, among the domestic factors that could influence the level of inflation are possible temporary changes in excise duties on fuel as well as VAT rates on certain products that have not been taken into account. In addition, the basic projections did not include risks such as an unforeseen rise in utility prices, which would lead to a change in inflation.

Potential risks relate to the deterioration of the global economic picture caused by the increasingly rapid tightening of the **monetary policy** of central banks in leading economies in order to suppress high inflationary pressures. High inflation rates strongly reduce household income and company profits, which can lead to a slower growth of total loans and deposits. Potential risks refer to economic pressures outside the market of Bosnia and Herzegovina, which could be reflected in the domestic business and could lead to a drop in demand for loans from non-financial companies, but also to a decrease in credit activity of the population due to the growth of insecurity and savings from caution, which would ultimately reduce overall credit growth. The assumed growth rates of deposits could also change due to the potential growth of uncertainty in business, which would motivate companies to higher deposit retention rates in relation to the growth rates of investment activities, as well as a possible reduction in the growth rate of deposits in the household sector due to the possible risk of changes in the labor market and disposable income. A decrease in private consumption would lead to a reduced demand for loans as well as a reduced demand for goods and services, which would reduce the deposits of non-financial private companies, which currently have the largest contribution to the overall growth of deposits.

Most of the risks that have a direct impact on the movement of the deficit of the **balance of payments** of Bosnia and Herzegovina are found in the foreign trade deficit of goods and services as well as in the movement of money inflows from abroad. According to DEP's projections, in 2022 there will be a worsening of the foreign trade deficit and consequently an increase in the current account deficit, which will double in that year. For the period 2023-2025, it can be expected that the foreign trade deficit of goods and services will decrease, and therefore it could be expected that there will be a negative growth rate of the current account deficit. Current net inflows from abroad would increase in 2022, while they would stagnate in the following years. It is quite certain that, in addition to the above, a number of external and internal risks should have been taken into account, such as the current account deficit, of which the following stand out: the duration of the war in Ukraine, still existing problems in international supply chains, reduced economic activities in the EU countries as well as in the countries of the region, political uncertainty and uncertainty in Bosnia and Herzegovina. As important risks in financing the current account deficit, it is worth mentioning reduced inflows of direct foreign investments, difficult access to trade credits, as well as possible problems with borrowing on the international financial market. As potential risks that are important to point out (for the medium-term external borrowing of Bosnia and Herzegovina) and that can have a significant impact on the economy, the following is to be mentioned: negative economic growth, increase in the total level of public debt, interest burden, interest rates, increase in the share of direct debt entity in total external debt, increase in public debt service (especially internal), negative budget balance (deficit), exchange rate risks, refinancing risk, but also deterioration of credit rating. The appearance of a negative impact of one of the mentioned risks could lead to significant implications and disruptions to the economy of Bosnia and Herzegovina.

The economic recovery in the EU countries, which was stronger than expected, the growth of world prices, disruptions in global supply chains (increased costs of transporting goods from China), and the relatively quick adaptation of Bosnian companies to the new circumstances, as well as financial support for BiH exporters, enabled quite a good recovery of foreign trade goods exchange with the world in 2021.

A similar growth trend in foreign trade exchange continued in 2022 (double-digit growth rates of exports and imports). However, in the period 2023-2025, a possible increase in external risks such as the escalation of the Ukrainian-Russian conflict, the rise in world energy and food prices could have a negative impact on export demand, and thus on **foreign trade** in Bosnia and Herzegovina. In addition to external risks, the potential risk for foreign trade projections in the base scenario for the period 2023-2025 are also represented by internal risks. In other words, the additional complication of the political crisis due to the general elections in 2022 could result in further difficulties in the processes of economic management in the country, which would have a particularly negative impact on both economic activity and the institutions responsible for foreign trade operations in Bosnia and Herzegovina. The eventual materialization of these internal risks would further complicate and endanger the operations of companies that are export-oriented, and further weaken the otherwise insufficiently diversified export offer of Bosnia and Herzegovina, both companies operating on export markets and the entire economy. Due to increased external risks, in the alternative scenario for the period 2023-2025, DEP predicts slightly slower growth in foreign trade exchange with average annual growth rates of exports of 6.8% and imports of 4.1%.

In an alternative scenario, the intensification of war activities in Ukraine and the consequent aggravation of geopolitical tensions lead to occasional shortages of energy and raw materials along with the strengthening of inflationary trends. Additional tightening of international sanctions against Russia will cause greater declines in economic activity and make it even more difficult to invest in new projects in the region and in Bosnia and Herzegovina. Investment in the oil and gas industry would be particularly affected due to ties to companies in Russian majority ownership. Bosnia and Herzegovina is still under the sanctions of the Energy Community⁵⁹, which will also negatively affect new investments in the coming period. The latent danger of a worsening of the internal political situation with a possible deterioration of the credit rating would additionally have a negative effect on **SDU**, and in 2023 the share would be around 1% in GDP. With the gradual calming down of the war and the stabilization of political and inflationary trends, it would lead to a gradual increase in investment, which would range from 1.3% to 1.6% of GDP in the coming period.

⁵⁹ <https://europeanwesternbalkans.com/2021/01/19/energy-community-imposes-sanctions-on-bih/>

4. FISCAL FRAMEWORK

4.1. Policy strategy and medium-term goals

After the drop in economic activity in 2014 due to natural disasters (floods), there came a period of more intense economic growth. Owing to fiscal consolidation measures at all levels of government in Bosnia and Herzegovina, already in 2015, the zone of surplus is entered, which will remain until 2020. Then there is a drastic drop in economic activity due to the pandemic caused by the COVID-19 virus. The drop in income and the financing of socio-economic measures to support the economy and citizens and the health system at all levels of government caused a large deficit at the level of the general government in Bosnia and Herzegovina. After the stabilisation of the epidemiological conditions related to the COVID-19 virus pandemic, and the achieved significant economic recovery, along with the high growth of the gross domestic product during 2021, at the beginning of 2022 the economy was faced with new challenges, due to the complex international political conditions related to the war events in Ukraine, which had a significant impact on global and domestic economic flows, primarily through sudden and high inflationary jumps. In order to mitigate the consequences of inflation, the authorities in Bosnia and Herzegovina have taken certain measures. Owing to the high collection of tax revenues and contributions, a certain fiscal space was created that enabled all levels of government to increase public sector salaries, pensions, grants and transfers to stimulate public investments and subsidies in the economy. In the Federation of Bosnia and Herzegovina, direct price control measures and limiting margins on petroleum products and basic foodstuffs are in force. Also, in Republika Srpska, the Regulation on determining the margin applied when forming prices of petroleum products and the Regulation on amendments to the Regulation on margin limitation in trade in goods, which reduces the existing margins in retail and wholesale turnover, are in force. In addition, one-time payments were made to different categories of the population in both the Federation of Bosnia and Herzegovina and Republika Srpska.

Table 2: Fiscal indicators in BiH for the period 2021-2025

	2021 Performance	2022* Plan	2023 Plan	2024 Forecast	2025 Forecast
in million KM					
Total income	16.121,4	17.782,8	19.205,8	20.371,1	21.603,4
Total expenditures	15.392,3	17.669,8	19.214,5	20.035,9	20.764,9
Net borrowing/crediting	729,1	113,0	-8,7	335,2	838,5
Interest expenses	243,2	271,2	412,0	489,4	503,5
Primary balance	972,3	384,2	403,3	824,6	1.342,0
% of GDP					
Total income	40,4	40,4	41,1	41,3	41,5
Total expenditures	38,6	40,2	41,1	40,7	39,9
Net borrowing/crediting	1,8	0,3	0,0	0,7	1,6
Interest expenses	0,6	0,6	0,9	1,0	1,0
Primary balance	2,4	0,9	0,9	1,7	2,6

Source: Ministry of Finance and Treasury of BiH, Ministry of Finance of the Federation of BiH, Ministry of Finance of Republika Srpska and Finance Directorate of the Brčko District

*It refers to the revised plan in accordance with the performance

Aggregately observed, based on available data from all levels of government, fiscal results in BiH are positive for 2021 and 2022⁶⁰ owing to a high degree of stability in the collection of public revenues. In accordance with macroeconomic projections in the period 2023-2025, a faster growth of total revenues is predicted compared to total expenditures. The growth of total expenditures in 2022 and planned

⁶⁰ In the data of FBiH and Republika Srpska, the income side shows indirect taxes without deduction of funds for debt repayment. On the expenditure side, there is no item to cover external and internal debt. The declared deficit will be covered by means of financing, while the declared surplus will be aimed at repaying the principal of external and internal debt, as well as financing capital projects.

expenditures in 2023 are the result of the implementation of measures and policies to mitigate the effects of inflation on the economy and the population. Expenditure projections for the period 2023-2025 indicate a gradual abandonment of the expansionary policy in order to ensure the sustainability of public finances.

The structure of total expenditures is still in favour of current expenditures, which on average make up 90% of total expenditures, while capital expenditures make up 10% of total expenditures, although they achieved a growth of 36% compared to 2021. Transfers for social protection have the largest average share of 42% in current expenditures as a result of measures taken to mitigate the consequences of high inflation and the planned continuation of their application in the programme period.

Taking into account strong inflationary pressures, the fiscal policy of all levels of government must be ready to give a quick, timely and consistent response in conditions of constant change in circumstances, while simultaneously continuing to develop coordinated medium-term strategies to support sustainability, recovery and future strengthening of the economy. In conditions of uncertainty regarding macroeconomic trends, the fiscal policy of all levels of government in BiH will be directed towards ensuring the stability of the economy and preserving the standards of citizens. The fiscal policy of all levels of government will be focused on the further implementation of structural reforms that will lead to the relief of the economy and the improvement of the business environment, taking into account the fiscal position. On the other hand, the fiscal policy of all levels of government in BiH will be oriented towards the continuation of infrastructure and capital projects. Borrowing policy will be conducted in accordance with defined fiscal rules in the entities. In accordance with the available fiscal space, pension and salary increase policies and introduction of legal measures to help the most vulnerable categories of the population, i.e., the most vulnerable households, will be implemented.

Considering the remarkable fiscal decentralisation and the fact that over 90% of total aggregated public expenditures are consolidated public expenditures of the Federation of Bosnia and Herzegovina (hereinafter FBiH) and consolidated public expenditures of Republika Srpska (hereinafter: RS), below is an overview of the most important measures which the entities intend to undertake in the programme period.

In order to recover from the crisis and stabilise the economy, the FBiH Government intends:

- targeted directing of public expenditures to the most vulnerable categories of society, i.e. improve the social protection system, ensure assistance and regular payment of pensions, benefits for combatants, disabled civilians, unemployed persons, displaced persons and returnees,
- through more affirmative business within the framework of the economic model of free zones, increase direct foreign investments and ensure the growth of domestic investments through fiscal discipline and control of public expenditures, which creates a positive impact on overall economic growth and development,
- increase the efficiency of the labour market through the implementation of programmes and measures of active and passive policies on the labour market, and create conditions for the growth of the employment rate through the promotion of ideas that lead to the creation of new jobs,
- raise the standard of living and work to create a positive business environment and increase competitiveness, through the simplification of procedures for entrepreneurs and business entities,
- encourage the development of entrepreneurship that focuses on sustainable economic growth, which implies smart management of natural resources with the use of clean energy,
- by investing capital transfers in traffic infrastructure, create new development opportunities in this area that will have a positive effect on the entire economy,
- continuously improve the budgeting system, which would ensure better connection with strategic and medium-term plans, as well as a higher level of transparency and better use of public funds in FBiH,

- strengthen the instruments for preventing tax evasion and directing tax policy to prevent the erosion of the tax base and profit shifting, thereby ensuring efficient collection of public revenues.

At its 176th session held on 30 June 2022, the Government of Republika Srpska adopted the Framework Budget Document of Republika Srpska for the period 2023–2025, which defined the planned budget frameworks, financing and debt for all levels of government in Republika Srpska. This document is the starting point for creating PER RS 2023–2025. The data for 2021 represent budget execution at all observed levels of government. The 2022 data are in accordance with the adopted budgets, i.e. budget rebalances. Data for the period 2023–2025 represent budget projections at all levels of government in Republika Srpska.

When we talk about the objectives of the fiscal policy of Republika Srpska, the consolidated deficit of the general government can be up to 3% of the GDP of Republika Srpska. The consolidated deficit of the general government of Republika Srpska relative to the GDP of Republika Srpska in 2021 amounted to 1.2% of GDP of Republika Srpska.

According to estimates, an increased deficit in the amount of 2.9% of GDP of Republika Srpska is expected in 2022, primarily as a result of inflationary pressures, so that income growth of 15.7% is expected, but at the same time expenditure growth of 20.1%. In addition to the 56% increase in capital expenditures, the Government of Republika Srpska has repeatedly intervened in the form of salary increases in the public sector and one-time cash payments to certain categories of citizens, with the aim of mitigating the negative effects of inflationary shocks on the standard of living. Growth in consumption at higher prices will be reflected indirectly through growth in income.

In the upcoming period 2023–2025, the projected participation of consumption in the GDP of Republika Srpska decreases from 42.2% to 39.3%, so that the budget deficit in the amount of 2.0% of the GDP of Republika Srpska changes to a surplus in the amount of 0.1 % of GDP of Republika Srpska.

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

Republika Srpska Government will continue with the structural reforms described in part 5 of Republika Srpska Economic Reforms Programme 2023-2025, with the aim of macroeconomic and fiscal stabilization, increasing employment, and recovery and acceleration of economic growth.

4.2. The budget execution in 2022

Although in 2021 there was a stabilisation of economic conditions and strong growth, the initial budget plan for 2022, at all levels of government in BiH, was made extremely cautiously and conservatively, based on the fact that this relatively high rate of economic growth is also largely the result of low base (base effect) from 2020, when Bosnia and Herzegovina recorded a drop in GDP of over 3%. However, the extremely high trend in the collection of all types of public revenues in 2022, as a result of sudden and high inflationary jumps and favourable forecasts of key macroeconomic indicators for 2022, caused the need for budget rebalancing in RS and DB.

At the 36th special session, which was held on 26 October 2022, the National Assembly of Republika Srpska adopted the Second Rebalance of the budget of Republika Srpska for 2022. Also, out of 64 local self-government units in Republika Srpska, 52 local self-government units adopted the budget rebalance for 2022. All social security funds in Republika Srpska have begun to rebalance their budgets in 2022. Table number 3 shows the aggregated plan for 2022, which contains the revised plan of Republika Srpska and the Brčko District.

In the aggregate, in relation to the budget plan⁶¹ for 2022, there was an increase in almost all categories of public revenues and expenditures, wherein the growth of revenues (5.9%) is greater than the growth of expenditures (3.1%), therefore it is estimated that 2022 will end with a surplus. The large increase in

⁶¹ The revised consolidated budget of the general government of Republika Srpska and the revised budget of the Brčko District are included in the Plan for 2022

tax revenues and income from contributions is the result of a large increase in final consumption, favourable trends in the labour market, high price growth and an increase in wages. The assessment of execution for the year 2022 indicates that tax revenues will be higher by 652.9 million KM or 7.2% compared to the planned tax revenues for 2022. Of this, it is expected that indirect taxes will be higher by 923.4 million KM or 13.3%, direct taxes will be higher by 426.8 million KM or 28.9%, and income from contributions will be higher by 389.8 million KM or 6.5%.

Table 3: Plan and execution of the budget for 2022 (in million KM)

	Plan 2022	Assessment ⁶² of execution 2022	Assessment of execution - Plan (<i>abs.</i> difference)	Assessment of execution - Plan (% difference)
Total income	16.790,4	17.787,0	996,6	5,9
Current income	16.790,4	17.787,0	996,6	5,9
- <i>Tax revenues (direct and indirect)</i>	9.128,2	9.781,1	652,9	7,2
- <i>Income from contributions</i>	5.996,1	6.385,9	389,8	6,5
- <i>Other income</i>	1.666,1	1.620,0	-46,1	-2,8
Total expenditures and expenses	17.096,7	17.625,5	528,8	3,1
- Current expenses	15.471,3	15.838,1	366,8	2,4
- <i>Gross wages and benefits</i>	4.710,9	4.575,1	-135,8	-2,9
- <i>Material expenses</i>	2.773,3	2.824,0	50,7	1,8
- <i>Transfers for social protection</i>	6.165,1	6.592,0	426,9	6,9
- <i>Interest expenses</i>	271,2	271,2	0,0	0,0
- <i>Other expenses</i>	1.550,8	1.575,8	25,0	1,6
Capital expenditures and expenses	1.625,4	1.787,4	162,0	10,0
Balance	-306,3	161,5	467,8	-152,7
Primary balance	-35,1	432,7	467,8	-1.332,8

Source: Ministry of Finance and Treasury of BiH, Ministry of Finance of the Federation of BiH, Ministry of Finance of Republika Srpska and Finance Directorate of the Brčko District

In the aggregate, the assessment of the execution of total expenditures is considerably lower relative to total revenues. This was contributed to by the fact that the assessment of the execution of the two largest items of total expenditures (gross salaries and transfers for social protection), which make up 70.5% of current expenditures, go in the opposite direction. Namely, it is estimated that the execution in the position of gross wages and benefits will be lower than planned in the Federation of Bosnia and Herzegovina. In the Institutions of Bosnia and Herzegovina, less execution is also planned for the gross salary and compensation item, because out of 75 budget users, only four of them have been filled in accordance with the number approved by the Law on the Budget of the Institutions of Bosnia and Herzegovina and International Obligations of Bosnia and Herzegovina for the year 2022.

On the other hand, in **Republika Srpska**, there was an increase in expenditures for gross wages and benefits. Within the measures of the Government of Republika Srpska, in order to improve the economic and social position of employees in Republika Srpska, the salaries of employees paid from the budget of the Republika Srpska were increased by 5% or 3%, depending on the salary grade. From the first of May, the Decision on determining the price of labour entered into force⁶³ which increased the price of labour from 100 to 110 KM. By amending the Decision on the lowest salary in Republika Srpska for 2022, the lowest salary was increased from 590 KM to 650 KM. The lowest salary in 2023 is 700 KM. Also, the amendment of the Decision on determining salary increases, the amount of income based on work and

⁶² The revised consolidated budget of the general government of Republika Srpska for 2022 in the table also shows the execution estimate for 2022. The same applies to the Brčko District

⁶³ "Official Gazette of Republika Srpska", No. 42/22.

the amount of aid to the worker enabled greater rights on this basis, which affected the increase in expenditures. Since the first of August, a set of the Laws on Wages has been in force, which enables the increase of wages by 100 KM in the public sector, through the correction of wage coefficients. In the revised budget for the year 2022, the amount of 1,337.6 million KM, which is 97.7 million KM, or 7.9% more than the first adopted budget for the year 2022, is foreseen for the position of gross salary and benefits.

The increase in total expenditures was mostly influenced by the significant increase in transfers for social protection. This significant increase in transfers for social protection is the result of measures taken, primarily, by the Government of the Federation of Bosnia and Herzegovina and the Government of Republika Srpska to mitigate the effects of inflation, which are described below.

In order to mitigate the potential impact of negative shocks, in 2022 the **Government of the Federation of Bosnia and Herzegovina** undertook a series of legal measures to help the most vulnerable categories of the population, i.e. the most vulnerable households. From the funds of the FBiH Budget, one-time assistance was allocated to pensioners, veterans and civilian disabled persons. The amount of 18.7 million KM has been set aside for one-time assistance to unemployed persons registered in the Labour Bureau. In addition, veterans' benefits were increased, and the lowest pensions were increased 3 times in 2022. Aid packages of basic necessities of life and hygiene items for socially vulnerable categories of the population have been allocated from the goods reserve funds. Due to the impossibility of influencing the prices of gas and electricity caused by external influences, the Government of FBiH, from the Budget of FBiH, made it possible to help consumers of electricity by subsidizing electricity bills for 5 months for about 65,000 families.

The Government of the Federation of Bosnia and Herzegovina left in force the measures on direct price control, which it adopted during the coronavirus pandemic, thus limiting the margins for basic foodstuffs and petroleum products. In order to protect the economic interests of citizens and suppress the possibly unfair conduct of individual producers, the Government of the Federation of Bosnia and Herzegovina passed a Decision on prescribing a measure of direct price control by determining the highest price level for pellets. Compared to previous years, funds from the 2022 budget for agriculture have been increased, and in addition, aid to agricultural producers has been allocated from the commodity reserve funds, in order to reduce dependence on the import of food products.

Harmonization, i.e. annual growth of benefits to the veteran population, depending on the growth of GDP and prices, was ensured by amending the laws governing this area. Considerable funds are planned in the budget to enable the introduction of a monthly allowance for care giving parents, and at the same time they will receive the status of insured in the health insurance system. Funds from the budget are provided for a uniform amount of child allowance for low-income families. By changing the criteria for exercising the right to financial assistance for women postpartum, the number of unemployed women postpartum who exercise the said right has increased.

It is also possible for employers to pay one-time financial assistance to employees, and employers who do so are exempt from paying taxes and contributions on the amount of support paid. For the faster implementation of structural reforms that should lead to general growth of the economy and improvement of population standards, 239 million KM have been allocated from the Federation Budget for the year 2022 for financial assistance to cantons, cities and municipalities. This allocation will ensure financing and co-financing of infrastructure projects of importance for the Federation of Bosnia and Herzegovina.

For programs of co-financing of employment and self-employment, funds from the budget of the FBiH Government in the amount of 61 million have been provided, and it is planned to cover 11,500 unemployed persons in the Federation of BiH.

In **Republika Srpska**, apart from adjustment of pensions from 1 January 2022, in a total percentage of 4%, the Government, as part of the aforementioned measures of 1 May 2022, through an extraordinary adjustment of pensions, increased them by an additional 10%. Also, during the year, assistance was paid to pensioners on two occasions in the amount of 100 KM each, totalling 36 million KM. According to the revised plan for 2022, pensions are planned in the amount of 1,361.0 million KM. As of 1 May 2022, the Law on Amendments to the Law on Social Protection is in force, which foresees greater allocations for rights to financial aid, allowance for assistance and care of another person, and personal disability

benefits. Based on this, in the revised budget of the general government of Republika Srpska for 2022, 4.9 million KM more than the original plan is planned for the said positions.

War veterans, disabled war veterans and family members of fallen soldiers, who are beneficiaries of family disability benefits, were also paid 100 KM aid on two occasions each, which amounts to 43.1 million KM in total. Also, at the beginning of September, the Government of Republika Srpska adopted a Decision on awarding of one-time financial aid to children of fallen soldiers who are registered in the records of the Employment Institute of Republika Srpska in the amount of 1,000 KM each, as one of the temporary measures of financial empowerment. A total of 3.8 million KM was allocated for this purpose.

In order to improve the financial situation of young people in Republika Srpska and mitigate the effects of inflation, this category was paid 100 KM on two occasions each, in a total amount of 25.9 million KM. In the framework of support to families with four or more children and assistance in maintaining the quality of family life, the Government made a decision to provide financial assistance to an unemployed parent with four or more children for four months in 2022, which amounted to 12.0 million KM in total.

In Republika Srpska, the Regulation on determining the margin applied when forming the prices of petroleum products and the Regulation amending the Regulation on margin limiting the turnover of goods, which reduces the existing margins in retail and wholesale turnover, are in force. Also, in November 2022, the Government of the Republika Srpska adopted the Decision on an interim measure (until March 31, 2023) for limiting the price of pellets, per ton in all packages, in retail trade, on the territory of the Republika Srpska.

In the aggregate, the execution of capital expenditures is estimated at 1,787.4 million KM, of which 1,048.4 million KM refers to the Federation of BiH, 633 million KM to Republika Srpska, 57.7 million KM to the Brčko District and 48.3 million KM to the Institutions of BiH. Capital expenditures are higher by 10% or 162 million KM. The increase in capital expenditures in FBiH is the result of increased investments in the construction of motorways and roads, investments in water supply and sanitation, and in the energy sector. In RS in the period January - September 2022, capital expenditures were realised in the amount of 289.9 million KM, which represents 45.8% of the revised budget of the general government of Republika Srpska for 2022. Within these funds, public investments in the amount of 52.2 million KM can be allocated, as well as the construction, reconstruction and equipping of hospitals in the amount of 64.0 million KM and an increase in the planned funds from public investments for local self-government units. The realisation is smaller due to the complexity of public procurement procedures and solving of property-legal relations.

4.3. Budget plans for the year of ERP submission

In the aggregate for BiH, total revenues are planned for 2023 in the amount of 19,205.8 million KM, which is 8% higher than the estimated execution in 2022 (FBiH 11,539.1 million KM, RS 6,165.9 million KM, Institutions of BiH 1,229.1 million KM and DB 271.7 million KM)⁶⁴.

The growth of current income is the result of projected economic growth of 2.5% on average per year and the predicted trend of price growth and private consumption growth and projected price growth. Following the positive forecasts of key parameters related to the labour market, i.e. the increase in the number of employees, and the projected increase in wages in 2023, an increase in income from income tax and, accordingly, an increase in the collection of mandatory social contributions are expected.

Tax revenues make up 54.8% of current revenues. In the structure of tax revenues, indirect taxes dominate with 80.2%, while direct taxes make up 19.8% of total tax revenues. The planned increase in tax revenues (direct and indirect) is 7.7% compared to 2022, or 748.9 million KM. Indirect taxes are planned in the amount of 8440.8 million KM and are higher by 562.7 million KM or 7.1% compared to 2022. Direct taxes were planned in the amount of 2089.3 million KM and are higher by 186.2 million KM or 9.8% compared to 2022.

⁶⁴ For amounts referring to individual levels of government, see tables 1a-FBiH, 1b-RS, 1c-Institutions of BiH and 1d-DB, which are attached to the ERP

Table 4: Estimated execution of the budget for 2022 and the plan for 2023 (in millions of KM)

	2022	2023	2023-2022 (abs. difference)	2023/2022 (% difference)
Total income	17.787,0	19.205,8	1.418,8	8,0
Current income	17.787,0	19.205,8	1.418,8	8,0
- <i>Tax revenues (direct and indirect)</i>	9.781,1	10.530,1	748,9	7,7
- <i>Income from contributions</i>	6.385,9	6.985,6	599,7	9,4
- <i>Other income</i>	1.620,0	1.690,1	70,2	4,3
Total expenditures and expenses	17.625,5	19.214,5	1.589,0	9,0
- Current expenses	15.838,1	17.335,7	1.497,6	9,5
- <i>Gross wages and benefits</i>	4.575,1	5.143,7	568,6	12,4
- <i>Material expenses</i>	2.824,0	3.085,0	261,0	9,2
- <i>Transfers for social protection</i>	6.592,0	7.285,3	693,3	10,5
- <i>Interest expenses</i>	271,2	412,0	140,8	51,9
- <i>Other expenditures</i>	1.575,8	1.409,7	-166,1	-10,5
Capital expenditures and expenses	1.787,4	1.878,8	91,4	5,1
Balance	161,5	-8,7	-170,2	-105,4
Primary balance	432,7	403,3	-29,4	-6,8

Source: Ministry of Finance and Treasury of BiH, Ministry of Finance of the Federation of BiH, Ministry of Finance of Republika Srpska and Finance Directorate of the Brčko District

Revenues from contributions make up 36.3% of current revenues. The planned increase in income from contributions of 599.7 million KM (FBiH 425.9 million KM, and the RS 173.8 million KM) or 9.4% compared to 2022 is based on positive forecasts related to employment and the effects of salary increases in the public sector.

In the aggregate, the planned other revenues are higher by 70.2 million KM, with the Institutions of BiH planning an increase of 3.1 million KM, the FBiH an increase of 22.8 million KM, the RS an increase of 47.5 million KM, while the BD planned a decrease of 2.9 million KM.

Total aggregate expenditures for BiH in 2023 are planned in the amount of 19,214.5 million KM and are higher by 1,589.0 million KM or 9% compared to public expenditures in 2022. With the exception of the Brčko District, whose expenditures are lower by 26.2 million KM, all other levels of government have an increase (BiH Institutions 289.7 million KM, FBiH 954.4 million KM and RS 371.2 million KM). The biggest increase was shown in gross wages and benefits, social transfers and interest expenses.

Gross salaries and benefits are higher by 568.6 million KM or 12.4% compared to gross salaries and benefits in 2022, of which 276 million KM are related to Institutions of Bosnia and Herzegovina, 147.3 million KM to FBiH, 138 million RS to 3 million KM and the BD 7 million KM. In the Federation of BiH, the increase is based on an increase in the number of internal auditors employed by individual budget beneficiaries, an increase in the number of police officers, the number of delegates in the House of Peoples, and the payment of taxes and contributions from court rulings. In Republika Srpska, in addition to the increase in allocations for years of service and the effect of the wage increase that has been in effect since May and August 2022, the budget for 2023 plans an additional wage increase of 5% for employees in the public sector. Gross salaries and benefits for the year 2023, in the Institutions of BiH, are higher due to the fact that the Framework Budget Document of the Institutions of BiH for the period 2023-2025, was adopted on the basis of the base for calculating wages in the amount of 630 KM, as well as amendments to laws and by-laws related to personal income in 2022 that was not included in the budget for 2022 (charges for meal allowances and transportation, base for half a year in 2022 was 475.69 KM, changes of coefficients).

Social transfers are higher by 693.3 million KM, of which 480.2 million KM refers to the FBiH, 194.2 million KM to the RS, 17.8 million KM to the DB and 1.2 million KM to the Institutions of BiH. In the **Federation of BiH**, the growth of social transfers is related to the planned measures of the FBiH Government with the aim of recovering from the crisis. The largest participation there are the costs of regular payment of pensions and disability benefits (war and civilian disability benefits), the costs of payment of children's allowance to families with weaker income, and assistance to displaced persons.

In the past period, during the pandemic, all the weaknesses of the health system were revealed, and a conclusion was reached about the need to undertake the rehabilitation of this area, which is why it was decided to allocate significant funds in order to overcome or alleviate them. In 2023, the largest allocation of funds is planned for the rehabilitation of health institutions in the amount of 75.0 million KM, and in addition, smaller amounts are planned for the fight against infectious diseases, i.e. for taking measures to prevent and control the infectious disease COVID-19 in the amount of 1 0 million KM, and for procurement of vaccines against COVID-19 in the amount of 9 million KM.

The pandemic also had a large negative impact on the economy, which is why the FBiH Government took a number of measures, one of which was the formation of the Guarantee Fund at the Development Bank. The goal of the formation of this fund is to provide business entities with credit in order to improve their liquidity and investment activities, with the aim of preserving jobs during the pandemic. Recognising the importance of this measure for the preservation and growth of economic activity, in 2023 an amount of 20 million KM is planned for the Guarantee Fund at the Development Bank.

In Republika Srpska, the increase in social transfers is the result of the continuation of Republika Srpska Government's measures aimed at improving the economic and social position of beneficiaries of social protection. It is planned to increase pensions in 2023 by 13.5%, i.e. 184.0 million KM more than indicated in the revised plan of the general government of Republika Srpska for 2022. At the same time, an additional 40.3 million KM or 13.5% increase in veteran's benefits is planned. The Government of Republika Srpska defined the proposal of the Law establishing the right to financial compensation for one of the unemployed parents of four or more children, one of whom is a minor, in the monthly amount of 750 KM and the right to have contributions for health and pension-disability insurance paid, for which 70 million KM is planned. The aforementioned increases in social benefits planned in the budget for 2023 were neutralised by the absence of one-time assistance to social protection beneficiaries, which were paid in 2022 and were not planned in the budget for 2023.

In order to mitigate the negative socio-economic impact of the energy crisis, the EU has planned a package of energy support for BiH within the framework of the energy package for the Western Balkans. This support is intended to rehabilitate the consequences of the increase in energy prices for the economy and vulnerable households in Bosnia and Herzegovina. In addition to creating a spending programme for this support, the FBiH, RS and the BD have committed to continue adopting measures to provide support to the most vulnerable population.

Interest expenses are planned in the amount of 412.0 million KM, of which 173,9 million KM refer only to the Federation of Bosnia and Herzegovina and 236,5 million KM to Republika Srpska, and it is in line with the maturities of collection obligations.

In the aggregate, capital expenditures are planned in the amount of 1,878.8 million KM and are higher by 5.1% or 91.4 million KM. The lower growth of planned capital expenditures is the result of the reduction of planned public investments in the Republic of Srpska in the amount of 34.5 million. KM compared to 2022, when they were significantly increased, as well as reductions in capital expenditure in Brčko District in the amount of 25.9 million KM compared to 2022. In the Institutions of Bosnia and Herzegovina, the same amount is planned as in 2022. The planned growth of capital expenditures, i.e. investments of public companies in the Federation of Bosnia and Herzegovina, of 14.5% or 151.8 million KM, mostly refers to investments for the construction of motorways, expressways, main roads and other roads, the construction of swimming pool in Mostar, and support implementation of the sustainable return of refugees and displaced persons.

In 2023, a total deficit of 8.7 million KM is projected. Reviewed by individual levels of government, FBiH projected a surplus of 382.8 million KM, while RS projected a deficit of 300.3 million KM, Institutions of BiH a deficit of 84.8 million KM and the BD a deficit of 6.4 million KM.

4.4. Medium-term budget prospects

In accordance with the macroeconomic framework that predicts further growth and strengthening of economic activity, in the aggregate, a stable annual growth of current income of 6.1% is predicted. In accordance with macroeconomic projections, the average annual growth rate of income from indirect taxes in the period 2024-2025 will amount to 3.4%, while the average annual growth rate of direct taxes will amount to 8.9%.

The high level of inflation, which during 2022 led to a significant increase in operating costs, which will partially be carried over into 2023, will be reflected most significantly on the collection of income from profit tax in 2024, and accordingly, in the aggregate, it expects a lower growth rate of these revenues of 4.7%. In 2025, the abovementioned income category should achieve a growth of 6.6% compared to 2024.

In 2024, the projected total public expenditures amount to 20,035.9 million KM (FBiH 11,873.2 million KM, RS 6,571.7 million KM, BiH Inst. 1,305.3 million KM and the BD 285.7 million KM) and they are higher by 821.4 million KM than projected public expenditures in 2023. On the side of projected total public spending, mandatory expenditures (gross wages and social transfers) dominate, which make up 65.7% of total projected public expenditures and grow by 5 p.p. in average compared to the 2023 plan. They are the result of the planned continuation of the implementation of measures to overcome the crisis.

Table 5: Mid-term budget prospects (in millions of KM)

	2021	2022	2023	2024	2025
Total income	16121,5	17782,8	19205,8	20371,1	21603,4
Current income	16.121,5	17.782,8	19.205,8	20.371,1	21.603,4
- <i>Tax revenues (direct and indirect)</i>	8.430,9	9.781,2	10.530,0	11.015,5	11.509,1
- <i>Income from contributions</i>	5.724,7	6.385,9	6.985,6	7.609,5	8.293,5
- <i>Other income</i>	1.965,9	1.615,7	1.690,2	1.746,1	1.800,8
Total expenditures and expenses	15.392,3	17.669,8	19.214,5	20.035,9	20.764,9
- Current expenditures	14.085,1	15.882,4	17.335,7	18.211,7	18.843,8
- <i>Gross wages and benefits</i>	4.119,9	4.592,9	5.143,7	5.265,4	5.415,0
- <i>Material expenses</i>	2.555,6	2.850,5	3.085,0	3.160,1	3.214,6
- <i>Transfers for social protection</i>	5.769,4	6.592,0	7.285,3	7.894,4	8.291,1
- <i>Interest expenses</i>	243,2	271,2	412,0	489,4	503,5
- <i>Other expenses</i>	1.397,0	1.575,8	1.409,7	1.402,4	1.419,6
Capital expenditures and expenses	1.307,2	1.787,4	1.878,8	1.824,2	1.921,1
Balance	729,2	113,0	-8,7	335,2	838,5
Primary balance	972,4	384,2	403,3	824,6	1.342,0

Source: Ministry of Finance and Treasury of BiH, Ministry of Finance of the Federation of BiH, Ministry of Finance of Republika Srpska and Finance Directorate of Brčko District

The capital budget in 2024 amounts to a total of 1,824.2 million KM and is lower than the capital expenditures and expenses in 2023 by 54.6 million KM, while in 2025 they amount to 1,921.1 million KM.

According to the trends in income and expenditures, a balance of public finances is expected in 2024 and 2025, i.e. a surplus of 0.7% of GDP in 2024 and 1.6% of GDP in 2025. The main adjustment was made to capital expenditures and expenses and other current expenditures.

Funding of the budget and consolidated budget for the duration of the programme

Reviewed by individual levels of government in BiH, FBiH, the entire programme period is in surplus. As regards the presentation of the FBiH fiscal framework, it is important to note that on the income side, indirect taxes are shown without the deduction of funds for debt repayment. On the expenditure side,

there is no item to cover external and internal debt. The reported deficit will be covered by means of financing, while the reported surplus will be aimed at repaying the principal of external and internal debt, as well as financing capital projects.

The institutions of BiH will partially finance the deficit from the undistributed surplus of income over expenditures from the adopted Reports on the implementation of the budget of the Institutions of BiH and international obligations of BiH, which precede two calendar years the year in which the funds shall be used. Uncovered excess expenditure is updated every year through the adoption of the Global Framework of Fiscal Balance and Policies in BiH.

Below is an overview of the financing of the deficit/surplus of the consolidated budgets of the general government of Republika Srpska, in the period 2021-2025.

Table 6: Deficit financing plans in Republika Srpska (in millions of KM)

	Execution	Assessment	Projection		
	2021	2022	2023	2024	2025
Surplus / Deficit	-153,3	-405,0	-300,3	-87,7	22,8
Net loans	-48,5	-94,8	-164,8	-414,0	-176,0
Net bonds	435,1	477,5	631,9	553,2	183,0
Net treasury bills	-107,9	19,9	9,9	-11,9	-37,7
Net receipts from financial assets	-279,0	208,6	13,6	125,7	174,8
Other financing	153,7	-206,1	-190,3	-165,3	-166,9
In total	153,3	405,0	300,3	87,7	-22,8

Source: Ministry of Finance of Republika Srpska

Net receipts on the basis of loans in the entire observed period are negative, that is, expenses for loan repayment are greater than the amount of receipts on that basis. In the same period, positive net receipts from the issuance of bonds, as well as from financial assets, are expected. On the basis of other financing (which refers to obligations under the Law on Internal Debt that are settled in cash, obligations under issued guarantees, other obligations from earlier years and other obligations) in the coming period, negative net receipts are expected, i.e., expenses higher than receipts.

In the period 2023–2025, total financing⁶⁵ (new debt) of the central government is planned in the amount of 3.3 billion KM, of which 1.4 billion KM in 2023, 1.0 billion KM in 2024, and 0.8 billion KM in 2025.

During the given period, financing is mostly done from external sources, whereby in 2023 the participation of external sources of financing is 77.0%, 74.9% in 2024 and 32.7% in 2025. The planned financing is almost entirely realised through long-term (domestic and external) instruments, which participate with 97.9% in the total financing in 2023, with 96.3% in 2024, and 100.0% in 2025. The share of financing through securities (domestic and foreign) during the given period is more dominant, and in 2023 it is 77.4%, in 2024 it is 88.6%, while in 2025 it is 67.3% of the total planned financing.

Investment projects will be fully financed from external sources, as a result of maximum utilisation of access to concessional financing sources (World Bank, EIB, EBRD, IFAD, KfW, etc.). Domestic and external sources of financing will be used to finance budget spending⁶⁶.

⁶⁵ Financing for the period 2023–2025 includes the plan for the withdrawal of foreign loan funds for investment projects under implementation approved by the National Assembly of Republika Srpska ending on 30 September 2022, the plan for receipts based on new credit liabilities and the issuance of securities for the purpose of financing budget spending in the period 2023–2025, what the National Assembly of the Republika Srpska will decide on as part of the annual decisions on long-term debt.

⁶⁶ Of the total financing through external sources, 70.7% in 2023, 84.7% in 2024, and 77.9% in 2025 relate to the financing of budget spending.

4.5. Structural balance (cyclical component of the deficit, one-time and temporary measures, fiscal policy)

For the calculation of the cyclically adjusted (primary) balance of the consolidated general government, the cyclically adjusted budget balance was calculated based on the semi-aggregate method of the European Commission. The calculation of the cyclical part of the balance carried out by the European Commission is based on the usual procedure in two steps: (i) on the assessment of the aggregate production gap as an indicator of the economic cycle and (ii) on the assessment of the elasticity of total income and expenditure in relation to this gap.

In the first step, the cyclical state of the economy (production gap) is evaluated by comparing the actual GDP with the potential one. Considering the unavailability of data, the production function method could not be used to assess the aggregate production gap. Thus, the estimate of potential GDP is based on the adapted Hodrick-Prescott filter, due to its transparency and simplicity, with a smoothing coefficient (λ) for annual data, 6.25⁶⁷. According to Bruchez, P.-A. (2003), the adapted Hodrick-Prescott filter solves the problem of sample start/end bias, which is the main drawback of the original H-P filter. Using such an adapted filter, it was not necessary to artificially extend the data series beyond the projection period.

In the second step, the effect of cyclical movements on the budget is assessed by applying budget elasticities. The total elasticity of income/expenditure⁶⁸ is derived as a weighted sum of the elasticity of individual income/expenditure categories that are sensitive to the movement of the business cycle, where the weights of individual categories are their shares in total income/expenditure. At the same time, the elasticity of individual income/expenditure components is first calculated with regard to their relevant macroeconomic base, then the elasticity of the macroeconomic base to the aggregate production gap is evaluated. The product of these two elasticities gives the elasticity of an individual income/expenditure component to the aggregate production gap.

As a standard in assessing the elasticity of income and expenditure, it is assumed that the elasticity of consumption tax, income tax, profit tax, social contributions and expenditure for the unemployed relative to the corresponding tax base is equal to one (1). In this way, the calculated total elasticity of the budget balance of the consolidated general government is 0.34, where the estimated elasticity for revenues is 0.33 and for expenditures -0.01. The obtained results and their interpretation depend to the greatest extent on the length of the series used, the reliability and quality of the data.

After calculating the overall sensitivity of the budget balance, the cyclical component of the budget balance is then obtained as the product of the output gap and the overall cyclical sensitivity. In order to show the real character of the discretionary fiscal policy, the fiscal position is calculated. It is measured as the annual change in the cyclically adjusted primary budget balance (excluding interest) less one-time measures (structural budget primary balance), where a positive sign indicates an expansionary and a negative sign a restrictive policy. The structural primary balance calculated in this way shows the structural fiscal position.

⁶⁷ Morten O. Ravn and Harald Uhlig: "Discussion Paper No. 2858 on adjusting the HP – Filter for the frequency of observation, CEPR, June 2001 © 2002 by the President and Fellows of Harvard College and the Massachusetts Institute of Technology

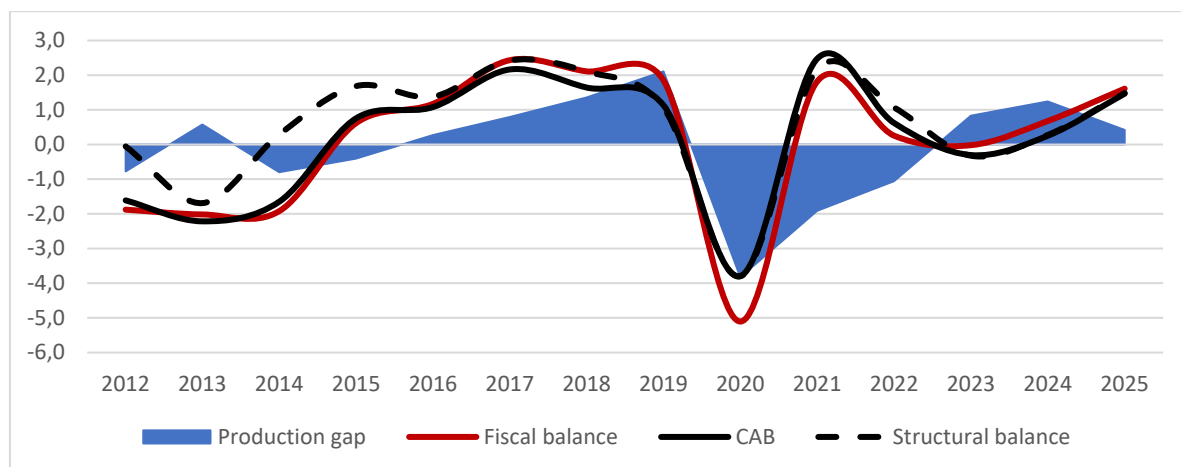
⁶⁸ On the income side, as cyclically sensitive components, revenues from VAT and excise (consumption tax), income tax, profit tax and income from social contributions are determined, while on the expenditure side, only expenditures for unemployment benefits are taken.

Table 7: Fiscal balance and components for calculating the cyclically adjusted balance in the period 2012-2025, in % GDP ⁶⁹

Year	Production gap	Fiscal balance	Primary fiscal balance	A cyclic compon. CC	Cyclic adjustm. Balance (CAB)	Cyclically adjusted primary balance	Structural balance	Structural primary balance	Fiscal impulse
2012	-0,8	-1,9	-1,2	-0,3	-1,6	-0,9	-0,1	0,7	0,1
2013	0,6	-2,0	-1,3	0,2	-2,2	-1,5	-1,7	-1,0	0,6
2014	-0,8	-1,9	-1,1	-0,3	-1,6	-0,8	0,3	1,1	-0,7
2015	-0,4	0,6	1,5	-0,1	0,8	1,6	1,7	2,6	-2,5
2016	0,3	1,2	2,0	0,1	1,1	1,9	1,4	2,2	-0,2
2017	0,8	2,4	3,1	0,3	2,2	2,8	2,4	3,1	-1,0
2018	1,4	2,1	2,8	0,5	1,6	2,3	2,1	2,8	0,5
2019	2,1	1,9	2,5	0,7	1,1	1,8	1,1	1,7	0,5
2020	-3,8	-5,1	-4,4	-1,3	-3,8	-3,1	-3,8	-3,1	4,9
2021	-1,9	1,8	2,4	-0,7	2,5	3,1	2,2	2,8	-6,2
2022	-1,1	0,3	0,9	-0,4	0,6	1,2	1,1	1,7	1,9
2023	0,8	0,0	0,9	0,3	-0,3	0,6	-0,3	0,6	0,7
2024	1,2	0,7	1,7	0,4	0,3	1,2	0,3	1,3	-0,7
2025	0,4	1,6	2,6	0,1	1,5	2,4	1,5	2,4	-1,2

Source: Ministry of Finance and Treasury of Bosnia and Herzegovina

Graph 1: Actual and cyclically adjusted fiscal balance in the period 2012-2025 in % of GDP



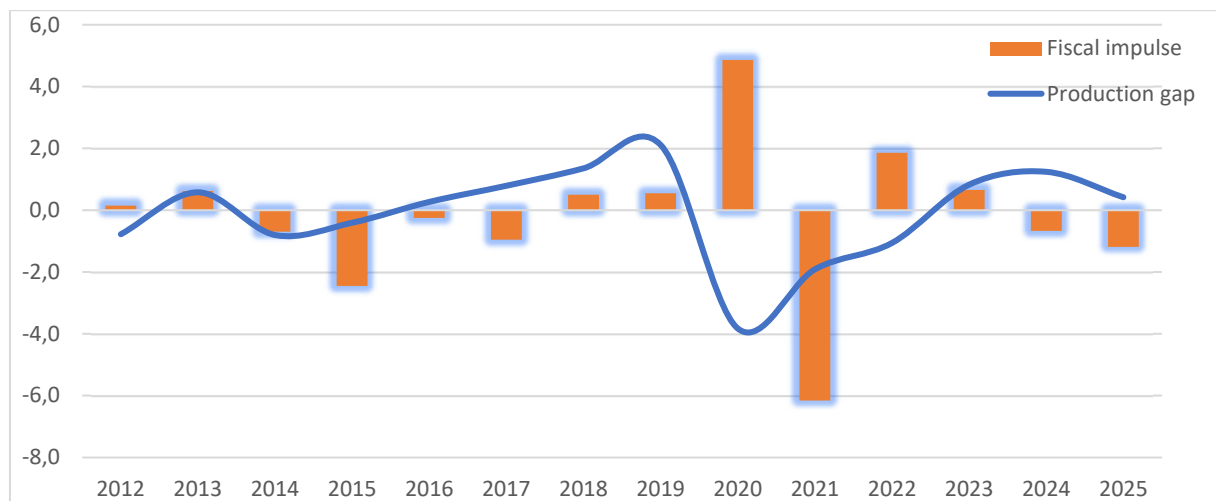
Source: Ministry of Finance and Treasury of Bosnia and Herzegovina

Based on the data provided by the Federation of Bosnia and Herzegovina, Republika Srpska, the Brčko District and the Institutions of Bosnia and Herzegovina and their aggregation, a calculation of the

⁶⁹ For the period 2012-2020, data from the CBBH was used, and for the period 2021-2025, data provided by the ministries of finance (institutions of BiH and entities) and the Finance Directorate of the BD.

structural balance and an assessment of the fiscal position and fiscal policy in Bosnia and Herzegovina was made. Taking into account that we are dealing with aggregated data (not ESA), the calculation and assessment should be taken with a grain of salt.

Graph 2: Character of fiscal policy in Bosnia and Herzegovina in the period 2012-2025



Source: Ministry of Finance and Treasury of Bosnia and Herzegovina

After the outbreak of the pandemic caused by COVID-19, there is a slowdown in economic efficiency and a decline in all macroeconomic aggregates. There is a decrease in the collection of all revenues and a strong increase in public expenditures (counter-cyclical expansionary fiscal policy) due to the large costs of health care and measures taken to help the economy and citizens. The gradual stabilisation of epidemiological and economic conditions in 2021 will lead to an increase in economic activity in BiH. As a result of a stronger recovery of domestic demand (private consumption), there is a significant increase in income while at the same time conducting a strong restrictive (countercyclical) fiscal policy. The measures to help health care, the economy and the population are time-limited and will be applied in 2021 as well, on a reduced scale though. The shown strong contractionary phase of fiscal policy in 2021 should be taken with a grain of salt considering that it is about aggregated data provided by all levels of government (not ESA). At the beginning of 2022, the economy was faced with new challenges, due to the complex international political circumstances related to the war events in Ukraine, which had a significant impact on global and domestic economic flows, primarily through sudden and high inflationary flows. Preservation and stimulation of aggregate demand (primarily private consumption) requires the intervention of all levels of government in Bosnia and Herzegovina (counter-cyclical expansionary fiscal policy) through the adoption and application of a package of crisis recovery measures. In 2023, inflation is expected to slow down, with further growth in revenues (primarily indirect taxes due to expected growth in final consumption) and continued implementation of crisis recovery measures. According to the available data and projections in the period 2024-2025, all levels of government in BiH abandon the expansive fiscal policy in order to stabilise the fiscal position of BiH.

4.6. Level of indebtedness and development of events, analysis of emergency operations and harmonisation of flow and balance

Institutional arrangements and borrowing restrictions

In accordance with the constitutional arrangement in BiH, a legislative and institutional framework for debt management has been established at all levels of government. The aforementioned legislative framework, among other things, regulates borrowing limits for the corresponding level of government. According to the legal framework, public debt management in BiH is carried out by the Ministry of Finance and Treasury of BiH, entity Ministries of Finance and the Finance Directorate of the BD. Debt management is carried out through the implementation of borrowing procedures, recording, monitoring, servicing and preparation of debt management strategies and preparation of plans regarding external and internal debt.

Entity regulations and the BD regulations determine the fiscal rules concerning borrowing limits and are applied in the territories of entities and the BD.

Thus, in accordance with the Law on Debt, Borrowing and Guarantees in the Federation of Bosnia and Herzegovina⁷⁰ (hereinafter: Law on Debt in FBiH), FBiH can borrow in the country and abroad in domestic or foreign currency. The Law on Debt in the FBiH establishes limits on borrowing by the FBiH, cantons, cities and municipalities, as well as the purposes for which it can borrow on the external or internal market, and issue guarantees. Borrowing limits have also been defined for the total public debt of the FBiH, which is consolidated at the level of the FBiH. It is stipulated that the FBiH can borrow long-term if, at the time of borrowing, the amount of debt servicing, total internal and external debt and guarantees due each subsequent year, including the servicing of the proposed new borrowing and all loans for which the FBiH has issued guarantees, with limits on the amount of the canton's debt, does not exceed 18 percent of the consolidated revenues of the FBiH and cantons generated in the previous fiscal year. Cantons and cities and municipalities can incur long-term debt if, at the time of long-term debt, the amount of debt servicing for the total internal and external debt and guarantees due in each subsequent year, including servicing for the proposed new debt and all loans for which guarantees of the cantons, cities and municipalities have been issued, does not exceed 10% of the revenues generated in the previous fiscal year. When determining the aforementioned limits, guarantees are calculated in the amount of 30% of the nominal value of the guarantee. In accordance with the Law on Debt in FBiH, the Government of FBiH has established a Debt Committee, which includes representatives of the Federation and Cantonal Ministries of Finance. This Committee is, among other things, responsible for monitoring the sustainability of the total debt in FBiH.

The Law on Borrowing, Debt and Guarantees of Republika Srpska⁷¹ regulates in detail the area of borrowing and issuing guarantees of Republika Srpska and local self-government units, as well as the ways and procedures of borrowing, which together with the existing laws in the area of the budget system and the Law on Fiscal Responsibility in Republika Srpska, forms an overall legal framework for the improvement and control of budget discipline. In accordance with the Law on Borrowing, Debt and Guarantees of Republika Srpska, the limitation of the amount of the debt is determined so that the total debt of Republika Srpska⁷² at the end of the fiscal year, cannot exceed 60%, while the public debt of Republika Srpska cannot exceed 55% of the realised GDP in that year. The debt of Republika Srpska arising on the basis of liability for the financing of damage repair from the Unified Register of Damages, prescribed in the Law on the Solidarity Fund for the Reconstruction of Republika Srpska, is exempt from the restrictions prescribed for the total and public debt of Republika Srpska. The short-term debt of Republika Srpska cannot exceed 8% of the amount of regular revenues generated in the previous fiscal year. The total exposure of Republika Srpska based on the issued guarantees cannot exceed 15% of the realised GDP in that year. Additionally, the Budget of Republika Srpska determines the amount of short-term and long-term debt of Republika Srpska that may arise during the budget year. The National Assembly of Republika Srpska, on the proposal of the Government, decides on total short-term and long-term borrowing that may arise during the fiscal year, as well as on its purpose, on the total amount of guarantees of Republika Srpska that the Government may issue during the fiscal year⁷³, and on the approval of capital investment, as well as on the maximum amount of debt for financing that investment. Local self-government units can incur long-term debt only if, in the period of debt creation, the total amount due for repayment, based on the proposed debt and the entire due, outstanding existing debt, in any subsequent year does not exceed 18% of the amount of their regular income generated in the previous fiscal year. The short-term debt of local self-government units cannot exceed 5% of their regular revenues generated in the previous fiscal year, and the exposure under issued guarantees cannot exceed 30% of the amount of their regular revenues generated in the previous fiscal year (all rules that apply to units of local governments also apply to social security funds, except for the part concerning guarantees - social

⁷⁰ Official Gazette of FBiH (br. 86/07, 24/09, 44/10 i 30/16)

⁷¹ „Official Gazette of Republika Srpska“, No. 71/12, 52/14, 114/17, 131/20, 28/21 i 90/21.

⁷² In accordance with the Law on Borrowing, Debt and Guarantees of Republika Srpska, the total debt of Republika Srpska consists of the public debt of Republika Srpska, the debt of public companies, the IRB of the RS and public sector institutions. Public debt is the debt of the Republika Srpska (budget), the debt of local self-government units, and the debt of social security funds.

⁷³ Article 1 of the Law on Amendments to the Law on Borrowing, Debt and Guarantees of Republika Srpska ("Official Gazette of Republika Srpska" No. 114/17).

security funds cannot issue them). The assembly of the local self-government unit makes a decision on the indebtedness and issuance of the guarantee of the local self-government unit, and the Ministry of Finance gives consent for the indebtedness and issuance of the guarantee. The Management Board of the Social Security Fund makes a decision on borrowing to be made by the Social Security Fund, the Ministry of Finance issues an opinion, and the Government of Republika Srpska gives consent to the borrowing to be made by the Fund. The Law on Fiscal Responsibility⁷⁴, within the framework of the general fiscal rules, establishes a debt rule which implies that the public debt of Republika Srpska at the end of the fiscal year cannot exceed 55% of the realized GDP in that year, while within the framework of the special fiscal rules, a debt threshold is defined, which implies 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 budget for the following year must have a budget surplus. The Ministry of Finance annually reports to the Government of Republika Srpska and the National Assembly on the debt⁷⁵.

Limits on the amount of BD's internal debt are established by the Law on Internal Debt of the Brčko District of BiH. Short-term debt may not exceed 5% of regular revenues collected in the previous fiscal year at any time. The District may create long-term debt obligations only if, at the time of indebtedness, the debt repayment amount repayable in any subsequent year for all outstanding long-term internal debt of the District and the proposed indebtedness to be incurred does not exceed 10% of the regular revenues collected in the previous fiscal year. The Brčko District has not regulated the subject of borrowing with foreign creditors by its regulations, and the District's external borrowing may be carried out on the basis of the Law on Borrowing, Debt and Guarantees of BiH. The analysis of the current situation in the field of public debt of the Brčko District of BiH, and especially the analysis of the existing legislative framework for public debt, showed the necessity of improving it in terms of passing a new law.

Situation and characteristics of public debt in Bosnia and Herzegovina

According to estimates of all levels of government in BiH, the total debt at the end of 2022 will amount to 13,551 million KM (approx. 6,928 million EUR). The projected balance of external debt in the original currency in 2022 is based on the amount of withdrawn credit funds as of 30 September 2022, increased by estimated withdrawals for investment projects in implementation and withdrawals for the purpose of financing budget spending, and reduced by the estimated amount of external debt principal servicing. In the total estimated value of the total debt for 2022, 98.2% or 13,307.4 refer to the entities (Federation of BiH 49.4% or 6,631.9 million KM and Republika Srpska 49.8% or 6,675.5 million KM).

Table 8: Situation concerning public debt and projections (in million KM)

	2021	2022	2023	2024	2025
1. FOREIGN DEBT (1.1+1.2+1.3+1.4)	9.681,1	10.254,3	10.754,4	11.119,3	11.060,7
1.1 Institutions of BiH	63,5	60,6	50,4	46,7	43,1
1.2 Federation of BiH	5.402,0	5.669,2	5.762,4	5.946,9	6.144,8
1.3 Republika Srpska	4.167,5	4.476,3	4.886,5	5.066,5	4.812,6
1.4 The Brčko District	48,1	48,2	55,1	59,2	60,2
2. INTERNAL DEBT (2.1+2.2+2.3)	3.075,3	3.162,4	3.359,4	3.403,7	3.703,8
2.1 Federation of BiH	1.079,2	962,7	1.191,3	1.272,1	1.353,6
2.2 Republika Srpska	1.994,9	2.199,2	2.168,1	2.131,6	2.350,2
2.3 The Brčko District	1,2	0,5	0	0	0
IN TOTAL (1+2)	12.756,4	13.416,7	14.113,8	14.523,0	14.764,5

Table 9: Repayment of public debt and projections (in millions of KM)

	2021	2022	2023	2024	2025
131.Total FBiH (1.1. + 1.2.)	564,9	601,2	797,7	789,9	737,8
1.1. External debt of FBiH	454,9	461,2	691,9	719,3	666,5
1.2. Internal debt	110,0	140,0	105,8	70,6	71,3

⁷⁴ „Official Gazette of Republika Srpska“ No. 94/15 i 62/18.

⁷⁵ Document: "Information on debt with balance as of 31 December 2021" available on the website of the Government of Republika Srpska.

2.Total RS (2.1+2.2)	792,7	684,5	1.251,7	1.247,6	1.234,2
2.1 External debt of RS	268,5	313,6	862,5	816,9	750,6
2.2 Internal debt of RS	524,1	370,9	389,1	430,8	483,6
3.Total DB (3.1+3.2)	7,7	8,5	11,2	13,8	12,5
3.1 External debt	7,1	7,9	10,7	13,8	12,5
3.2 Internal debt	0,6	0,6	0,5	0	0
4. External debt Institutions of BiH	7,5	5,6	17,0	5,2	5,2
TOTAL BIH (1+2+3+4)	1372,8	1299,8	2077,6	2056,5	1989,7

Source: Ministry of Finance and Treasury of BiH, Federation Ministry of Finance, Ministry of Finance of Republika Srpska and Finance Directorate of the Brčko District

In the structure of the estimated situation concerning the total debt for the year 2022, external debt accounts for 76.4% or 10,254.3 million KM (FBiH 5,669.2 million KM, RS 4,476.3 million KM) and internal debt 24.6% or 3,162, 4 million KM (FBiH 962.7 million KM, RS 2,199.2 million KM).

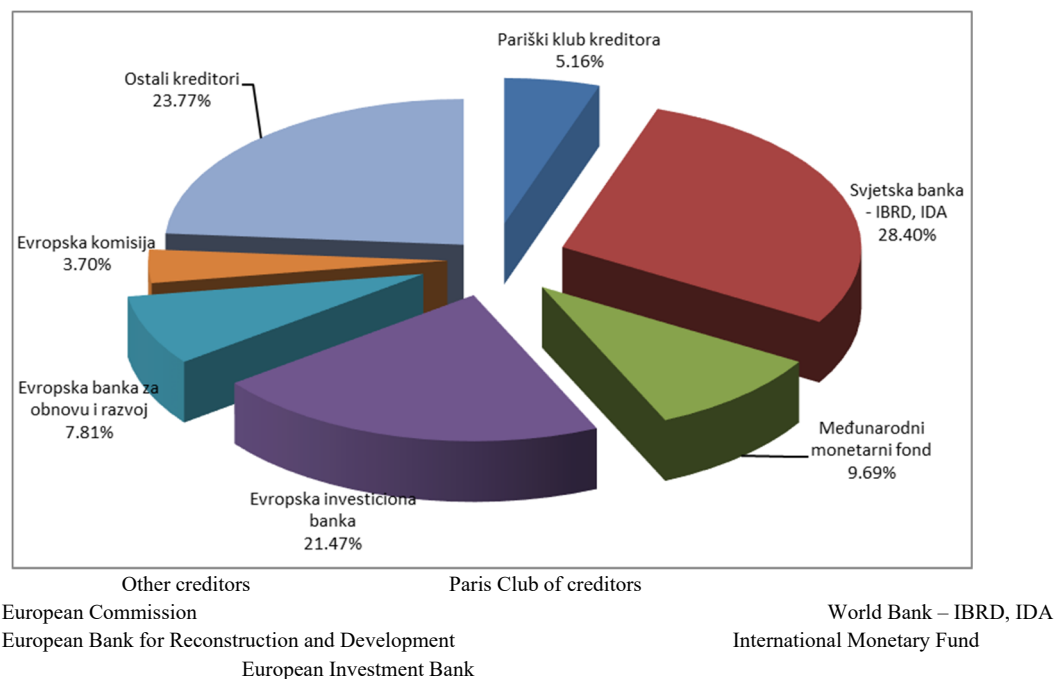
Bearing in mind the previously described institutional arrangements and the legal framework, and in accordance with the information provided by all levels of government, the following part of the document provides information on the characteristics of the total external debt in BiH processed by the Ministry of Finance and Treasury of BiH, which particularly concerns the characteristics of the total debt portfolio (external and internal) of the Federation of BiH and Republika Srpska, given that the aggregate portfolio of the entities makes up 92.7% of the total debt in BiH.

According to available information from the **Ministry of Finance and Treasury of BiH**, the **total external debt of BiH** is characterized by a relatively low average weighted interest rate. The weighted average interest rate of the total external debt is 1.61%. This is largely the result of external concessional borrowing and a significant share of external loans with a variable interest rate.

The risk of external debt refinancing is moderate. The external debt repayment profile indicates a significant external debt service in 2023, given that the European Commission's Macrofinancial Assistance II loan in the amount of EUR 50 million, the RS Eurobond in the amount of EUR 168 million, and part of the principal repayment for the IMF loan RFI (Rapid Finance Instrument) to combat the negative consequences of reduced economic activity caused by the Covid-19 pandemic in the amount of SDR 87.44 million will become due that year. The average time to maturity (ATM) for external debt is 6.66 years, while the average refixing time is 4.45 years.

Interest rate risk is moderate. In the external debt structure, 64.55% of loans refer to loans with fixed interest rates. 36.94% of external debt has an interest rate that is refixed within one year. The result of such a high percentage of external debt that is refixed within a year is a significant share of the variable interest rate in the external debt portfolio (35.45%). On 30 September 2022, concerning the purpose of investment of new external debt (external debt of BiH incurred after 14/12/1995), 53.1% relates to infrastructure, 35.2% to the public sector, while 11.7% relates to economic activities. The currency structure of the total external debt in BiH consists of EUR 63.56%, USD 5.22%, SDR 24.93%, CPU 0.81% and other currencies 5.48%.

Graph 3: Structure of BiH's external debt by creditors⁷⁶



Source: Ministry of Finance and Treasury of Bosnia and Herzegovina

Considering the total debt in Bosnia and Herzegovina, based on the available information, it can be seen that Bosnia and Herzegovina is a moderately indebted country.

Table 10: Indicators of public indebtedness 2019-2025

	2019	2020	2021	2022	2023	2024	2025
GDP at current prices (mil. KM)	36.525	35.447	39.921	43.994	46.758	49.270	52.003
Total debt in BiH (mil. KM)	11.109,3	12.042,1	12.756,4	13.416,7	14.113,8	14.523,0	14.764,5
Export of goods and services (mil. KM)	14.320	11.870	16.485	20.429	22.346	24.331	26.621
External debt (mil. KM)	8.142,8	8.698,3	9.681,1	10.254,3	10.754,4	11.119,3	11.060,7
Total debt service (mil. KM)	1.426,9	1.337,3	1.372,8	1.299,8	2.077,6	2.056,5	1.989,7
External debt service (mil. KM)	736,2	710,9	738,0	788,3	1.582,1	1.555,2	1.434,8
Net income from ind. taxes (mil. KM)	6.135,6	5.565,6	6.954,7	7.878,1	8.440,8	8.747,8	9.031,6
External debt / GDP (%)	22,3	24,5	24,3	23,3	23,0	22,6	21,3
Total debt/GDP %	30,4	34,0	32,0	30,5	30,2	29,5	28,4
Foreign debt service/ Export of goods and services (%)	5,1	6,0	4,5	3,9	7,1	6,4	5,4
External debt service/Net revenues from indirect taxes (%)	12,0	12,8	10,6	10,2	18,7	17,8	15,9

Source: Ministry of Finance and Treasury of BiH, Federation Ministry of Finance, Ministry of Finance of Republika Srpska and the Finance Directorate of the Brčko District

⁷⁶ Other creditors are: Kingdom of Spain, Republic of Portugal, Government of Japan, Export-Import Bank of Korea, Republic of Poland, Development Bank of the Council of Europe, Raiffeisen Bank AG, Kuwait Fund, OFID (OPEC) Fund, Saudi Development Fund, Government of Belgium, Republic of Serbia, RS Eurobonds, Erste Bank, IFAD, KFW, Unicredit Bank Austria.

Characteristics of the total debt portfolio (external and internal) in the Federation of Bosnia and Herzegovina

The situation concerning public debt in FBiH as of 30 September 2021, observed by individual levels of government, amounts to 6,638.1 million KM, of which 5,541.1 million KM refers to foreign debt and 1,097 million KM to internal debt. The most represented currencies in the FBiH debt portfolio are EUR (52.92%), SDR (24.07%), USD (10.29%) and KM (12.25%). Decomposition of the SDR caused that the share of the EUR currency rose to 68.80% of the total debt, and the share of USD to 23.17%. The currency risk of FBiH's external debt portfolio is relatively large. Over 35% of the external debt is sensitive to changes in exchange rates, taking into account its currency structure (EUR – 60.31%, SDR – 30.27% and USD – 11.73%), in which, after the SDR decomposition, the share of the EUR currency in the total external debt rose to 68.80%.

Refinancing risk is significant for both internal and external debt and is concentrated to the short- and medium-term. The average time to maturity (ATM) for internal debt is 3.6 years, and 6.6 years for external debt. The average time to maturity of the total debt is 6.2 years. The share of the debt portfolio that is refixed within one year is 45.8% and is the result of the fact that almost half of the external debt portfolio is contracted with a variable interest rate as well as shorter maturities of marketable securities issued on the domestic market. The average time to refix the debt portfolio of the Federation of Bosnia and Herzegovina is 4.15 years, of which an average of 4.22 years is needed to refix the external debt, and 3.63 years to refix the internal debt. The average weighted implicit interest rate of the total debt portfolio of the Federation of Bosnia and Herzegovina is relatively low and amounts to 1.25. The average weighted implicit interest rate for external and internal debt is the same and amounts to 1.25%.

In terms of debt flows, the External Debt of the FBiH in the first nine months of 2022 compared to 31 December 2021 is higher by 139.12 million KM. The increase refers to withdrawals of contracted loans in the specified period in the total amount of 276.76 million KM and principal repayment of 398.89 million KM, as well as depreciation of KM in relation to other currencies. Withdrawals in the stated amount of 276.76 million KM were made by engaging new credit funds from multilateral external creditors (EBRD 101.23 million KM, EIB 80.19 million KM, WB-IBRD 52.02 million KM, Kuwait Fund 12.11 million KM).

The assessment of the external debt of the FBiH as of 31 December 2022 includes planned withdrawals by the end of the year in the total amount of 505.97 million KM, principal repayment in the amount of 124.29 million KM, and depreciation of KM relative to other currencies.

Characteristics of the total debt portfolio of Republika Srpska

The public debt of Republika Srpska as of 30 September 2022 is 5,187.7 million KM, which is 37.0% of GDP ⁷⁷, while the total debt of Republika Srpska amounts to 6,214.3 million KM, i.e. 44.3% of GDP. The balance of the total external debt is 4,111.5 million KM, while the balance of the total internal debt is 2,102.8 million KM. As of 30 September 2022, the total debt of Republika Srpska that is subject to legal limitation amounts to 6,145.9 million KM (43.8% of GDP), while the public debt that is subject to legal limitation amounts to 5,119.4 million KM (36.5 % of GDP).

The currency structure of the total debt of Republika Srpska is dominated by three currencies: EUR (45.7%), KM (33.8%) and SDR (14.9%). Of the total debt of Republika Srpska, only 1.4% is short-term debt (original maturity), while the entire remaining debt is long-term and its share is 98.6%. Most of the total debt, i.e. 77.9%, is repaid at fixed interest rates. Of the total external debt 71.6% is repaid on fixed terms, while 90.3% of the total internal debt is repaid on fixed terms. When it comes to the structure of the total debt of Republika Srpska and the relevant instruments, the marketable part of the debt (bonds and treasury bills) amounts to 38.1%, while the remaining debt represents the non-marketable part of the debt (loans and debt that is settled through an action plan or in cash).

For the first nine months of 2022, the total external debt of the RS decreased by 56.1 million KM, compared to the situation at the end of 2021, which is the result of the withdrawal of funds in the amount of 39.8 million KM (of which 1.9 million KM refers to withdrawals for budget support, and 38.0 million

⁷⁷ The estimated value of GDP for the RS for 2022 is 14,016 million KM

KM to financing investment projects), repayment of principal in the amount of 153.2 million KM, and appreciation of the value of foreign currencies in relation to KM, as a result of which the debt balance increased by 57.3 million KM. Out of the above 39.8 million KM, 39.0 million KM was withdrawn from multilateral creditors (WB, IFAD, EBRD), while 0.8 million KM was withdrawn from bilateral creditors (KfW, JICA).

The projected state of the total external debt of the RS at the end of 2022 includes planned withdrawals by the end of the year (in the 4th quarter) in the total amount of 377.5 million KM (of which 201.6 million KM refers to withdrawals for budget support, and 176.0 million KM to financing investment projects), repayment of principal in the amount of 68.8 million KM, and appreciation of the value of foreign currencies in the amount of KM 56.2 million. Out of the above 377.5 million KM, the amount of BAM 159.3 million is planned to be withdrawn from multilateral creditors (WB, EIB, EBRD and IFAD), and 218.3 million KM from bilateral creditors (KfW, EXIM Bank Hungary).

The estimated value of foreign exchange rates based on the assumption that by the end of 2022 there will be an appreciation of the value of all currencies⁷⁸ against KM in the amount of three standard deviations in relation to the average value realized in 2022 (in the period 1 January - 22 October 2022) and that the same values will be maintained in the next three-year period.

The average weighted interest rate of the total debt of the Republika Srpska for 2021 is 2.2%, with external debt of 1.7%, and internal debt 2.9%. The average weighted interest rate of total debt estimated for the period 2022-2025⁷⁹ is 2.7%, 3.7%, 4.5% and 4.5%, namely external debt 2.5%, 3.8%, 4.7% and 4.3%, and internal debt 3.2%, 3.6%, 4.1% and 4.9% by year, respectively.

Debt management strategy

The BiH Medium-Term Debt Management Strategy is prepared every year, which contains individual medium-term debt management strategies of RS, FBiH and BD, including the external debt of the Institutions of BiH. The drafting of the BiH Medium-Term Debt Management Strategy implies that entity governments and the BD prepare and adopt their debt management strategies based on their gross financial needs and sources of financing and macroeconomic indicators, using the same shock scenarios and common initial projections, in terms of interest rates on external debt and exchange rate, while using different projections of the movement of interest rates on the entity's internal debt. The medium-term debt management strategy of BiH for the period 2022-2025 was not prepared during the ERP preparation period, and will be prepared after all levels submit their adopted medium-term debt management strategies.

When creating the Medium-Term Debt Management Strategy, each level of government determines its debt management goals, risk management guidelines and strategic targets as indicators of the degree of risk exposure. Draft Medium-Term Debt Management Strategy of Bosnia and Herzegovina for the period 2022-2025 contains operational guidelines for external government debt:

- For new external borrowing, where it is possible to choose the type of interest rate, prefer a fixed interest rate (unless the analysis indicates a strong argument for choosing a variable interest rate).
- In the case of new external borrowing, where it is possible to choose the repayment period and the grace period, prefer external borrowing with a longer grace period and a longer repayment period.
- When planning borrowing, take care to maintain an even repayment structure by years in order to minimize the risk of refinancing.

⁷⁸ The projected balance of external debt in the original currency in 2022 is based on the amount of withdrawn loan funds from September 30, 2022, plus the estimated withdrawals in the original currencies in the 4th quarter of 2022 by investment projects in implementation and withdrawals for the purpose of financing budget spending, and minus the estimated amount of service of external debt principal in the original currencies in the 4th quarter of 2022.

⁷⁹ Interest rate values are obtained by comparing the estimated amount of interest for a given year and the debt balance in the previous year.

- In order to reduce the currency risk in new external borrowing, where it is possible to choose a currency, the EUR currency should be preferred.

The Draft Medium-Term Debt Management Strategy in FBiH for 2022-2025 contains the following debt management guidelines:

- When planning borrowing, take care to maintain an even repayment structure by years in order to minimize the risk of refinancing;
- In order to reduce the currency risk, use borrowing in EUR and KM as much as possible;
- In order to reduce the risk of debt refinancing: the share of the debt portfolio that matures within 12 months/one year will amount to a maximum of 15% of the total unpaid debt;
- In order to extend the average maturity of the debt portfolio above 6.5 years, contract future debts with a longer grace period and a longer repayment period. Extend the average weighted maturity of the debt portfolio to at least 6.5 years.

Based on the current macroeconomic framework and following the guidelines for public debt management, the preferred strategic targets in FBiH at the end of 2025 would be the following:

- the average time of maturity (ATM) for loans should not be less than 5.7 years;
- the average time to refixing (ATR) of loans will be 4.28 years;
- the participation of debt interest servicing in revenues will amount to less than 15%.

The Ministry of Finance of Republika Srpska is preparing the document titled Debt Management Strategy of Republika Srpska for the period 2022-2025, which will be sent to the Government of Republika Srpska for adoption in the first quarter of 2023. The Debt Management Strategy of Republika Srpska for the period 2022-2025⁸⁰ will define the main goal of debt management of Republika Srpska, operational goals and principles for the purpose of fulfilling the main goal of debt management, strategy for achieving the stated goals, tasks of the Ministry of Finance of Republika Srpska, and identified indicators, i.e. guidelines for the purpose of achieving a debt structure with an acceptable level of costs and risks and their estimated value at the end of 2025, namely:

- in order to manage currency risk, debt expressed in foreign currency (excluding debt in EUR) should be less than 35% of the total observed debt, while in order to develop the domestic market, the internal debt should be greater than 20% of the total observed debt;
- in order to manage the risk of refinancing, the average time to maturity should be longer than 4 years, and the short-term debt should be less than 8% of the income generated in the previous year;
- in order to manage the risk of interest rates, debt under fixed conditions should amount to more than 60% of the total observed debt, while the average weighted interest rate should be lower than 5.0%.

Based on the structure of the total debt portfolio and jointly determined scenarios of various shocks, the most significant risks that can lead to an increase in the total public debt compared to the base scenario are currency risk shock, interest rate shock and combined currency risk and interest rate shock.

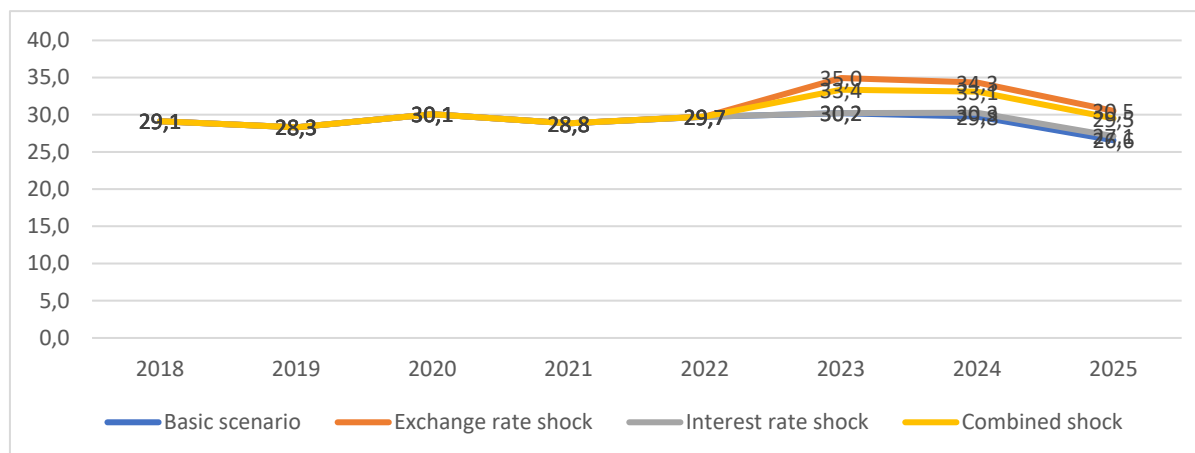
Shock scenarios:

- Exchange rate shock: 30% depreciation of the KM/USD exchange rate in the second year;
- Interest rate shock: 4% increase in interest rates on foreign and domestic long-term instruments and 2% on short-term domestic instruments in the second year, which contributes to the flattening of the yield curve. Instruments that include old foreign currency savings and war claims remain unchanged;
- Combined shock: 20% depreciation of the KM/USD exchange rate combined with a shock of 2% on all domestic and foreign instruments except for short-term domestic ones where the shock

⁸⁰ Document: "Debt management strategy of Republika Srpska for the period 2022-2025" will be available on the website of the Government of Republika Srpska.

is 1% in the second year. Instruments that include old foreign currency savings and war claims remain unchanged.

Graph 4: Movement of the ratio of debt to GDP with the application of certain shocks



Source: Ministry of Finance and Treasury of BiH, Ministry of Finance of FBiH, Ministry of Finance of RS and Finance Directorate of BD

The basic scenario is based on the most likely market conditions, and in the medium term, the highest ratio of debt to GDP according to this scenario would be 30.2%. By increasing the value of the parameters of the interest rate and the exchange rate ratio according to the values specified in the observed shocks, the share of debt in GDP in the observed period would increase to 30.3% in the case of an interest rate shock, in the case of a combined shock to 30.3% and a currency (foreign exchange) exchange rate shock to 35.0%. As can be seen on the graph, the biggest risk for debt increase in terms of the debt/GDP ratio is the currency risk in the event of a sudden change in the exchange rate, that is, the appreciation of the USD relative to the KM and EUR (shock of 30% in the 2nd year). The mentioned parameters, both according to the basic scenario and according to the shocks, indicate that Bosnia and Herzegovina is a country with medium-term sustainable public debt, which is within the limits of debt in GDP according to the Maastricht criterion of 60%.

Potential liabilities

Total balance of debt under issued guarantees in Bosnia and Herzegovina as of 30 September 2022 is 997.6 million KM, of which 140.0 million KM refers to the FBiH, and 587.6 million KM to RS.

Table 11: Status of potential liabilities in the period 2021-2023 (in million KM)

	2021	30/09/2022	2022	2023
Federation of BiH	90,0	140,0	142,4	336,1
Republika Srpska	853,7	857,6	896,1	878,6
Total:	943,7	997,6	1.038,5	1.214,7
% GDP	2,4		2,4	2,6

Source: Ministry of Finance of FBiH and Ministry of Finance of RS

As at 30/09/2022, the total exposure of the FBiH under the issued guarantees is 140.0 million KM (0.56% of the FBiH GDP generated in 2021) and refers to guarantees issued within the credit-guarantee programmes of the Guarantee Fund established in 2020 for the purpose of recovering the economy from the consequences of the COVID-19 pandemic. For the year 2023, the growth of the Guarantee Fund at the Development Bank of the FBiH in the amount of 50 million KM and a possible guarantee for the EIB loan for the FBiH Motorways, i.e. for the assumed withdrawal of the first tranche in the amount of EUR 75 million, were taken into account.

As of 30/09/2022, the total exposure of Republika Srpska under the issued guarantees amounts to 793.8 million KM (5.7% of the GDP of Republika Srpska estimated for 2022). Of the stated amount, 12.1 million KM refers to the guarantees of Republika Srpska issued for internal debts of local self-government units, 158.1 million KM for internal debts of social security funds, 550.9 million KM for debts of public enterprises (of which 292.9 million KM external, and 258.0 million KM internal), and

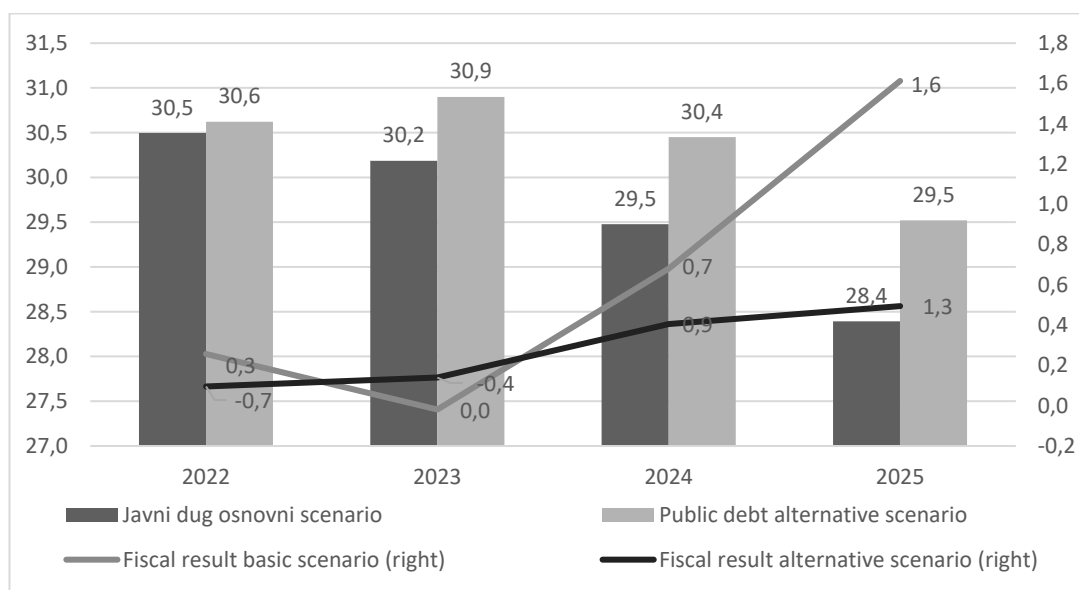
72.6 million KM for internal liabilities of the public sector. The total exposure of local self-government units under the issued guarantees as at 30 September 2022 is 63.7 million KM.

4.7. Sensitivity analysis and comparison with the previous programme

The main risks for realizing the basic scenario of fiscal projections in the medium term can be divided into external and internal. External risks that can significantly affect fiscal projections are additional inflationary pressures and natural disasters that, considering the fiscal capacities of all levels of government in BiH, would lead to the exhaustion of the fiscal space at the end of the observed period. The most significant of the internal risks is the deviation of macroeconomic indicators from the projected values in the basic scenario. Realisation of the assumptions from the alternative scenario of slow growth would lead to lower income growth than projected in the basic scenario. Expenditure projections are made on the basis of requests from budget users and obligations arising from laws and by-laws.

The alternative macroeconomic scenario is based on the assumption of a weakening of global economic growth and deterioration of economic conditions in the main trading partners, increased inflationary pressures in the country. According to the projections from the alternative scenario, the projected rate of economic growth is lower by about 0.7 p.p. compared to the basic scenario. The calculation was made taking into account the sensitivity of income to changes in real growth, each change in real growth by 1 p.p. leads to a change in revenue of 0.33%, and without any adjustment on the expenditure side.

Graph 5: Public debt and fiscal balance according to the basic and alternative scenarios in the period 2022-2025



Source: Ministry of Finance and Treasury of Bosnia and Herzegovina

Comparison with the previous programme

Projections of the medium-term fiscal framework relative to the previous programme are significantly different, bearing in mind two consecutive crises of different character and effects, which was reflected in the complete change of the previously assumed pattern of movement of revenue collection as well as the level of expenditure projections. Projections of income and expenditure shown in the Economic Reforms Programme for the period 2022-2024 took into account the achieved recovery of the economy after the negative effects of the COVID-19 pandemic, while maintaining a high level of caution when forecasting, given the then still present uncertainty for the future period. On the other hand, the very beginning of 2022 was met with new challenges related to the war events in Ukraine, which caused new negative economic consequences, primarily high inflation. Although the level of projected expenditures of the current programme, expressed as a percentage of participation in GDP, is gradually decreasing, there is still uncertainty about the duration and effects of the latest crisis. Therefore, the possibility of new government interventions in BiH is not excluded.

Table 12: Comparison of the fiscal result with the previous programme in % of GDP

	2021	2022	2023	2024	2025
	ERP 2022-2024				
Total income	42,3	41,7	41,4	41,2	
Total expenditures	43,2	42,0	40,4	39,8	
Net borrowing/crediting	-0,9	-0,2	1,1	1,4	
	ERP 2023-2025 (% BDP RS)				
Total income	40,4	40,4	41,1	41,3	41,5
Total expenditures	38,6	40,2	41,1	40,7	39,9
Net borrowing/crediting	1,8	0,3	0,0	0,7	1,6
	Difference (ERP 2023-2025 minus ERP 2022-2024)				
Total income	-1,9	-1,3	-0,3	0,1	
Total expenditures	-4,6	-1,8	0,7	0,1	
Net borrowing/crediting	2,7	0,5	-1,1	-0,7	

Source: Ministry of Finance and Treasury of BiH, Ministry of Finance of FBiH, Ministry of Finance of RS and Finance Directorate of DB

4.8. Quality of public finances

Due to its importance and impact on the preservation of a sustainable fiscal position, efficient distribution of resources and efficient delivery of public goods and services, public finance management is a segment of public administration that receives special attention at all levels of government in BiH. In this sense, reform activities, within the framework of various subsystems of public finance management, are covered in accordance with the constitutional competences, both in the Comprehensive Strategy of Public Finance Management in BiH for the period 2021-2025 and in the individual strategies of public finance management of all levels of government in BiH. The preparation of a report on the implementation of the comprehensive Public Finance Management Strategy in BiH for 2021 is underway, which will be adopted after all levels of government have adopted the reports on the implementation of individual strategies⁸¹. All levels of government in BiH adopted the Joint Socioeconomic Reforms for the period 2019-2022. Comprehensive and individual public finance management strategies, in addition to serving as the main guideline for strengthening the legal and institutional framework and system for public finance management, reflect a firm commitment to their realisation.

Considering the competences in the entity's public finance management strategies, special attention is paid to the fiscal risks related to public enterprises. The Public Finance Management Reform Strategy in FBiH for the period 2021-2025, as one of the priority reforms, plans the improvement of transparency of business operations of public enterprises as well as supervision over the work of public enterprises that form a significant source of fiscal risks, both on the respective sides of budget revenues and expenditures. The sustainability, efficiency and profitability of public enterprises affect budget revenues, that is, the amount of profit they pay into the budget or the increase in expenses due to their illiquidity. In FBiH, the establishment of a Public Enterprises Monitoring Unit at the Office of the Prime Minister of FBiH, i.e. within the General Secretariat of the Government of FBiH is planned. In RS, in addition to the establishment of the Central Unit for Financial Supervision of Public Enterprises at the Cabinet of the President of the RS Government, the activities of defining and classifying public enterprises in accordance with international standards and of creating the Public Enterprises Register are foreseen. Also, in the coming period, special attention will be paid to monitoring, analysis and reporting of fiscal risks related to public enterprises within the Ministry. In connection with the relief of the economy and the creation of more favourable conditions for the activities of business entities and increase of their competitiveness in both Entities (FBiH and RS), measures to reduce the tax burden on labour are foreseen.

⁸¹ In 2022, FBiH and RS adopted the Report on the implementation of their individual public finance management strategy for 2021. The institutions of Bosnia and Herzegovina and DB have not yet adopted their reports.

In the **Federation of BiH** through the planned adoption of the new Law on Income Tax and the Law on Contributions, viewed exclusively together as one overall solution, the minimum income, which will remain outside the scope of taxation, is simultaneously protected, the grey economy is suppressed by expanding the tax base for previously untaxed sources of income, while at the same time opening space for reducing the rate of total contributions. In the long term, the application of such a solution would affect nominal salary growth, an increase in the number of employees, and at the same time an increase in the fiscal capacity of the budget and extra-budgetary funds. In **Republika Srpska**, measures are foreseen to further reduce the tax burden on work. In the previous period, the collective contribution rate was reduced from 33% to 31%, the method of salary calculation was changed and taxation of the total (gross) salary was introduced, the basic personal deduction was increased, and the income tax rate was reduced from 10% to 8%. Also, activities related to the expansion of the tax base and the basis of income tax and profit tax are planned through changes in the legislative framework and related by-laws. Depending on similar solutions adopted in the FBiH, in Republika Srpska, income tax and profit tax will be introduced on all dividends and income from profit shares of legal entities, then income taxation on the basis of interest on citizens' savings. As part of the measure related to the restructuring of the tax and non-tax burden, the activity of creating an optimal non-tax burden is also planned. Namely, as of 2020, the laws on municipal taxes, administrative taxes, court fees and special Republika Srpska taxes were amended, which reduced or abolished certain non-tax benefits, which is the result of the determination of the Government of Republika Srpska to continuously create an optimum fiscal burden. In the coming period, analyses of the burden of individual non-tax benefits will continue to be made, and according to the results of the analysis, the burden will be optimised in terms of the abolition or reduction of the analysed non-tax benefits, and intensive work will also be done to reduce administrative procedures. The improvement of the debt management function is planned through the implementation of a comprehensive information system for debt management (SzUD).

Bearing in mind the oversized administrative apparatus in terms of organisation and personnel⁸² and expenditures for employees within the framework of current expenditures, the Bosnia and Herzegovina Public Administration Reform Strategic Framework 2018-2022, which was adopted by all levels of government in BiH, foresees measures to improve the functions of human resources management aimed at precise and automated planning of funds for expenses for employees. In this sense, institutions responsible for the personnel planning process will be established at all administrative levels (except in RS, where this issue has already been resolved) and will provide the necessary resources for the establishment of functional registers of civil servants. Also, the standardisation of the personnel planning process will be carried out at every level and the connection of personnel planning with budget plans and the budget programme planning system, bearing in mind the need for constant optimisation of the number of employees in administrative structures.

4.9. Fiscal management and budget frameworks

The budget process in Bosnia and Herzegovina begins with the adoption of the Global Framework of Fiscal Balance and Policies in Bosnia and Herzegovina (GFFBP) by the Fiscal Council in Bosnia and Herzegovina for a period of three years. The Fiscal Council in BiH coordinates the fiscal policy in BiH in order to ensure macroeconomic stability and sustainability of all levels of government. The GFFBP document is prepared on the basis of the Law on the Fiscal Council in BiH, which defines the content of the document. The document contains all the necessary elements that fiscal policy holders in Bosnia and Herzegovina need to prepare their framework budget documents and annual budgets. These elements are: fiscal goals defined as the primary fiscal balance (primary surplus or primary deficit), projections of total indirect taxes based on macroeconomic projections, and their distribution for the next fiscal year, as well as a proposal for the upper limit of the debt budget of the institutions of BiH, RS, FBiH and DB. The aforementioned elements, the harmonisation of which represents the basic assumption for the budget planning of fiscal policy holders in BiH, constitute the essence of fiscal coordination in BiH.

GFFBP for the level of BiH institutions determines the budget framework and the decisive level of income from indirect taxes for the next three years. GFFBP is evaluated every year according to macroeconomic projections and projections of total indirect taxes. The procedure is the same for

⁸² Report on Bosnia and Herzegovina for 2016, European Commission, Brussels, 2016, p. 10.

Framework Budget Documents at other levels of government in BiH. Bearing in mind the marked fiscal decentralisation and independence of each level of government in BiH in determining fiscal policy, the structure of budget expenditures presented in the GFFBP tabular overviews is indicative for each level of government, and each level of government determines in its framework budget documents and annual budgets the final structure of expenditures and revenues in accordance with the adopted policies. In addition, in this process, each level of government in BiH has and applies its own laws⁸³ at each individual level of government in BiH, the preparation of the framework budget document for the next three years is defined, which sets the strategic framework and the upper limits of the resources within which the annual budget is prepared. The key goal of this document is to ensure the connection of established priority policies of each individual level of government and the allocation of available public resources.

The FBiH Budget Law defines the budget process, i.e. the deadlines and participants in the preparation of the budget. The Law provides for three-year budget planning through the Framework Budget Document of the FBiH (FBD), and it is prepared on the basis of the GFFBP by the Fiscal Council in BiH. This document plans the upper limits of expenditures by budget users in accordance with the policies and strategic priorities of the Government of the Federation of Bosnia and Herzegovina and serves as a basis for the preparation of annual budgets.

The Law on the Budget System of Republika Srpska⁸⁴ defines the budget system of Republika Srpska and the preparation of the Republika Srpska Framework Budget Document as the basis for the budget preparation and development. Every year, the Framework Budget Document of Republika Srpska for the following year and for the following two years is adopted. The document contains projections of macroeconomic indicators for The Republika Srpska, fixed policy and an overview of the connoived budget frameworks of the Republika Srpska and its purpose is to set a strategic framework and upper limits of resources, within which the annual budget should be prepared. In this context, the preparation and creation of the budget is based on the Framework Budget Document. The key objective of this document is to ensure a better connection between the Government's priority policies and the way in which it allocates public resources.

Fiscal rules in BiH are determined at the entity level (FBiH and RS) and are valid only on the territory of a particular entity. The introduction of fiscal rules in the BD is one of the measures foreseen in the adopted Public Finance Management Reform Strategy of the Brčko District for the period 2021-2025, which is an integral part of the Comprehensive PFM Strategy in BiH.

The numerical fiscal rules in the Federation of BiH prescribed by the Law on Budgets of the FBiH and the Law on Debt, Borrowing and Guarantees in the FBiH are as follows:

- The planned current balance of the budget must be positive or equal to zero, except in cases of natural disasters or natural disasters declared by the legislative body, and when the amount of determined damages exceeds 20% of realised expenditures in the previous fiscal year.
- Short-term debt created by borrowing for the purpose of temporarily financing the deficit arising from the cash flow will be repaid within a period of one year and at no time during the fiscal year will it exceed 5% of the generated income without receipts in the previous fiscal year.
- The Federation of Bosnia and Herzegovina can incur long-term debt, so that the due obligations each year do not exceed 18% of the consolidated revenues from the previous year, while the annual debt obligations of the cantons, cities and municipalities must not exceed 10% of the generated revenues from the previous year.

The Law on Fiscal Responsibility of Republika Srpska⁸⁵ regulates the fiscal rules, measures and procedures on the basis of which the fiscal framework is established, limits public spending, strengthens responsibility for the efficient and effective use of budget funds, establishes the Fiscal Council of

⁸³ The Law on the Financing of BiH Institutions, the Law on Budgets in FBiH, the Law on the Budget System of RS and the Law on the Budget of the Brčko District of BiH.

⁸⁴ "Official Gazette of Republika Srpska", Nos. 121/12, 52/14, 103/15 and 15/16.

⁸⁵ "Official Gazette of Republika Srpska", No. 94/15 i 62/18.

Republika Srpska and strengthens the control and supervision system. This law defines general and special fiscal rules. The general fiscal rules refer to the total budget system of Republika Srpska, while the special fiscal rules are binding, automatic measures if the indicators stated in the general fiscal rules reach the value thresholds defined by this law. General fiscal rules determine:

- Debt rule: The public debt of Republika Srpska at the end of the fiscal year cannot exceed 55% of the realised GDP in that year;
- Consolidated budget deficit rule: The consolidated budget deficit at the end of the fiscal year cannot exceed 3% of the realised GDP in that year.

Independent fiscal institutions. The Law on the Fiscal Council in BiH⁸⁶ established the Fiscal Council tasked with coordinating the 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 the development of the budget's fiscal goals and upper debt limits for the next three years, as well as for the development of macroeconomic projections within the framework of the Fiscal Balance and Policies Global Framework document, which is adopted every year for the following year and the following two years.

With the aim of ensuring macroeconomic stability and fiscal sustainability of the Federation of Bosnia and Herzegovina, the Fiscal Coordination Body was established for the fiscal policy coordination purposes. This body, among other things, is also responsible for controlling the implementation of fiscal rules and monitoring the realization of set goals and criteria in the adoption and execution of the budget. The composition of the Fiscal Coordination Body consists of the federal minister of finance, the cantonal ministers of finance and a representative of the Union of Municipalities and Cities in the Federation.

The implementation of the Law on Fiscal Responsibility in Republika Srpska, through the Fiscal Council of Republika Srpska, which was established in July 2017, significantly improved fiscal responsibility and discipline for spending public funds in the entire budget system of Republika Srpska, both at the Republika Srpska level and at the level of local self-government units and extrabudgetary funds. The Fiscal Council analyses and verifies the macroeconomic and fiscal assumptions and projections used in the preparation of Government documents, provides an independent and credible assessment of economic policy, assesses basic fiscal risks and the probability that the Government will meet its goals in the future, assesses the extent to which the Government has met the set fiscal goals and checks whether the fiscal rules have been observed.

Financial reporting. All levels of government in Bosnia and Herzegovina have regulated financial reporting with their by-laws. Accordingly, all levels of government in BiH prepare and publish quarterly and annual reports on budget execution. In FBiH, consolidated quarterly and annual reports are made, which include lower levels of government and extrabudgetary funds. In the area of financial reporting, and in accordance with the Rulebook on financial reporting of budget users, starting from 2017, financial data are published on the website of the Ministry of Finance of RS, monthly for the central government, and quarterly for the general government of RS, non-budgetary funds that are not included in the RS budget and all local units of self-government. The data are presented in GFS codes (GFS 2014) and are available in Serbian and English. In terms of consolidated reporting for BiH, the Central Bank of BiH (hereinafter CBBH) publishes reports on government operations for all sectors of the general government in BiH in accordance with the GFS 2014 manual. The methodological explanation is published on the website of the CBBH and is available in local languages and in English⁸⁷.

For the application of Regulation (EU) No. 549/2013 of the European Parliament and the Council of 21 May 2013 on the European System of National and Regional Accounts in the European Union, no road map has been determined. Nevertheless, significant progress was made because the Agency for Statistics of BiH, in cooperation with the Federation Institute for Statistics of FBiH and the Republika Srpska Institute for Statistics, published a list of units (business entities) classified in the general government Sector. The list was prepared in accordance with internationally accepted standards (European System of National and Regional Accounts - ESA 2010, Manual on State Sector Deficit and Debt - MGDD), and the Decision on Establishing the Statistical Classification of Institutional Sectors (*Official Gazette of BiH*,

⁸⁶ "Official Gazette of Bosnia and Herzegovina", No. 63/08.

⁸⁷ <https://www.cbbh.ba/content/read/1108?lang=en>

No. 19/17). The purpose of the list of general government units is exclusively statistical, that is, the creation of assumptions for the development of Sector Accounts, Statistics of Government Finances, and other related statistics, in accordance with the stated methodological framework.

In the Federation of Bosnia and Herzegovina, the Rulebook on financial reporting and annual budget calculation is applied, which is regularly harmonised with the European System of Accounts and State Financial Statistics. The reporting is harmonised with the Analytical Chart of Accounts of the Federation of BiH, (ESA2010) and (GFS2014), which ensures the quality (updatedness and reliability) of fiscal data. In order to improve the reporting system, the plan is to automate the reporting process, as well as to refine the law and accompanying by-laws, which is foreseen in the entity and comprehensive strategy. In accordance with the Rulebook on Financial Reporting of Budget Users, starting from 2017, on the website of the Ministry of Finance of Republika Srpska, financial data for the central government of Republika Srpska are published monthly, while consolidated data for the central government of Republika Srpska, extrabudgetary funds that are not included in the Republika Srpska's budget and all local self-government units are published quarterly. Data are presented in GFS codes (GFS 2014) and are available in Serbian and English. Also, the development and implementation of treasury GFS and ESA books is underway, which will provide a prerequisite for a greater degree of automation, consistency and precision in the process of translation and reconsolidation of accounting data from the Treasury system (SUFI) to GFS 2014 and ESA 2010 classifications, which are applied in international frameworks.

Reforms in the field of public finances are contained in the individual Public Finance Management Strategies for the period 2021-2025 and for the Public Finance Management Comprehensive Strategy in BiH for the period 2021-2025, which were adopted at all levels of government in BiH. All strategies are based on analyses and recommendations of relevant international institutions and aim to ensure fiscal and macroeconomic sustainability and improve the public finance management system.

In the context of planning and budgeting, it is important to note that as from 2023, two IPA projects related to the application of ESA standards are being implemented. In this sense, it is planned to expand the scope of users/institutions in accordance with international standards. In addition, the implementation of a project related to the improvement of budgeting in the programme format is underway, with the aim of more efficient and transparent budget planning and spending of public funds, and the adoption of the budget in the programme format is planned for 2024. For the implementation of the programme budget at all levels of government in BiH in 2023, adequate software will be procured and financed by the EU (IPA III). Also, the World Bank will provide technical assistance on fiscal management financed by the European Union through the Strengthening Fiscal Management in the Western Balkans Trust Fund.

The Law on Amendments to the Law on Budgets in the Federation of Bosnia and Herzegovina created conditions for the review of multi-year capital investments, which will ensure adequate planning of multi-year funds in the budget, as well as more efficient implementation of capital projects.

The improvement of the debt management function in Republika Srpska is planned through the implementation of a comprehensive debt management information system (DMS).

In the coming period, special attention will be paid to fiscal risk monitoring, analysis and reporting related to public enterprises, guarantees and macroeconomic projections within the Ministry of Finance of Republika Srpska. Also, the Government of Republika Srpska adopted the Decision on establishing a public enterprise supervision coordination system in Republika Srpska, which initiated activities to establish a centralised collection and processing of information on public enterprises, which are defined by the Government's decision as enterprises of special interest, as well as those in which the government performs the function of the shareholders' general meeting. At the same time, the coordination system implies the establishment of an organisational unit for coordinating the supervision of public enterprises in the General Secretariat of the Government.

To solve the problem of transparency and good management in public enterprises in the FBiH Public Finance Management Reform Strategy 2021-2025, and in the Comprehensive Strategy of Public Finance Management in BiH 2021-2025, a measure is planned to establish a unit for monitoring the work of public enterprises at the office of the Prime Minister of FBiH. The task of this unit will be the initial analysis of the situation, including reports and recommendations of international institutions and the drafting of by-laws that will regulate its work.

Improvement of the public investment system will ensure more efficient management of public finances, that is, better planning and management, supervision of public investments, cost estimation by projects, as well as the determination of priority investments. The goal is to ensure compliance of public investment programmes with strategic documents and budgets at all levels of government, as well as to improve the efficiency of spending public funds. This measure is planned in the individual and comprehensive PFM strategy, and it will be the subject of IPA III programming for the next period.

4.10. Sustainability of public finances

Capacities for assessing the long-term sustainability of public finances in BiH are gradually being built. To assess the long-term sustainability of the pension or health system in BiH, separate analyses and projections should be made for each entity (due to the constitutional arrangement, special legislative frameworks and rules related to financing and exercise of rights from these systems). However, the awareness of the need to create analyses of the long-term sustainability of public finances undoubtedly exists, and the administrative capacities for making analyses are gradually being improved.

Demographic changes, viewed in the long term, are a key problem that the authorities in BiH are facing, and it remains a challenge in the coming period. Negative demographic trends in the long term worsen the position of the labour market and the fiscal position and the sustainability of all budget payments, the public health system and education.

With the introduction of the Pension and Disability Insurance Funds of Republika Srpska into the budget of the Republika Srpska, as of 1 January 2016, and of the Federation of Bosnia and Herzegovina as of 1 January 2020, the governments of both entities expressed their commitment for the pensioner population to have priority in the payment of budget benefits, and at the same time, in this way, the complete fiscal consolidation of the Pension and Disability Insurance Funds was performed.

The reform of the pension system, which was implemented in Republika Srpska in 2011 and in the Federation of Bosnia and Herzegovina in 2018, produced 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 very carefully 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. Since, due to the aging of the population and the departure of the young and able-bodied, there is a smaller number of contributors, the pension system will be threatened in the long run, and the budget system will be overburdened.

The challenges for the next period in the area of the health care system are particularly related to the aging of the nation, the growth of malignant diseases, the monitoring of the medical equipment modern technologies and treatment methods, and the revision of the network of health institutions. The strategic commitment of the **Government of Republika Srpska** is to ensure the settlement of outstanding obligations of public health institutions and the Health Insurance Fund from the previous period in the coming period, and to implement the introduction of public health institutions into the treasury system of operations⁸⁸. With the aforementioned, fiscal discipline within the health system will be preserved, and prerequisites will be created for the structural reform of the system, which will be based on the standardisation of the network of health institutions, and the invention of new models of financing health insurance. The reform of the health care system will establish a financially sustainable system, which will enable more efficient health care.

Control and transparency of spending of public finances are prerequisites for the sustainability of public finances, which is why the FBiH Government decided to include all institutions that are financed from the budget and are not included in the single treasury system, in the system in the upcoming period. The FBiH Public Finance Management Reform Strategy for the period 2021-2025 plans to include extra-budgetary funds in the FBiH budget and cantonal budgets, and to include cantonal road directorates in the cantonal budget. Of the extra-budgetary funds, it is planned to have the Institute for Health Insurance

⁸⁸ From 2021, three institutes were introduced into the treasury system at the level of the Republic, while in 2022, another one was introduced. As for the level of local self-government units, three health centres have been introduced into the treasury system since 2021, while another 16 health centres have been introduced in 2022.

and Reinsurance and the Employment Institute of FBiH included. Furthermore, in addition to the introduction of the Institute for Health Insurance and Reinsurance, it is planned to have the entire health system included in the treasury system of operations. The goal of this reform measure is to improve transparency and better supervision over the spending of public funds both at the Federation and lower levels of government.

The United Nations Population Fund (UNFPA), in cooperation with the Embassy of the Czech Republic in Bosnia and Herzegovina, prepared and published the publication "Effects of demographic changes on the provision of public services in BiH⁸⁹". The publication contains an analysis of projections of public expenditures for pensions, education and health in accordance with demographic changes in Bosnia and Herzegovina for the period 2022-2031, which include the population trend forecast, the age structure of the population, the number of pensioners, expected expenditures for pensions with an estimate of the trend of average pensions, and expenditures for the health and education system.

⁸⁹ <https://ba.unfpa.org/en/publications/effects-population-changes-provision-public-services-bosnia-and-herzegovina>

5. STRUCTURAL REFORMS IN 2023-2025

5.1. Update on the three main obstacles to competitiveness and inclusive growth and related reform measures

5.1.1. Main Obstacle No. 1: Inadequate Efficiency of the Labor Market

a. Analysis of main obstacles

The survey employment rate for Bosnia and Herzegovina in 2021 was 39.6%, and it is in a slight decline compared to the previous year when it was 40.1%. The employment rate shows a significant difference between genders (51.1% for men, and 28.7% for women).

The structural nature of unemployment is the biggest problem in Bosnia and Herzegovina. This means that the largest share is represented by the persons who have been unemployed for longer than a year. Moreover, in 2021, 59.7% of the unemployed were unemployed for longer than 2 years. This difference indicates the existence of the gray economy, which further complicates the creation and implementation of active employment policies. The data of the Labor and Employment Agency of Bosnia and Herzegovina state that more than BAM 164 million were spent on active and passive employment measures in Bosnia and Herzegovina in 2021, which represents a decrease of almost BAM 30 million. These expenditures are conditioned by the COVID-19 pandemic, since a significant share still consists of the allocations for passive measures. About 67.56 was spent on active employment policies, which is by BAM 19 million less than in the previous year. As regards passive measures, there were significant changes since BAM 96.5 million were spent, which is almost 44 million more than in 2019.

There are still challenges in the field of labor legislation, in particular when it comes to regulating the work of economic and social councils, employee councils, social security, and employment mediation, especially in defining and implementing effective active employment measures.

Negative trends are still present at the labor market in Republika Srpska and include: migration, especially of the youth, mismatch between the needs of the labor market and the needs of the economy, long-term unemployment and inactivity, especially of the women. Difficult access to the labor market is a challenge for the youth, women and persons in a vulnerable position.⁹⁰ The consequences of the pandemic significantly affected the labor market of Republika Srpska, creating the additional influx of the newly registered unemployed (persons who lose their employment) and fewer opportunities for employment. These trends represent the main obstacles to growth and competitiveness. Moreover, social dialogue is characterized by the inconsistent views of social partners that make the adoption of public policy documents difficult. In this regard, despite the large number of initiatives by the Federation of Trade Unions of Republika Srpska, the Government of Republika Srpska and the chosen representatives of social partners failed to reach an agreement on the wording of the General Collective Agreement.

b. Reform measures

5.1.1.1. Increase the efficiency of the labor market through effective employment policies and strengthening the role of mediation

1. Description of measure

The measure is focused on solving the main socio-economic challenges that BiH is facing, including solving the high unemployment in BiH. In this regard, efforts will be made to increase the efficiency of the labor market system through the harmonization of legislation with the European legislation and international documents, and through the implementation of effective employment policies and the strengthening of the mediation role of public services in employment.

⁹⁰ According to the state of the unemployment register until and inclusive of 31 August 2022, the largest share in the total registered unemployment is held by persons with the fourth (32.1%) and third level of education (31.5%), while the participation of persons with a university degree is 13.7%. The share of unskilled and semi-skilled workforce is still high at 21%, compared to the total number of the unemployed. Analysis of the age structure of unemployed persons shows a high share of persons over 50, namely 36%, as well as a high percentage of unemployed youth under 30 (over 20.9%). Out of a total of 65,300 registered unemployed persons as of 31 August 2022, 34,781 (53.2%) are women, and 13,622 are young persons under 30 years of age.

It is necessary to develop and test new systems for monitoring and assessing the labor market needs; evaluate the existing active labor market measures and staff training of the labor market institutions for better implementation of active labor market measures aimed at the cooperation with employers and provision of services. The creation of ALMM should be based on the understanding of economic trends, the needs of employers, as well as the bottlenecks within the workforce supply. Decision on the program appropriate for each beneficiary should be made on the basis of evidence, which in turn requires data-driven case management of the registered unemployed.

The Youth Guarantee Program will contribute to the inclusion of the youth in the labor market through more effective active labor market policies, as well as the improvement in the safety and health of workers and the strengthening of the institutional capacities and the capacities of participants to ensure the effective implementation of the acquis in this field. The action will result in the increase in participation in the labor market and employment, especially of the youth, which will be fully aligned with the relevant thematic priorities of Window 4 of the IPA III Programming Framework (PF). It will support BiH's efforts to improve the employment of the youth, support in education or training, through the implementation of the Youth Guarantee scheme.

The Youth Guarantee Program ensures that all young persons aged 15 to 29 get a quality job offer, further education or internship within four months having become unemployed or having left the formal education. The Program should be implemented in four phases in the Western Balkans, in the period from 2021 to 2027.

The International Labor Organization (ILO) has launched studies of mapping the NEET (not engaged in employment, education or training) youth. The next step is the analysis of the policies and legal framework for the implementation of the Guarantee for Youth in Bosnia and Herzegovina. The implementation plan will contain three pilot projects, developed in accordance with the competences, which may differ, and the monitoring indicators will be unique for the whole country.

The Employment and Social Innovation (EaSI) program is a financing instrument at the EU level to promote a high level of quality and sustainable employment, guaranteeing adequate and decent social protection, combating social exclusion and poverty and improving the working conditions. The European Social Fund + (ESF+) is the main instrument of the European Union (EU) for investing in human resources. With a budget of almost EUR 99.3 billion for the period 2021-2027, the ESF+ will continue to provide an important contribution to the EU's employment, social, education and skills policies, including structural reforms in these areas.

To enable the countries of the Western Balkans to participate in EU Programs, it is necessary to secure budget funds for the payment of the financial contribution, the so-called "entry tickets". The state has the possibility to request part of the funds for the payment of the entry ticket within the Instrument for Pre-Accession Assistance (IPA).

It is planned for the EaSI program to support the efforts of member states in designing and implementing social reforms at the European, national, regional and local levels by means of policy coordination, the identification, analysis and sharing of best practices.

The Ministry of Civil Affairs of Bosnia and Herzegovina obtained the consent of the competent institutions of the entities and the Brčko District of Bosnia and Herzegovina with the initiative for the accession of Bosnia and Herzegovina to the European Social Fund Plus (ESF+) Program and the European Union Program for Employment and Social Innovation, with the aim of supporting the development of entrepreneurship, social innovation and development of the digital and "green economy".

The Council of Ministers of Bosnia and Herzegovina has confirmed the interest in participating in the Program for Employment and Social Innovation (EaSI) 2021-2027. The Ministry of Civil Affairs of Bosnia and Herzegovina sent a letter of interest in joining the Program to the European Commissioner for Employment, Social Affairs and Inclusion. Information about Bosnia and Herzegovina's expressed interest in joining the EU EaSI will also be submitted to the General Directorate for Neighborhood and Enlargement Negotiations of the European Commission and will request funds from the IPA for contribution to the Program.

Despite the continuation of the COVID-19 pandemic and global political trends, data on the state of unemployment show a tendency of decrease in the number of unemployed persons on the register.⁹¹ In the coming period, work will be done on the further development of the system for monitoring and anticipating the needs for skills in the labor market, in order to facilitate the **harmonization of the education, training, reskilling and upskilling system with the needs of the labor market**⁹² as part of the implementation of active policy measures, the evaluation of the employment program will contribute to the greater efficiency of active policy measures, as well as the creation of measures based on the achieved efficiency. The evaluation of the employment program is the basis for further improvement and monitoring of the fulfillment of program goals, and the efficiency and sustainability of each individual program.

As part of the measure, the preparation of the Implementation Plan for the Youth Guarantee Program is also envisaged. The Youth Guarantee Program⁹³ aims to reduce the unemployment of youth who are not in employment, education or training, and to **increase harmonization between the education and training and the needs of the labor market**.⁹⁴ The Ministry of Labor, War Veterans and Disabled Persons' Protection (hereinafter the MLWVDPP) is the coordinator of the Youth Guarantee Program in Republika Srpska. Coordination is carried out with the relevant ministries and institutions. Furthermore, to improve social dialogue in the coming period, the focus will be on intensifying the dialogue with the social partners so as to harmonize opinions and positions on relevant issues.

a. Activities planned in 2023:

- Sign the Agreement between the European Union, on the one hand, and Bosnia and Herzegovina, on the other, on the participation of BiH in the Program for Employment and Social Innovation (EaSI) of the European Social Fund Plus (ESF+), (MCA),
- Preparation of the Youth Guarantee Program Implementation Plan, which will contain three pilot projects, prepared in accordance with the competences (MCA),
- Draft the text of the Law on Mediation in Employment and Social Security of the Unemployed (FMLSP),
- Preparation of the Youth Guarantee Program Implementation Plan (MLWVDPP and relevant ministries and institutions included in the Program),
- Intensify the dialogue with the social partners for the purpose of harmonizing opinions and positions on relevant issues (MLWVDPP in cooperation with social partners),
- Social welfare for workers who lost their jobs in the process of privatization, bankruptcy and liquidation of companies (MLWVDPP in cooperation with social partners),
- Improve services to key beneficiaries and facilitate better interaction between employers and the unemployed (MLWVDPP and the Public Employment Service of Republika Srpska – hereinafter the PES RS).

b. Activities planned in 2024:

- Implementation monitoring and evaluation of the Youth Guarantee Program for 2023 (MCA),

⁹¹ The average number of the unemployed for the eight months of 2022 is 68,865 persons and represents a decrease of 12.3% compared to the same period of the previous year. As regards the employment of persons registered at the PES RS for the first eight months of 2022, 20,104 persons were employed, which is 5.6% less compared to the same period in 2021.

⁹² Joint conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey, conclusion under point 6.

⁹³ Employment Strategy of Republika Srpska 2021–2027. (“Official Gazette of Republika Srpska”, no. 4/22). The Employment Strategy 2021–2027 is in line with the Framework for the Implementation of Sustainable Development Goals in Bosnia and Herzegovina (United Nations, 21 October 2015, A/RES/70/1 – Transforming our world: the 2030 Agenda for Sustainable Development) and thus, indirectly, with the global sustainable development goals. The strategy is also in line with the Economic and Investment Plan (EIP) for the Western Balkans (COM(2020) 641, 6 October 2020) with the priority area 6, which relates to increasing support for human capital development, and the flagship 10, which relates to support for the establishment of Youth Guarantee schemes in the Western Balkans.

⁹⁴ Joint conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey, conclusion under point 6.

- Implementation monitoring and evaluation of the EU Employment and Social Innovation Program (EaSI 2021-2027) (MCA),
- Implementation of the Youth Guarantee Program Implementation Plan (MLWVDPP and relevant ministries and institutions included in the Program),
- Intensify the dialogue with the social partners for the purpose of harmonizing opinions and positions on relevant issues (MLWVDPP in cooperation with social partners),
- Social welfare for workers who lost their jobs in the process of privatization, bankruptcy and liquidation of companies (MLWVDPP in cooperation with social partners),
- Improve services to key beneficiaries and facilitate better interaction between employers and the unemployed (MLWVDPP and the Public Employment Service of Republika Srpska – hereinafter the PES RS).

c. Activities planned in 2025:

- Monitoring and evaluation of the Youth Guarantee Program for 2024 (MCA),
- Monitoring and evaluation of the EU Employment and Social Innovation Program (EaSI 2021-2027) (MCA),
- Draft the text of the Law on Employees' Council (FMLSP),
- Implementation of the Youth Guarantee Program Implementation Plan (MLWVDPP and relevant ministries and institutions included in the Program),
- Intensify the dialogue with the social partners for the purpose of harmonizing opinions and positions on relevant issues (MLWVDPP in cooperation with social partners),
- Social welfare for workers who lost their jobs in the process of privatization, bankruptcy and liquidation of companies (MLWVDPP in cooperation with social partners),
- Improve services to key beneficiaries and facilitate better interaction between employers and the unemployed (MLWVDPP and the Public Employment Service of Republika Srpska – hereinafter the PES RS).

2. Result indicators

Indicator	Baseline (2023)	Intermediate target (2024)	Target (2025)
Total number of active job seekers	56,000	50,000	50,000
Number of registered collective agreements	4	4	4
The number of workers who are taken care of under the Social Welfare Program	1,500	1,500	1,500
Number of beneficiaries entitled to cash compensation	2,600	2,600	2,600
Number of beneficiaries entitled to payment of pension and disability insurance contributions (the unemployed in accordance with Article 37 of the Law on Employment Mediation and Rights during Unemployment)	900	900	900
Number of young employees employed through employment programs	1,700	1,700	1,700
Number of hard-to-employ persons employed through employment programs	3,100	3,100	3,100
Number of women employed through employment programs	2,500	2,500	2,500

3. Expected impact on competitiveness

The enforcement of labor, occupational safety and employment laws should have an impact on the creation of equitable and safe working conditions for workers. The adoption of the new Law on Mediation in Employment and Social Security of the Unemployed should also have an impact on improving the efficiency of the public employment services, with the aim of improving the employment system and reducing the number of unemployed persons, as well as increasing the employment rate.

In addition, by implementing priority activities in the field of employment in the coming period, among other things, through a strengthened labor market management mechanism, the new employment policy framework will seek to establish a more effective monitoring system, effective use of financial resources, and a better concept of the monitoring and evaluation of active labor market policies.

The activities of the PES RS shall directly influence the creation of a more competitive economic environment, employment growth, GDP growth, a better fiscal environment through the payment of contributions for the newly employed, etc.

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

The costs of monitoring the application of legal regulations under the jurisdiction of the Federal Ministry of Labor and Social Policy shall be provided within the Budget of the Federation of Bosnia and Herzegovina.

The estimated cost of activities is BAM 72,511,666 for the year 2023, BAM 62,638,334 for the year 2024, and BAM 28,885,000 for the year 2025. The sources of financing are the Budget of Republika Srpska, the Budget of the BiH Institutions in the period of 2023-2025 at BAM 185,000 per year, as well as loans from the World Bank for the period of 2023-2025.

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

The implementation of legal regulations in the field of labor, occupational safety and employment and the implementation of other documents in the field of employment can be expected to have a positive impact on increasing the employment rate and reducing the rate of unemployment and inactivity, especially of the youth, women and the long-term unemployed, as well as of those most vulnerable in the

labor market, promoting quality employment, with the aim of achieving equal opportunities in access to the labor market and more equitable working conditions.

Active measures in the labor market and regular financial compensation aim to alleviate the social and economic consequences caused by the pandemic, as well as to reduce poverty and social inequalities, contribute to the empowerment of women, especially the ones from rural areas and women victims of domestic violence and war torture. These measures shall reduce regional inequalities by employing people in underdeveloped and extremely underdeveloped municipalities.

6. Expected impact on the environment

This measure has a neutral impact on environmental protection.

7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
Lack of absorptive capacity in key beneficiaries and lack of a successful implementation and monitoring system	Low	A strategic approach to capacity building activities will be taken, which includes a competency framework, training needs analyses, training delivery, and teaching. During the project, external support will be provided to the PES staff.
Inopportune adoption of laws	High	Preparation of the texts of laws in accordance with the plan
Dissonance between social partners	High	Encouraging social dialogue, conducting consultations with social partners.
No collective agreements have been concluded	Low	Re-intensification of dialogue with social partners for the purpose of reaching an agreement for the conclusion of collective agreements
No planned laws have been prepared	Low	Timely implementation of the processes of consultation and reconciliation with all relevant process participants and social partners

5.1.2. Main Obstacle No. 2: Improving the Business Environment through Closer Cooperation and Coordination at all Levels of Government

a. Analysis of main obstacles

The priorities of the Strategic Framework until 2030⁹⁵ state that Bosnia and Herzegovina should achieve greater competitiveness with stronger economic development through the clearly defined policies, the innovative, competitive production, the distribution of knowledge and the quality international promotion and development of tourism based on the principles of sustainability, which indicates BiH's commitment to reforms in this field.

In the Federation of BiH, the accelerated technological development, the digitization and the introduction of new ways of doing business have opened up additional space for the development of the so-called “gray economy”, which significantly affects the presentation of the real state of economy due to the non-support of digital ways of doing business in terms of regulations and oversight. The existing system of fiscalization is outdated, which makes it difficult for taxpayers to comply with the regulations and they operate on the border of legality. Such situation makes the work of the institutions that supervise the cash flows difficult in the exercise of their competences, thus increasing the administrative costs of the public administration. The business environment is characterized, among other things, by the expensive and lengthy company registration process, which is a disincentive for the existing as well as future

⁹⁵ Framework for the Realization of the Sustainable Development Goals of Bosnia and Herzegovina until 2030. (2021), www.dep.gov.ba

entrepreneurs. Another problem in the Federation of BiH is the impossibility of registering business entities at one place, the absence of online registration and obtaining the necessary permits at one place, etc. Moreover, insufficient budget allocations to stimulate the development of small and medium-sized enterprises, as well as difficult access to favorable financial resources, represent a significant challenge to increasing the competitiveness of small businesses in the Federation of BiH. The existing Law on Promotion of Small Business Development in the Federation of BiH failed to provide for the obligation to allocate minimum funds from the Budget of the Federation of BiH, which in a certain sense is an obstacle to faster and better development of small businesses, thus we are working on the amendments thereto, especially in the part that relates to the increased and prescribed minimum financial allocations from the Budget of the Federation of BiH to the SME sector.

Republika Srpska sees one of its key challenges in **increasing the competitiveness and the productivity of the economy and reducing the gray zone** with the aim of raising salaries and reducing the informal economy in the field of labor and, consequently, reporting and paying income tax and contributions. The problem is further exacerbated by the crisis caused by the COVID-19 pandemic. The business community recognized as a challenge the workforce deficit in certain branches of the economy, which, among other things, is the result of brain drain, and pointed to the problem of a low productivity growth rate that failed to follow the dynamics of continued salary growth.

With the aim of creating a favorable business environment and reducing the gray zone in the field of labor, there was a need to regulate **the tax status and registration of workers who perform short-term seasonal jobs** in the fields of hospitality, tourism, construction, agriculture and other activities, and who, due to the short duration of the engagement, need to be provided with the simplified registration in the Unified System of Registration, Control and Collection of Contributions, and with the simplified and flat-rate payment of tax obligations.

Response to one of the main challenges identified was also the reorganization of the existing model of the fiscal cash register system. Namely, the analysis of the situation in the subject field showed that **the fiscal cash register system** is technologically outdated, and that it does not even monitor the full operations in cash, which is the reason for still having a certain amount of space for the gray zone. In this respect, a real and well-founded need to revise the existing system has emerged. Namely, with the existing system, due to its obsolete technical limitations, the very business operations of economic entities are financially and procedurally burdened in the interest of achieving fiscalization goals. Any solution that will influence the liberalization of the fiscal system market, the reduction of related operational costs and the reduction of procedures or their automation, would certainly have positive effects on the business environment in Republika Srpska.

Considering the importance of the field of SMEs in Republika Srpska,⁹⁶ a framework was established to support the mentioned field and a number of activities and programs were implemented. However, the COVID-19 pandemic and the crisis in Ukraine affected the growth of business costs related to energy sources, transport, raw materials, equipment, etc. Given that the countries from which raw materials are imported have limited their export, there is often a shortage of raw materials in certain fields. All cost increases affected **the operations of small and medium-sized enterprises**, especially of independent entrepreneurs. Due to the above, it was important to support this sector, and significant incentives were planned, relating to digital transformation, technical innovation (equipment), organization of and participation in fairs, and the preservation of old and artistic crafts and handicraft business.

In Republika Srpska, work is continuously being done to reduce administrative barriers for doing business through a series of projects (“guillotine of regulations”, establishment of a one-stop business system, etc.). However, over time, new procedures were established as well as the need to necessarily carry out a systematic analysis thereof, first at the Entity level and then at the local one.

In the field of **improvement to the safe business environment**, solving the issue of corruption was identified as one of the main obstacles, taking into account the difficulties in detecting and proving this type of criminal offense, and bearing in mind the importance of corruption prevention in the development of the business environment. Monitoring the flows and preventing money laundering, as well as

⁹⁶ In 2021, 41,992 small and medium-sized enterprises operated in Republika Srpska, of which 18,365 legal entities and 23,627 entrepreneurs or 99.8% of the total number of economic entities.

combating organized crime, especially human trafficking (labor exploitation) and cybercrime, both in Republika Srpska and beyond, through regional activities and cooperation, have a significant impact on the improvement to the safe business environment. The migrant crisis as well as the return of fighters from foreign battlefields, having an impact on the perception of safe business, are certainly an important obstacle to the improvement in the safe business environment. The current situation in Ukraine, as expected, has a negative impact on both the business environment and the perception of safe business.

With the aim of improving the business environment and reducing the informal economy through strengthening the security of citizens, institutions, community and property, a number of strategic documents⁹⁷ in the field of security were drawn up in Republika Srpska in the previous period, and the application thereof further **improved the field of the safe business environment**. Further fight against organized crime and corruption, money laundering, cybercrime, terrorism and other forms of serious crime will significantly restore confidence in the safety of the business environment and thus increase the competitiveness of the Republika Srpska economy and its attractiveness for foreign investments. In this regard, the plan is to draft a new Anti-Corruption Strategy in Republika Srpska and a corresponding Action Plan in 2023, while the plan for 2024 is to adopt a new Strategy for combating cybercrime and to complete the development of accompanying action plans for combating cybercrime in Republika Srpska, in the field of digital forensics.

b. Reform measures

5.1.2.1. Improve the turnover reporting system

1. Description of measure

In the Federation of BiH, the turnover of goods and services is recorded by means of fiscal systems that are based on the outdated fiscalization model, which makes it difficult to record turnover achieved by new business channels (online), and thus affects the collection of public revenue. In the coming period, the plan is to introduce a new fiscalization model that will support newer ways of doing business and facilitate the work of business entities. The new fiscalization system will enable faster and targeted monitoring of the achieved turnover of money, goods and services. The measure will be implemented by adopting a new legislative framework that regulates this area.

In Republika Srpska too, the existing model of the fiscal cash register system showed certain shortcomings, and the need for its improvement emerged. Hence it was necessary to initiate the activity of reviewing the existing model, and on the basis of the analyses conducted and the models offered, the transition to a less demanding and at the same time more effective and efficient system was made. Based on these analyses, the National Assembly of Republika Srpska adopted the Law on Fiscalization in February 2022. The law, in technical terms, completely changes the current system of turnover control through fiscal cash registers, and the current fiscal systems will be replaced by the new ones.

Activities planned in 2023:

- Draw up the Draft Law on Fiscal Systems (FMF)
- Full application of the Law on Fiscalization (MFRS),
- Finance the costs of initial fiscalization for taxpayers (MFRS)

Activities planned in 2024:

- Adoption of the Law on Fiscal Systems (FMF)
- Construction of a new IT system in the FBiH Tax Administration for the new fiscalization system (FMF)
- Fiscalization of taxpayers who, according to the Law on Fiscal Cash Registers, were not subject to fiscalization, but are included according to the Law on Fiscalization (MFRS).

⁹⁷ Strategic documents: Anti-Corruption Strategy in Republika Srpska and the accompanying Action Plan (2018–2022); the MIA's Action Plan for the implementation of the Anti-Corruption Strategy in Republika Srpska (2019–2022); Strategy for combating cybercrime in Republika Srpska 2020–2024 and the accompanying Action Plans: for combating cybercrime in Republika Srpska and for the field of digital forensics in Republika Srpska; and the Action Plan for combating money laundering and terrorist financing in BiH (2018–2022) and money laundering and terrorist financing risk assessment.

Activities planned in 2025:

- Adoption of bylaws for the implementation of the new Law on Fiscal Systems (FMF)

2. Result indicators

Indicator	Baseline (2023)	Intermediate target (2024)	Target (2025)
Number of taxpayers subject to fiscalization	85,000	98,000	110,000
Application of the Law on Fiscalization	Full application of the Law	Full application of the Law	Full application of the Law
Fiscalization carried out with taxpayers	Costs of initial fiscalization financed	Systems functional and in use	Systems functional and in use

3. Expected impact on competitiveness

The application of the new fiscalization system in the Federation of BiH will lead to the better and quality control of taxpayers who avoid fulfilling their obligations, while creating a more equitable system for taxpayers who already operate within the formal economy. Furthermore, the mobilization of additional sources of budget revenues creates the window for all legal entities to implement new measures so as to achieve the business cost relief.

The primary impact of the new fiscalization system in Republika Srpska is expected through the reduction of the gray economy and the reduction of tax evasion, as well as the improvement in tax discipline, which directly increases the competitiveness of business entities that comply with tax regulations.

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

As regards the activities related to the adoption of laws and the preparation and adoption of bylaws, it is necessary to further engage new employees, provide technical assistance and software in order to construct and adapt the IT system in the FBiH Tax Administration for the implementation of new legal solutions.

Having in mind that, on the basis of the current law, the financing of the initial fiscalization of taxpayers was at the expense of the taxpayers, the Government of Republika Srpska proposed that the cost of the initial fiscalization of taxpayers be borne by Republika Srpska. The cost of fiscalization includes the cost of initial fiscalization of taxpayers and the cost of procuring the fiscalization management system. Since no formed price of the device or the fiscalization management system exists at this moment, the MF made a cost estimate based on the aforementioned analyses, according to which the cost of fiscalization should be around BAM 50 million.

In 2022, the amount of BAM 27 million was provided for the procurement of the system, while in 2023, the additional BAM 13 million should be provided. The stated procurement cost will also take into account the inflationary impact in terms of correcting the stated amount in accordance with market prices.

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

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

The measure has no direct impact on social outcomes in Republika Srpska. However, reducing the gray economy, increasing tax discipline, and expanding the 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 will indirectly have a positive impact on social outcomes through the redistribution system.

6. Expected impact on the environment

Device replacement will produce a larger amount of electronic waste, which should be properly disposed of.

7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
Failure to adopt the proposed legal solution by the Parliament of the Federation of BiH	High	Low level of possibilities for mitigation by the very proponent of the Law
Lack of the planned funds in the Budget of the Federation of BiH for informatization of the FBiH Tax Administration and lack of funds for training	Low	Plan the funds in a timely manner
Interference in the implementation of technical aspects of the system in Republika Srpska	Low	Technical and staff readiness for the process implementation

5.1.2.2. Restructuring of the tax and non-tax burden

1. Description of measure

The Federation of BiH finds that, in order to suppress payments in the so-called “gray economy” zone and to equalize the manner of labor taxation with the EU and OECD countries, the income tax base needs to be expanded to all hitherto non-taxable sources of income. In parallel with this reform measure, the reform of the calculation and payment of mandatory social contributions is also being carried out. The purpose of the measure is to redistribute the tax burden, by shifting a higher tax burden to persons with a higher income, whereas those with a lower income would be exempt from paying or have a zero tax rate. The goal of expanding the tax base is to influence the gray economy, which is financed from non-taxable income, that is, some employers currently use the non-taxable forms of payments to avoid paying their full obligations. By using a personal deduction that has the same implications as a progressive income tax rate, the goal is to protect the minimum income that would remain outside the scope of the tax, that is, no tax would be paid on it. On the other hand, the expansion of the base would enable the reduction in total contributions. The expanded tax base also protects the stability of the budget and extra-budgetary funds, and the income recipients based on income tax and contributions, considering that only the reduction of accrual rates would initially lead to losses in the inflow of public revenue.

With the aim of further relieving the economy and improving the entire business environment and climate in Republika Srpska, the Government of Republika Srpska planned for the coming period to adopt the Law on Simplified Engagement in Seasonal Jobs in certain industries and changes to the taxation of workers therein. In this regard, the reduction in taxes and contributions for these workers is planned, as well as the simplified registration and deregistration in the Unified System of Registration, the control and collection of contributions only electronically, and the simplified payment of taxes and contributions. In this part, it is important to emphasize that the consequence of the simplified manner of engaging workers in seasonal jobs will be the simplified and flat-rate taxation and payment of contributions for these jobs. Due to the nature of this engagement, the simplified taxation and payment of contributions should contribute to the revenue growth, given that taxes and contributions from these engagements are very often in the gray zone. Such manner of taxing these workers should contribute to the growth of income tax and contributions since their engagement is often in the gray zone. In addition, with the aim of reducing the gray zone in the field of labor, taxation of dividends is also planned, because they are often used to pay a portion of the salaries in cash not being reported.

When it comes to the planned amendments to the non-tax laws, the MF conducted preparatory activities and created analyses based on which the activities are planned for the next three-year period in relation to the distribution of funds for financing special fire protection measures.

Activities planned in 2023:

- Adoption of the Law on Income Tax in the FBiH (FMF),
- Adoption of the Law on Contributions in the FBiH (FMF),
- Adoption of the Law on Simplified Engagement in Seasonal Jobs in Certain Activities (MLWVDPP),
- Adoption of the Law on Amendments to the Law on Income Tax (MFRS),
- Adoption of the Law on Amendments to the Law on Contributions (MFRS),
- Adoption of the Law on Amendments to the Law on Tax Procedure of Republika Srpska (MFRS),
- Development of the analysis of the introduction of minimum contribution bases by industry (MFRS),
- Development of a methodology for determining the lowest salary in Republika Srpska (MFRS),
- Update to the Register of Tax and Non-Tax Charges of Republika Srpska and the implementation of further activities in the reduction, that is, abolition of non-tax charges (MFRS),
- Analysis of the effects of the implementation of the laws that reduce labor burden (MFRS).

Activities planned in 2024:

- Adoption of bylaws for the implementation of the Law on Income Tax in FBiH (FMF),
- Adoption of bylaws for the implementation of the Law on Contributions in the FBiH (FMF),
- Informatization of the FBiH Tax Administration, upgrade of the software application for the administration of the implementation of new legal solutions (FMF),
- Implementation of laws and bylaws relating to the simplified engagement in seasonal jobs in certain activities (MFRS).

Activities planned in 2025:

- Evaluation of the first effects of the implementation of amended laws in the FBiH (FMF).

2. Result indicators

Indicator	Baseline	Intermediate target	Target
Law on Simplified Engagement in Seasonal Jobs in Certain Activities	Law adopted	Law being applied	Law being applied
Legislation amendments in the framework of taxation: Law on Amendments to the Law on Income Tax; the Law on Amendments to the Law on Contributions; Law on Amendments to the Law on Tax Procedure of Republika Srpska	Set of laws prepared and adopted	Law being applied	Law being applied

3. Expected impact on competitiveness

The reduction in the fiscal burden for employers in the Federation of BiH is expected result in the increase in the competitiveness of domestic economic entities, as well as the increase in the competitiveness of the workforce, which, in the end, will have a positive effect on the increase of new investment and overall economic growth.

With the implementation of the measure, Republika Srpska expects to relieve the economy and create the more favorable conditions for economic entity operations, which will lead to the increase in the competitiveness and productivity of the economy of Republika Srpska.

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

As regards the very first effects of the implementation of the measure on the budget revenues in the FBiH, that is, the extra-budgetary funds, according to the conducted microsimulation assessments, the proposed reduction of the total contribution rate, as well as changes in the income taxation, will be compensated by the expansion of the base for calculation and will not have a negative impact on the level of revenue collection on this basis (neutrality effect). Activities relating to the adoption of laws and the preparation and adoption of bylaws will be carried out within the regular costs of salaries of the employees of the Federal Ministry of Finance and FTA. The exact level of the costs of developing a software solution for administering the application of new legal solutions by the FBiH Tax Administration can be determined only after the adoption of laws and bylaws.

No additional funds are required for the implementation of the measure. Given that taxes and contributions from engaging seasonal workers are very often in the gray zone, the simplified taxation and payment of contributions should contribute to the growth of these revenues. The introduction of dividend taxation, too, will result in the increase in income tax.

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

By reducing the cost of labor and by discouraging employers to hire employees on the basis of service contract and other similar contracts (related to the planned inclusion of such sources of income in the calculation of mandatory contributions), an increase is expected in the level of employment in the FBiH. Furthermore, the progressive taxation, that is, the reduction in the tax burden on people with a lower income, will improve their standard of living. As regards the gender-related performance, although no direct assessments were made, taking into account the available statistical data on the currently worse position of women in terms of employment status and income generation, it can be assumed that their position will improve by the implementation of this measure.

Given that there will be a simplified manner of engaging workers in seasonal jobs, an increase in the number of employees is expected based on this engagement. Also, the implementation of all measures that contribute to the reduction of the gray economy shall have a significant impact on equality.

6. Expected impact on the environment

Neutral impact.

7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
Inopportune adoption of the proposed legal solutions by the Parliament of the Federation of BiH	High	Low level of possibilities for mitigation by the very proponent of the Law
Lack of the planned funds in the budget of the Federation of BiH for the informatization of the FBiH Tax Administration	Low	Plan the funds in a timely manner
Non-implementation of the measure by employers in Republika Srpska	Low	Increased inspection supervision and control

5.1.2.3. Optimization of administrative procedures for business operations

1. Description of measure

This reform measure was partly carried over from the previous ERP, due to the fact that the planned Law on Encouraging the Development and the Law on Entrepreneurial Infrastructure were not adopted in the Federation of BiH due to complex procedures. For this reason, the Federal Ministry of Development, Entrepreneurship and Crafts will continue its activities on the adoption of legal regulations aimed at creating a favorable business environment for the establishment and development of small business entities. This measure, among others, will enable easier and faster entry into business activity, as well as easier closure of companies. Both of the aforementioned laws were adopted as drafts by the FBiH Parliament, and work is under way on the preparation of proposals for these laws. Activities in this reform measure are in accordance with the obligation contained in Article 93 of the Stabilization and Association Agreement, on the basis of which the Draft Law on Encouraging the Development of Small Business is fully harmonized with the regulations of the European Union. The proposed text of the Law on Encouraging the Development of Small Business also incorporates the solutions foreseen by the Commission Recommendation 2003/361/EC concerning the definition of micro, small and medium-sized enterprises. This measure contributes to the achievement of the United Nations Sustainable Development Goals (SDGs). We also plan to initiate activities in the framework of social entrepreneurship to draft legal regulations so as to have this field of entrepreneurship legally regulated for the first time in the Federation of BiH.

In 2021, the Government of Republika Srpska launched the Project for Optimization of Administrative Procedures and Formalities at the Entity Level, and in April 2021, the Decision on the Implementation of the Project for Optimization of Administrative Procedures and Formalities was adopted and the Council for Management and Monitoring of the Project for Optimization of Administrative Procedures and Formalities at the Entity Level was appointed, as well as the Operational Body for the Implementation of the Project, which consists of a total of 45 members from various institutions, including representatives of the business community. In December 2021, the Government of Republika Srpska adopted the Action Plan for the optimization of administrative procedures, which provides for the abolition of 42 formalities and the simplification of 243 formalities.⁹⁸

The optimization of administrative procedures at the Entity level implies the analysis of procedures and formalities, identified in the unified register of formalities (i.e. permits, approvals and licenses issued by Entity administrative bodies) from the aspect of their justification, the requirement of necessary documents, time and costs in obtaining them. The goal of the analysis is to propose and implement

⁹⁸ Key simplifications relate to obtaining documents ex officio using web services, the acceptance of the proposal that the parties are not required to submit evidence (documents) issued by the institutions where the request is submitted and the formality issued, the reduction of fees, simplifying the form of documents (e.g. uncertified copy of the document), prescribing the request form for the issuance of formalities and its availability.

simplifications of certain administrative procedures, to reduce costs and time for the business community, as well as to modernize and improve the work of the Entity's administration bodies.

Activities planned in 2023:

- Adoption of the Law on Encouraging the Development of Small Business in the FBiH (FMDEC),
- Adoption of the Law on Entrepreneurial Infrastructure in the FBiH (FMDEC),
- Adoption of 5 bylaws based on the Law on Crafts and Related Activities in the Federation of Bosnia and Herzegovina (FMDEC),
- Continuation of the implementation of the agreed simplification plan (institutions of the Republika Srpska entity that issue formalities),
- Launch an initiative towards local self-government units to implement the project at the local level according to the same methodology.

Activities planned in 2024:

- Law on Social Entrepreneurship in the FBiH,
- Rulebook on procedures in the implementation of the Incentive Program based on the Law on Encouraging the Development of Small Business in the FBiH (FMDEC),
- Rulebook on the establishment, management and operation of the Information System in the FBiH,
- Rulebook on closer regulation of the stages of establishing the entrepreneurial zone in the FBiH (FMDEC),
- Rulebook on definition of the necessary data for registration in the Register of Entrepreneurial Infrastructure in the FBiH (FMDEC),
- Rulebook on implementation of the Incentive Program based on the Law on Entrepreneurial Infrastructure in the FBiH (FMDEC),
- Monitoring the contents of the register and possible supplementation of the agreed simplification plan (MEE in cooperation with all Republika Srpska institutions that issue formalities).

Activities planned in 2025:

- Rulebook for the Register of Social Enterprises in the FBiH,
- Rulebook on the internal organization of the Fund for Social Entrepreneurs in the FBiH.

2. Result indicators

Indicator	Baseline (year)	Intermediate target (year)	Target (year)
Number of simplified formalities and administrative procedures in relation to the total number	100/932	143/932	243/932

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

Adoption of the necessary legal regulations will lead to a more favorable impact on competitiveness of small and medium-sized enterprises in the Federation of BiH, and thus to the growth of the number of small and medium-sized enterprises, the number of social enterprises, the increase in employees, etc.

The measure has a direct impact on competitiveness since the business community of Republika Srpska would have direct benefits in terms of the cost and time reduction in obtaining individual permits, approvals, and licenses.

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

The aforementioned activities will be carried out by the staff of the Federal Ministry of Development, Entrepreneurship and Crafts, hence the costs of implementation will be the regular costs for the salaries of employees (there will be no additional costs), except for the funds provided in the Budget.

The Budget funds planned for this measure are BAM 300,000 in 2023, BAM 300,000 in 2024, and BAM 200,000 in 2025.

The project is being implemented within the existing administrative capacities of the Republika Srpska institutions.

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

The completion of the planned activities in the Federation of BiH is expected to make the process of entry into and exit from the business activity easier and faster, which will result in the increased employment and thus a reduction in poverty. The mentioned activities include the equality of all social groups, as well as gender equality.

The impact of the measure on Republika Srpska is indirect, since the improvement to the business environment shall create conditions for greater employment and a better social status of citizens.

6. Expected impact on the environment

The measure is neutral.

7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
Inopportune adoption of laws by the Parliament of the Federation of BiH	Low	Seek financial support from alternative sources
A large number of the institutions involved	High	Establishment of the Council at the highest level to monitor the work of the institutions
A large scope of the project	High	Existence of a formal and publicly available initial database; Adoption of a single methodology; Formally determined competent persons

5.1.2.4. Support to entrepreneurship development

1. Description of measure

The Federal Ministry of Development, Entrepreneurship and Crafts will undertake a series of activities aimed at creating a favorable business environment for the growth and development of small business entities through support programs in the form of grants and loans in the FBiH. Grant funds in the next three-year period will be allocated through projects supporting the development of entrepreneurial infrastructure, strengthening the competitiveness of small business entities, as well as encouraging the start-ups.

In Republika Srpska, the application of the Law on Social Entrepreneurship and the regulations governing this field enabled the granting of the social enterprise status, as well as support for vulnerable groups, which enables inclusion in the business processes and strengthens their status in society. Within the international projects, the Development Agency of Republika Srpska (DARS) has developed the following programs: support for entrepreneurs facing problems, and to persons starting business again; program for beginners in business – the accelerator and program mentoring. These activities are important for business, both during the crisis and during the recovery, hence the DARS, in accordance with the available funds and capacities, worked on the support to the field of entrepreneurship. Moreover, the Law on Craft and Entrepreneurial Activity, which has been in force since 2012, regulates the performance of the craft and entrepreneurial activity, education and training of entrepreneurs,

organization of entrepreneurs, and keeping the register of entrepreneurs. After a careful analysis of the existing Law and the suggestions of the competent authorities of local self-government units and entrepreneurs, it was estimated that it is necessary to draw up a new law that will specify certain institutes and regulate them in a different manner while respecting the positive European practice in this field.

As part of the measure of the strengthening of support to entrepreneurship, the Ministry of Economy and Entrepreneurship (MEERS), together with partner organizations, will implement financial support activities for small and medium-sized enterprises (digital transformation, technical innovation, organization of and participation in fairs, and the preservation of old and artistic crafts and handicraft business). The Law on Social Entrepreneurship will also be applied, which enables the improvement in the general social and economic policy and reduces the burden of social welfare benefits.

Activities planned in 2023:

- Implementation of support projects for the development of entrepreneurial infrastructure in the FBiH (FMDEC)
- Implementation of support projects for the strengthening of the competitiveness of small business entities in the FBiH (FMDEC)
- Implementation of the Project “Incentive for Start-up” in the FBiH (FMDEC)
- Implementation of the Project “Guarantee Fund” in the FBiH (FMDEC)
- Implementation of the Program “Loan incentive for the development, entrepreneurship and crafts” in the FBiH (FMDEC)
- Continuation of the implementation of the financial support program (MEERS),
- Establishing the necessary structures for social enterprises and providing support thereto (MEERS),
- Draft the new Law on Craft and Entrepreneurial Activity (MEERS).

Activities planned in 2024:

- Implementation of support projects for the development of entrepreneurial infrastructure in the FBiH (FMDEC)
- Implementation of support projects for the strengthening of the competitiveness of small business entities in the FBiH (FMDEC)
- Implementation of the Project “Incentive for Start-up” in the FBiH (FMDEC)
- Implementation of the Project “Guarantee Fund” in the FBiH (FMDEC)
- Implementation of the Program “Loan incentive for the development, entrepreneurship and crafts” in the FBiH (FMDEC)
- Continuation of the implementation of the financial support program (MEERS),
- Support to social enterprises (MEERS),
- Implementation of the new Law on Craft and Entrepreneurial Activity (MEERS).

Activities planned in 2025:

- Implementation of support projects for the development of entrepreneurial infrastructure in the FBiH (FMDEC)
- Implementation of support projects for the strengthening of the competitiveness of small business entities in the FBiH (FMDEC)
- Implementation of the Project “Incentive for Start-up” in the FBiH (FMDEC)
- Implementation of the Project “Guarantee Fund” in the FBiH (FMDEC)
- Implementation of the Program “Loan incentive for the development, entrepreneurship and crafts” in the FBiH (FMDEC)

- Continuation of the implementation of the financial support program (MEERS).

2. Result indicators

Indicator	Baseline (year)	Intermediate Target (year)	Target (year)
Number of financially supported entities	170	200	250
Law on Social Entrepreneurship	20 social enterprises supported	20 social enterprises supported	40 social enterprises supported
Law on Craft and Entrepreneurial Activity	Law adopted	Law being applied	Law being applied

5.1.3. Main Obstacle No. 3: Public Financial Management

a. Analysis of main obstacles

Viewed from the aspect of competitiveness and development, the quality of public finances is not satisfactory. The reason for this is a low level of domestic public investment in relation to other expenditure categories. The issue of appropriate policies is in finding the balance between the allocation, distribution and stabilization functions of public finances. Fiscal reporting needs to be improved in accordance with the EU standards, and work needs to be done on adequate measures and improvement to projections and analyses.

Institutional fragmentation, low quality of fiscal data and the absence of cooperation between various stakeholders have a negative impact on the quality of the fiscal framework. Compliance with the EU reporting standards (ESA) and budget frameworks is still very limited. The efficiency of the medium-term fiscal framework is also very limited. Due to these shortcomings, there is a risk of significant fiscal underreporting.

Public spending is at a relatively high level, and the control and management mechanisms need to be improved. There is an insufficient level of use of information technologies in key processes, and the public financial management system is focused on input resources.

The situation is also made more difficult due to the complex distribution of competences between different levels of government in the FBiH and individual organizations, and due to the inadequate cooperation and coordination between and within different levels of government in the processes of planning and execution of budget/financial plans.

A restrictive policy on new employment and the inability to fill classified positions hinder the development of the public internal financial controls in accordance with the standards, and due to a large number of public sector organizations, it is not possible to have these organizations audited by external auditors, which results in the low level of implementation of audit recommendations.

A general problem at all levels of government is the lack of understanding of the PIFC system as part of the overall reforms in the Federation of BiH and of the benefits it has for both the successful operation of public sector organizations and the economical and efficient management of public funds.

Implementing the applicable regulations and methodologies consistently and improving the development of public internal financial controls directly contribute to the strengthening of controls, and thus to the rationalization of the consumption of public funds and improvement in the quality of work of public sector organizations in the Federation.

The analysis of obstacles in Republika Srpska found that one of the main challenges in the field of internal audit is related to the parallel existence of the two significantly different concepts of internal audit – the one developed in public enterprises, and the other in the part of the public sector that includes the beneficiaries of budget revenues at the Entity or local level, by reason of which the organization and the manner of functioning of internal audit fail to sufficiently contribute to the assessment of the internal control system, that is, to the achievement of the goals of public enterprises. This can be remedied by adopting a legal framework for the field of internal audit that will treat internal audit in the entire public

sector in the same manner, which is one of the activities provided for by the Strategy for the development of the Internal Financial Control System in the public sector of Republika Srpska for the period of 2021–2025.

The inability, too, of filling the classified positions of internal auditors with the adequately trained staff, as well as the insufficiently developed awareness of the importance and role of the PIFC for the successful risk management and achievement of the entities' goals, represents an additional challenge in this field.

In the Federation of BiH, the regulations for taxation of property and property transactions are set up at the level of cantons and the local self-government units, and there are 20 laws governing this field, while the collection of public revenue is carried out by the Tax Administration of the Federation of BiH. In order to simplify the business environment through the simplification of administrative procedures, the plan for the coming period is to adopt a single Law on Property Taxation at the level of the Federation of BiH, while retaining the same budgetary allocation of public revenue collected on this basis.

The Tax Administration of the Federation of Bosnia and Herzegovina (FTA) is a large administration which, since its establishment, has been organized at three levels, namely: 1-Central Office, 10 – Cantonal Offices and 73 – Tax Branch Offices, and it has not changed its internal organizational structure since 2013. The organization of the FTA, determined according to the function and geographical area, required that all levels perform all functions/processes (e.g. collection, supervision, registration...) of tax administration, which contributed to different levels of public service provision, unequal rights and obligations to taxpayers, difficult and inconsistent flow of information through the FTA, as well as great sluggishness in adopting and accepting changes in the business environment. Besides the internal challenges, the FTA is further faced with the increased demand for digitalization of its services and retention of quality staff, etc.

The reform of the public financial management in Republika Srpska, through the adoption of a strategic document (Strategy for the public financial management of Republika Srpska 2021-2025 - SPFM RS), presented in a systematic and comprehensive manner a framework for planning, coordination and implementation of the interconnected planned reform activities in the field of public finance, based on the assumed obligations in the field of European integration, as well as on the recommendations of international organizations and institutions, and identified the main obstacles, that is, the areas for action in the next five-year period.

In this regard, within Pillar I: Fiscal Framework, the implementation of Measure 3 – Identification of fiscal risks and Measure 4 – Financial supervision over the operations of public enterprises is planned. Namely, the fiscal risks that are heightened in public enterprises in Republika Srpska currently represent the biggest fiscal challenge for the next period. Accordingly, the Government of Republika Srpska has identified the priorities over the previous period, and initiated the reform of the Republika Srpska Railways and the reform of the electricity market, the restructuring and reorganization of the MH “Elektroprivreda Republika Srpska” a.d. Trebinje (reorganization of distribution companies and establishment of public supply, and reorganization of the generating companies).

Due to the accumulated outstanding liabilities, the Republika Srpska Railways (hereinafter the RSR) have called into question their survival in the transport market of goods and services. The main obstacles to the growth and development of the RSR are reflected in the noticeable trend of the decrease in the number of passengers transported and the passenger kilometer (PK), and the modest data compared to the railway companies in the region. The cost of the workforce represents the largest cost in the total expenditure structure of the RSR. The average age of the inventory fleet of traction vehicles is 47 years, and of the total number of locomotives, only 37% are in operation. Due to the age of the locomotives, as well as the fact that no locomotives have been purchased since the establishment of the RSR, the RSR will in the near future be faced with the issue of the lack of locomotives and the need to invest in the purchase of new locomotives.

Furthermore, the aforementioned electricity market reform presupposes the liberalization of the electricity market for all buyers (consumers), and the ownership unbundling of the market-based electricity activities from the regulated ones. The restructuring and reorganization of the MH “Elektroprivreda Republike Srpske” a.d. Trebinje is divided into two phases. Unbundling of activities and reorganization of five electricity distribution companies (Phase 1), as a prerequisite for liberalization,

has not been fully completed. The second planned phase (Phase 2) is the restructuring of the generating companies (power plants) and the reorganization of the MH “Elektroprivreda Republike Srpske” a.d. Trebinje in its entirety, so as to establish the efficient and optimal organization that will enable the profitable and efficient operation of the Elektroprivreda system (as a public enterprise) as a whole. The present electricity prices for consumers in Republika Srpska have remained at the lowest level in Europe since the beginning of the crisis in Ukraine and are several times lower than the market trends on European stock exchanges. Such prices do not reflect the actual costs of business operations. At the same time, while the number of workers and the qualification structure in the “Elektroprivreda RS” system are burdensome and unfavorable, and the productivity low, the average salaries in this enterprise are significantly above the average when compared to other public and private enterprises. The consequence is that the companies within the “Elektroprivreda RS” system operate with very low liquidity and frequently distinct inefficient management.

Total investment in electrical infrastructure has been insufficient so far, and one of the reasons for that is the low revenue from the sale of electricity to domestic consumers, that is, keeping the price levels that do not justify the costs, and the unnecessarily large number of employees in a public enterprise. The obstacle to a more intensive construction of renewable energy sources is the insufficient accumulation of capital in the “Elektroprivreda RS” system, as well as the bank conditionalities for obtaining loans even for the renewable energy projects. On the other hand, premature closing of the existing thermal power plants in the process of decarbonization would lead to huge job losses, while Republika Srpska would turn from a net electricity exporter into a net importer, that is, become energy-dependent, and the supply prices to domestic consumers would be left to the turbulences of the EU market.

On the other hand, delivering better-quality public services to the citizens of Republika Srpska, in comparison with the current situation, is one of the main priorities of the Government of Republika Srpska in the coming period. In part, the insufficiently efficient quality of public services is based on the insufficient professional orientation of employees who deliver services to the citizens and the business community, as is the insufficient use of information technologies in the process of delivering services. The need has been identified for the adoption of regulations that create the legal prerequisites for the establishment of satisfactory capacities of the employees who deliver services, thereby ensuring a better quality of public services to the citizens of Republika Srpska while respecting the Principles of Public Administration (SIGMA). In this regard, the Government of Republika Srpska is firmly committed to the modernization of public administration, which will be fully based on the principles of the rule of law, openness and transparency, professionalism, efficiency, accountability, and with due diligence in terms of access to the taxpayer funds.

The SPFM RS, within Pillar II: PUBLIC REVENUE, the implementation of Measure 1 is planned – Restructuring the tax and non-tax burden, which relates to the completion of the Real Estate Fiscal Register. Furthermore, the analysis of the current situation in the field of real estate taxation, within the framework of the “Expanding the scope of real estate taxpayers” Project, showed that, although the Law on Real Estate Tax has been in force for 10 years and is being fully applied, there is a significant number of real estates that have not been registered in the Real Estate Fiscal Register. Having in mind that the real estate tax revenue is entirely the revenue of local self-government units, the local self-government units have been authorized by the Law to determine the real estate tax rate for the real estates located in their territory, and to determine the real estate initial value, also for the real estates located in their territory.⁹⁹ On the other hand, the real estate is registered in the Real Estate Fiscal Register by submitting a request for registration in the Real Estate Fiscal Register, which request contains the characteristics of each individual real estate. Since the characteristics of the real estate are a very important factor in determining the tax base, the Tax Administration of Republika Srpska, ex officio or even by the very

⁹⁹ The market value of real estate, which in fact is the real estate tax base, is determined by the Tax Administration of Republika Srpska; however, the basis for applying the value of coefficients for the correction of the estimated market value of real estate (qualitative factors) is the real estate initial value, which the local self-government units determine annually by their decisions. The tax base (market value of real estate) is thus determined by applying the initial values corrected by qualitative factors from the taxpayer's tax return, and by applying the model of mass assessment of real estate.

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inspection supervision process, cannot determine the tax base properly if the real estate is not registered. For this reason, the local self-government units should be more actively engaged in registering the real estates in their territory in the Real Estate Fiscal Register.

Further improvement to the municipal real estate management was identified as one of the challenges in the local self-government units (LSGUs). Namely, one of the main conclusions of the Supreme Office for the Republika Srpska Public Sector Auditing, upon having conducted the performance audit, is that not all the necessary assumptions for the efficient real estate management have been provided. In this regard, the Supreme Office for the Public Sector Auditing recommended to the Government of Republika Srpska to analyze, review and complete the regulatory framework and thus provide the assumptions for successful real estate management in the local self-government units.

Furthermore, the analysis of the current situation in the field of real estate taxation, within the framework of the “Expanding the scope of real estate taxpayers” Project, showed that, although the Law on Real Estate Tax has been in force for 10 years and is being fully applied, there is a significant number of real estates that have not been registered in the Real Estate Fiscal Register. Having in mind that the real estate tax revenue is entirely the revenue of local self-government units, the local self-government units have been authorized by the Law to determine the real estate tax rate for the real estates located in their territory¹⁰⁰, and to determine the real estate initial value, also for the real estates located in their territory. On the other hand, the real estate is registered in the Real Estate Fiscal Register by submitting a request for registration in the Real Estate Fiscal Register, which request contains the characteristics of each individual real estate. Since the characteristics of the real estate are a very important factor in determining the tax base, the Tax Administration of Republika Srpska, ex officio or even by the very inspection supervision process, cannot determine the tax base properly if the real estate is not registered. For this reason, the local self-government units should be more actively engaged in registering the real estates in their territory in the Real Estate Fiscal Register.

5.1.3.1. Public Enterprise Reform

1. Description of measure

The intention of the aforementioned measure is for the internal controls to be focused on the risks related to good management of revenues, expenditures, assets and liabilities, the risks related to medium-term planning and program budgeting, and the business processes of the organization. The planned activities are intended to strengthen management accountability for the legality, goals and results of the organization as well as risk management of public enterprises. Certain progress has been made by ensuring the availability of the public enterprise performance indicators on the FIA FBIH website. The oversight function in the FBIH is with the Secretariat General of the Government of the FBIH. The aforementioned measure is based on the Strategy for the development of the Internal Financial Control System in the public sector of the Federation of BiH 2021-2027 and the Strategy for the public financial management in the Federation of BiH 2021-2025.

Public enterprise reform is among the most significant structural reforms for Republika Srpska and is key to encouraging broader economic reforms and growth in Republika Srpska. The Government of Republika Srpska is in the process where it wants to focus on economic growth and speed up the path to sustainable development, and the public enterprises represent a significant potential in that process. The goals of the reform are to bring Republika Srpska closer to the good practice of the European Union (EU) and the Organization for Economic Cooperation and Development (OECD).

The RSR restructuring will be implemented through three components: financial, organizational, and the workforce restructuring. This project had been scheduled for completion by 31 December 2021; however, the World Bank approved the extension to 31 December 2022. During the implementation of the project,

¹⁰⁰ The market value of immovable property, which is in fact the tax base of the real estate tax, is determined by the Tax Administration of the Republic of Croatia. Srpska, however, the basis for the application of the value of coefficients for the correction of the estimated market value of immovable property (qualitative factors) represents the initial value of real estate determined annually by local self-government units by their decisions. Tax base (market the value of immovable property) is therefore determined by the application of initial values adjusted by qualitative factors from the taxpayer's tax return, and this by applying a model of mass assessment of immobility.

especially due to the change in the decision on the manner of organizing the new company, and the implementation of the procedure for selecting the RSR property appraiser (the selection itself lasted about a year, due to the appeals by potential providers of the service), the components of the organizational and ownership restructuring were not completed, and the RSR restarted the procedure of extending the loan engagement for 24 months, with a review of the results that need to be achieved during the implementation of the project. It was supported by the Ministry of Transport and Communications and the Ministry of Finance. The decision of the World Bank is pending.

Restructuring and reorganization of the MH “Elektroprivreda Republike Srpske” a.d. Trebinje implies the continuation of activities in accordance with the new Law on Electricity through the implementation of measures from the adopted Reorganization Program for the MH “Elektroprivreda Republike Srpske” Phase 1 (reorganization of distribution companies and establishment of public supply) and the adoption of Phase 2 (reorganization of the generating companies). The implementation of the aforementioned measure represents the implementation of the new Law on Electricity, in accordance with the relevant Directives of the European Union, that is, the Directives of the Third Energy Package, through the complete opening of the electricity market, free of discrimination, for all market participants. In 2021, the legal and partly functional unbundling of distribution and supply was carried out in accordance with the adopted Reorganization Program for the MH “Elektroprivreda Republike Srpske” Phase 1 (reorganization of distribution companies and establishment of public supply), adopted by the Government of Republika Srpska in December 2020. The most significant change is the unbundling of the activities of distribution and supply, which formally ended on 1 April 2021, when the electricity distribution companies completely stopped supplying the customers. As part of Phase 1 of the Reorganization Program, and with the aim of providing universal service, the Government designated the Parent Company MH “ERS” a.d. Trebinje as a public supplier for the period of up to five years. In this way, the parent company is assigned the obligation to provide a public service. Within the public supply framework, the public supplier provides a universal supply service to customers from the household category and small customers, and to those customers from the aforementioned categories who did not choose another supplier in the market.

In parallel with the aforementioned, the Government of Republika Srpska initiated a comprehensive reform of public enterprises with the aim of establishing the centralized oversight of the work of public enterprises, under the Office of the President of the Government of Republika Srpska, and the function for the analysis of the fiscal risks of public enterprises under the Ministry of Finance of Republika Srpska. Establishing and putting into operation the Unit for the Oversight of Public Enterprises in Republika Srpska is the first and most important goal of the reform foreseen in the Action Plan, which was adopted by the Government of Republika Srpska. This specific goal is an important step in strengthening the management of public enterprises, as it contributes to the harmonization of the systems and practices of corporate governance of Republika Srpska with the systems and practices of corporate governance of the EU and the OECD, and is key to encouraging a broader reform program for public enterprises. The Action Plan also foresees the establishment of the function of analysis and monitoring of fiscal risks arising from public enterprises within the Ministry of Finance of Republika Srpska. Generally speaking, the operations of public companies are a significant source of fiscal risks, both in the budget revenues and in the expenditures. Good management of such fiscal risks is crucial for economic growth and full employment, being the Government's strategic priorities.

Activities planned in 2023:

- Strengthen the capacity for the oversight function and continue with the timely reporting on performance indicators of public enterprises, GFBIIH and SG (Secretariat General),
- Improve the system of calculating of and reporting on key performance indicators for enterprises with a majority ownership share of the FBiH and cantons, GFBIIH and SG (Secretariat General),
- Complete the ownership restructuring through the conversion of debt into shares, and the purchase of shares from minority shareholders (MTC, MF and RSSC),
- Complete activities related to organizational restructuring (RSR with the assistance of the consultant with whom the contract was signed),

- Procure and implement a new information system for business process management and property management in the new enterprise (RSR),
- Sign multi-year contracts with the Government of Republika Srpska for the infrastructure maintenance and operator support through co-financing of passenger transport (RSR, MTC and MF),
- Register the Republika Srpska Railways holding (RSR, MTC),
- Implementation of the Law on Electricity (MEM, Regulatory Commission for Energy of Republika Srpska, operators-license holders for carrying out electricity activities),
- Continuation of the restructuring and reorganization of the MH “Elektroprivreda Republike Srpske” a.d. Trebinje through the reorganization of electricity producers operating within the MH “Elektroprivreda Republike Srpske” (Parent Company MH “Elektroprivreda Republike Srpske” and the subsidiary generating companies within the holding),
- Continuation of activities on the reorganization of the electricity distribution activity with the aim of achieving full independence of the Distribution System Operators as a network of the fully regulated activity in relation to the market supply activity (Parent Company MH “Elektroprivreda Republike Srpske” and subsidiary electricity distribution companies within the holding),
- In addition to the legal, implementation of the functional unbundling of these activities and the setup of adequate mechanisms of oversight and control thereof, with the aim of separating and preventing discrimination of market participants and distortion of competition (Parent Company MH “Elektroprivreda Republike Srpske” and subsidiary electricity distribution companies within the holding, Regulatory Commission for Energy of Republika Srpska as an independent authority),
- Finalize the administrative procedures necessary for the operationalization of the Oversight Coordination Unit (Secretariat General of the Government of Republika Srpska),
- Create and adopt the overall strategy for the reform of the public enterprise sector (Oversight Unit),
- Set up the Public Enterprise Register of Republika Srpska (Oversight Unit),
- Consider and analyze the legal framework related to the functioning and management, and accountability in the public enterprise management with the aim of improving the planning, reporting and managing, and consequently the performance of public enterprises (Oversight Unit),
- Implement amendments to the legal framework for public enterprises (Oversight Unit),
- Create and adopt ownership policies for public enterprises (Oversight Unit),
- Public enterprises will improve the planning process and timely adoption of business plans in accordance with the three-year projections and strategic and development documents (Public enterprises),
- Further education of the managers of all public sector entities, FMC coordinators and internal auditors on the importance of the management accountability and the manners to improve the internal control system, including the local government and self-government units (ML RS).

Activities planned in 2024:

- Provide support to the level of cantons and local government units in strengthening the internal control system for better management of transfers and subsidies, GFBIIH and SG (Secretariat General),
- Monitor the implementation of a new information system for business process management and property management in the new enterprise (RSR),

- Sign the implementation of multi-year contracts with the Government of Republika Srpska for the infrastructure maintenance and operator support through co-financing of passenger transport and amend them if necessary (RSR, MTC and MF),
- Apply the online data collection system using the Markup Language for Business Reporting to update the Public Enterprise Register system (Oversight Unit),
- Public enterprises will issue financial reports in accordance with the international standards, especially as regards the terms and conditions of the public property use, handling the specific excise duties as well as state aid or subsidies (Public enterprises),
- Adopt a policy/legal requirement for all public enterprises to publish detailed reports on revaluation profits, losses and asset value corrections for the previous ten-year period (Oversight Unit),
- Adopt a policy and procedure for the evaluation of the publicly owned infrastructure used or exploited by public enterprises, and the reporting requirements related thereto, applying the proven methodologies that are used internationally (Oversight Unit),
- Adopt a policy and procedures for the calculation of capital expenditures and depreciation of publicly owned infrastructure used or exploited by public enterprises, and the reporting requirements related thereto, in accordance with the International Financial Reporting Standards (Oversight Unit),
- Prohibit subsidization between subsidiaries in the system of Elektroprivreda Republike Srpske (Oversight Unit),
- Adopt regulations to stop the practice of cross-subsidization in all public enterprises (Oversight Unit).

Activities planned in 2025:

- Standardization of procedures and optimization of business processes, GFBIIH and SG (Secretariat General).

2. Result indicators

Indicator	Baseline (year)	Intermediate target (year)	Target (year)
Conversion of debt into equity	2020		Republika Srpska is the owner of the RSR, the RSR have no obligations to creditors
Organizational restructuring of the company	Registered holding company RSR with three subsidiaries	IT system for operation management in the RSR procured	RSR self-sustaining system
Multi-year contracts for infrastructure maintenance and sub-financing of passenger transport have been signed and are being implemented	Draft contracts prepared	Negotiation	Contracts signed
Vertical integration (the level of vertical unbundling of each individual segment of the electricity sector)	Supply legally and partially functionally unbundled from distribution (as of 1 April 2021)	Supply also functionally completely unbundled from distribution	Mechanisms in place for oversight and control of unbundling
Market structure (market share of the largest electricity company)	99%	97%	95%

Key performance indicators of PEs in Republika Srpska are integrated into the PIFC application	There are no indicators entered in the PIFC application	Conducting practical training related to the use of KPIs in the PIFC application	PIFC application will enable the PE to calculate performance indicators for its work and use them to improve operations and better achieve business goals, as well as to report on them to the Government and other stakeholders
Key performance indicator for public enterprises integrated into the FMC reporting software	At the government levels, there are no bases through which the performance indicators for public enterprises are to be monitored at the FBiH	Conducting practical training related to the use of KPIs in the PIFC application	Through the PIFC application, the public enterprises will calculate performance indicators and use the specified data for business improvement, reporting to the enterprise bodies and relevant ministries and governments

3. Expected impact on competitiveness

A more efficient public administration leads to a more competitive private sector. Moreover, the development and strengthening of the public internal financial controls shall strengthen financial control in the public sector in accordance with the internationally accepted standards and best practices of the European Union, which should have a great impact on competitiveness by ensuring the legal, transparent, economical, efficient and effective management of public funds.

Internal financial control is the concept of internal control in a broader sense, which includes financial control and internal audit, and all systems and procedures of internal control in public institutions, and provides support in ensuring that public funds are spent appropriately and that they achieve “value for money”, which brings about the efficiency of budget spending to the benefit of citizens.

The implementation of the restructuring project will lead to the relief of the debts that the RSR owe to the Government of Republika Srpska on the basis of foreign loans, which they cannot service on their own, as well as to the reduction in operating costs, primarily due to the reduction in gross revenue costs, and also due to the optimization of operations and the informatization of the company. The final result should be reflected in the ability of the RSR to be financially self-sustaining, as well as in the quality of the services provided, which will significantly increase the competitiveness of this public enterprise.

The increase in revenues of the electricity sector would have a positive impact on its ability to invest in new infrastructure projects and on the increase in energy security, whereas the introduction of competition should lead to an increase in the quality of services within the sector. The present electricity market prices in Europe are 10 times higher than the supply prices for consumers in Republika Srpska, hence the competitiveness of electricity as a commodity is at a high level.

The policy of maintaining competitive and reasonably low electricity prices in Republika Srpska would attract new and foreign investment in the energy-intensive economic sectors and create a comparative advantage for foreign investment in Republika Srpska, that is, better competitiveness of products in Republika Srpska.

The establishment of the Unit for the oversight of the work of public enterprises and the function of the fiscal risk analysis will improve the public enterprise management, that is, the public enterprises will operate in a more effective, sustainable and transparent manner.

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

The aforementioned activities will be carried out by the FMF staff, hence the costs of implementation will be the regular costs for the salaries of employees (there will be no additional costs). Certain activities will lead to savings in the Budget through the elimination of irregularities in the spending of budget funds, while a part of them will require additional funds that are planned through various technical assistance projects (IPA fund, other donors), as well as the Budget of the Federation of BiH available to the CSA.

The implementation costs are equal to the total loan from the World Bank, which amounts to EUR 51.3 million, for the implementation of all three phases of restructuring. The burden on the Budget of Republika Srpska shall be the repayment of debt based on the borrowing from the World Bank for the financing of Component 1 (settlement of debts to employees and the Tax Administration), in the amount of EUR 42.7 million. The remaining debt of EUR 8.5 million is the RSR's debt.

At this moment, it is not possible to estimate the cost amount for the restructuring and reorganization of the MH “Elektroprivreda Republike Srpske” a.d. Trebinje.

The establishment of the Unit for the oversight of the work of public enterprises and the function of the fiscal risk analysis will require the provision of funds in the Budget of Republika Srpska for the new employees.

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

The developed and strengthened internal financial controls in the public sector, in the long term, lead to savings and rational consumption of public funds, which provides the opportunity to use these funds in a better manner, for scholarships, co-financing, employment, and other socially useful programs. The adequate establishment of this system will have a positive impact on the use of public funds, and therefore on the adequate distribution thereof to other social groups, respecting the principle of gender equality.

The restructuring of the company led to the reduction in the number of employees. The RSR adopted a new organization and classification at the end of 2021 (according to the proposal of a consultant for the new organization), and it is an interim solution for the transition to a new organization according to the decision of the Government of Republika Srpska. The RSR also prepared the Redundancy Program in accordance with the Law on Labor of Republika Srpska, for which the Government gave its consent.

In the event of the rise in electricity prices through the market price formation, it is expected that there will be a consequent rise in the prices of certain goods, services, and the household living costs. Accordingly, there may be a certain negative impact on the socially vulnerable categories of the population, depending on the share of electricity in the budget of such a household. On the other hand, the reorganization of Elektroprivreda RS aimed at increasing its competitiveness presupposes the optimization (reduction) of the number of employees in all companies in accordance with the European standards. This measure will certainly be reflected on an increase in unemployment. The Law has no impact on gender issue and equality.

The establishment of better oversight of the work of public enterprises and the reform thereof will surely have a short-term effect on the reduction in the number of employees, but in the long term, the fiscal pressures associated with public enterprises will decrease.

6. Expected impact on the environment

The measure in the FBiH has a neutral impact on the environment.

The RSR reform and the financial aspects of the reform of public enterprises in general have no impact on the environmental protection.

The reform of the energy sector will have a generally positive impact, especially in terms of the increase in the degree of use of the renewable energy sources.

7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
Failure to obtain an extension of the loan period	Low	Inclusion of more professional staff to ensure that the project be implemented in accordance with the requirements set out in the Loan Agreement
Unsuccessful implementation of the organizational restructuring project	Low	Inclusion of more professional staff to avoid delays in the implementation
Inopportune preparation of the Reorganization Plan Phase 2 in accordance with the legal deadlines (2021) ¹⁰¹ by the MH “Elektroprivreda RS”	Low	It is necessary to establish an appropriate sustainable and equitable internal mechanism for the distribution of revenues between the electricity generating companies, on a new basis, which is not based on the existing price regulation It is necessary to find a timely solution in accordance with the laws, prescribed options, and in coordination with the Management of the P(arent) C(ompany) MH “Elektroprivreda RS” a.d. Trebinje
Failure to adopt the Rulebook on Amendments to the Rulebook on the organization and classification of jobs in the Secretariat General of the Government of Republika Srpska	Low	Activities can be led by the Working Group for the Reform of Public Enterprises until the establishment of the Unit
Failure to establish the fiscal risk analysis function at the Ministry of Finance of Republika Srpska	Low	Activities can be led by the Working Group for the Reform of Public Enterprises until the recruitment of staff in the Ministry of Finance
Impossibility of reaching the agreement between the management, trade unions and employees in the MH “Elektroprivreda RS”, regarding the reorganization due to the reduction in the number of employees or the loss of certain rights or revenue from activities	High	In a timely manner, initiate discussions between the trade unions and the management of the MH “Elektroprivreda RS” subsidiaries with the aim of harmonization and reaching a compromise solution
Insufficient staff capacities in the CHU MFRS	High	Timely filling of the CHU with adequate staff
Insufficient staff capacity of the Central Harmonization Unit sector, which is responsible for the implementation	High	Filling the classified positions and using the support of partners (Coordination Board of the CHU in BiH, Civil Service Agency, etc.)
Lack of the beneficiaries’ interest in participating in the implementation of activities	High	Initiate a more active participation of beneficiaries through the conclusions of the Government

5.1.3.2. Increase transparency, performance and control in the collection and spending of public funds

1. Description of measure

This measure is intended to improve the internal financial controls of the beneficiaries in the Federation of BiH, and to increase the transparency, performance and control in the collection and spending of public funds. The activities are aimed at improving the user risk management, strengthening the internal audit

¹⁰¹ The Phase 1 of the Program related to the restructuring of distribution and supply has been implemented, but the Phase 2 related to the generation is likely to be adopted with a delay, that is, in 2022.

function in the public sector, and improving the reporting and quality control system in the field of public internal financial controls with the implementation of the application software. The aforementioned measure and accompanying activities are based on the Strategy for the development of the Internal Financial Control System in the public sector in the Federation of BiH 2021-2027 and the Strategy for the public financial management in the Federation of BiH 2021-2025.

The Strategy for the development of the Internal Financial Control System in the public sector of Republika Srpska for the period of 2021-2025 foresees the activity of filling the vacant classified positions of internal auditors in the internal audit units of the public sector entities, focusing the internal audit on high-risk areas (management risk registers and independent IAU assessment), and making recommendations to address the risk causes.

The line budget, which is currently in use, provides no information on the spending of budget funds by budget programs, nor by activities and projects from the aspect of performance and performance results. To solve the aforementioned issues, it is planned to introduce a program budgeting for all budget beneficiaries, which is foreseen in the Strategy for the public financial management in the FBiH 2021-2025 and the Overall strategy for the public financial management in BiH 2021-2025. The goal of introducing the program budgeting is to enable a greater performance in spending public funds and better oversight of public funds, to improve the transparency of public financial management and the connection of budgeting with the strategic planning. The program budgeting is also intended to improve the quality of public finance and budget planning, which is specified to be a shortcoming in the European Commission's assessment of the ERP 2022-24 from 20 April 2022.

One of the goals of the Strategy for the Public Financial Management of Republika Srpska 2021-2025, which is an integral part of the Overall strategy for the public financial management in BiH 2021-2025, is to have the planning and budgeting focused on performance and comprehensiveness, with the aim of the more efficient and transparent budget planning and spending of public funds at the level of Republika Srpska. The aforementioned is planned to be achieved through the expansion of the budget coverage to all sources of funds, including expenditures and expenses, as well as the expansion of the coverage of budget beneficiaries/institutions in accordance with the international standards, and through the application of the program structure of the budget at the Entity level with the coverage of the accounting funds from 01 to 05. The planned inclusion of all fund sources that are recorded in the accounting funds 02-05 and related expenses and expenditures in the budgets of the Entity, local self-government units and funds will take place in stages.

The reduction of the share of expenditures for the current spending in public administration will be implemented through the establishment of the Register of Employees in the beneficiaries of budget funds, and through the change in the organization of the public administration, and the increase in the efficiency of its work. The goal is to establish a comprehensive Register of Employees in the beneficiaries of budget funds in order to create a single record of the number of employees and a more transparent use of budget funds for personal income of employees, and this will be the basis for the operationalization of strategic plans to reduce the total spending on salaries. Bearing in mind that the implementation of this activity depends on financial support of the World Bank, which has not yet been actualized, it is uncertain whether the planned deadline will be met. The implementation of the measure related to the organization change will be carried out by the adoption of a new Law on Civil Servants. The Law on Civil Servants will establish a more efficient public administration through professionalism and integrity, along with eligibility criteria and competency tests for the recruitment of civil servants and state employees. After the adoption of the said Law, the conditions will be created for the adoption of the new Law on Salaries of Employees in the Administrative Bodies of Republika Srpska, the basis for establishing a fair and transparent system of salaries and benefits for work. The implementation of the specified measure will contribute to the achievement of a specific reform goal: "Civil service and human resources management", which refers to the establishment of a legal framework and capacity building for the development of the human resources management function based on the principles of professionalism, merit and efficiency, defined by the Strategic Framework for reform of public administration in BiH 2018-2027. Activities related to harmonizing the positions of the Working Group for drawing up the Law on Civil Servants are in progress.

Activities planned in 2023:

- Update to the current regulatory framework in the field of PIFC in the FBiH (financial management and control and internal audit) (FMF),
- Improve and informatize risk management in the public sector in the FBiH (FMF),
- Improve and informatize the implementation of internal audit in the public sector in the FBiH (FMF),
- Develop a methodology for the quality control of the public internal financial controls in the Federation of BiH (financial management and control and internal audit) (FMF),
- Strengthen the staff capacities of the Budget and Public Expenditure Sector of the Federal Ministry of Finance (FMF),
- Amendments to the bylaws for the implementation of program budgeting in the FBiH (FMF)
- Preparation of a manual for budget beneficiaries in the FBiH (FMF),
- Training on the concepts and methodology of program budgeting in the FBiH (FMF),
- Procurement of the new software for budgeting and the training of the FMF staff and the training of the staff of beneficiaries of the Budget of the Federation of BiH in the new software (FMF),
- Strengthen the staff capacities of the Budget and Public Finance Department through training and education of employees (MFRS),
- Preparation of a manual for budget beneficiaries in Republika Srpska (MFRS),
- Training on the concepts and methodology of program budgeting in Republika Srpska (MFRS),
- Procurement of the new software for budgeting and the training of the staff of the Ministry of Finance of Republika Srpska and the training of the staff of beneficiaries of the Budget of Republika Srpska in the new software (MFRS),
- Adoption of the Law on Amendments to the Law on the Register of Employees in Beneficiaries of Budget Funds of Republika Srpska (MALSG),
- Adoption of the Law on Civil Servants (MALSG),
- Update to the current regulatory framework in FMC and IA in Republika Srpska (MFRS),
- Improvement to the introduction of FMC and risk management through the use of the PIFC application (MFRS),
- Conduct internal audits by using the PIFC application (MFRS),
- Develop a methodology for the internal audit quality assurance and improvement (MFRS),
- Perform the FMC and IA reporting process by using the PIFC application (MFRS),
- Education of internal auditors and coordinators for FMC regarding the use of the PIFC application for the aforementioned purposes (MFRS).

Activities planned in 2024:

- Update to the current regulatory framework in the field of PIFC in the FBiH (financial management and control and internal audit) (FMF),
- Improve and informatize the system of reporting on public internal financial controls in the Federation of BiH (financial management and control and internal audit) (FMF),
- Conduct periodic quality control of the public internal financial controls in the Federation of BiH (financial management and control and internal audit) (FMF)
- Preparation of the program budgeting in the FBiH in n+2 format for the year of 2025 (FMF),
- Ongoing training of beneficiaries of the Budget of the Federation of BiH (FMF),

- Continuation of activities for the introduction of the program budgeting (MFRS),
- Ongoing training of beneficiaries of the Budget of Republika Srpska (MFRS),
- Adoption of bylaws related to the Law on the Register of Employees in Beneficiaries of Budget Funds of Republika Srpska (MALSG and other ministries and institutions of Republika Srpska in accordance with competences),
- Adoption of bylaws and implementation of the Law on Civil Servants (MALSG and other ministries and institutions of Republika Srpska in accordance with competences),
- Update to the current regulatory framework in FMC and IA in Republika Srpska as necessary and adoption of new acts (MFRS),
- Improvement to the introduction of FMC and risk management through the use of the PIFC application (MFRS),
- Improvement to the conduct of internal audit by using the PIFC application (MFRS),
- Improvement in performing the FMC and IA reporting process by using the PIFC application (MFRS),
- Education of internal auditors and coordinators for FMC regarding the use of the PIFC application (MFRS).

Activities planned in 2025:

- Update to the current regulatory framework in the field of PIFC in the FBiH (financial management and control and internal audit) (FMF),
- Develop a Methodology for monitoring the impact and quantification of the effects of the implemented internal audit recommendations in the FBiH (FMF),
- Conduct periodic quality control of the public internal financial controls in the Federation of BiH (financial management and control and internal audit) (FMF),
- Develop a performance measurement methodology and the implementation thereof in the FBiH (FMF),
- Analysis of the needs to upgrade the software for the Budget and the Treasury System in the FBiH (FMF),
- Upgrade of the software for the preparation of the Budget and the Treasury System in the FBiH (FMF),
- Analysis of the needs for further improvement in the program budgeting (MFRS),
- Adoption of the Law on Salaries of Employees in the Administrative Bodies of Republika Srpska (MALSG, MF and other ministries and institutions of Republika Srpska, in accordance with competences),
- Adopting the Operational plan for reducing the total payroll expenditure (MALSG, MF and other ministries and institutions of Republika Srpska, in accordance with competences),
- Update to the current regulatory framework in FMC and IA in Republika Srpska (MFRS),
- Improvement to the introduction of FMC both through the use of the PIFC application and the quality review of FMC (MFRS),
- Education of internal auditors and coordinators for FMC regarding the use of the PIFC application (MFRS).

2. Result indicators

Indicator	Baseline (2023)	Intermediate target (2024)	Target (2025)
Register of employees in beneficiaries of the RS budget funds	Created	Functional	Being applied
Law on Civil Servants	Adopted	Being applied	Being applied
Decree on incompatibility and cases in which a civil servant in the Administration of Republika Srpska may be authorized to perform additional activity	Created	Adopted	Being applied
Law on Salaries of Employees in the Administrative Bodies of Republika Srpska adopted	–	Created	Adopted
Number of the quality reviews of FMC performed by the CHU	The CHU currently does not carry out spot quality reviews of FMC with beneficiaries	Conduct quality reviews at the largest budget beneficiaries	In the case of public sector organizations, quality control is carried out, which, in addition to the management, is also reported to the competent government
Number of the quality reviews of FMC in Republika Srpska	Not being implemented	Creation of the quality review regulations	Conduct several reviews in accordance with the available capacities in the CHU MFRS
Number of the IA work quality assurances conducted in Republika Srpska	Not being implemented	Creation of the quality assurance and improvement regulations	Conduct several reviews in accordance with the available capacities in the CHU MFRS
Number of public sector organizations that adopt the budget / report on the execution of the budget in the program classification	–	Establishing a link between budget and strategic planning	Improving the public financial management
Number of budget beneficiaries that adopt the budget / report on the execution of the budget in the program classification in Republika Srpska	–	Establishing a link between budget and strategic planning	Improving the public financial management

3. Expected impact on competitiveness

A more efficient public administration leads to a more competitive private sector. Moreover, the development and strengthening of the public internal financial controls shall strengthen financial control in the public sector in accordance with the internationally accepted standards and best practices of the European Union, which should have a great impact on competitiveness by ensuring the legal, transparent, economical, efficient and effective management of public funds.

A more efficient public administration was established and the total payroll expenditure reduced in relation to GDP, and the conditions for an increase in capital expenditures were ensured.

A more equitable salary system was established in the Entity's administrative bodies.

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

The aforementioned activities will be carried out by the FMF staff, hence the costs of implementation will be the regular costs for the salaries of employees (there will be no additional costs). Certain activities will lead to savings in the Budget through the elimination of irregularities in the spending of budget funds, while a part of them will require additional funds that are planned through various technical

assistance projects (IPA fund, other donors), as well as the Budget of the Federation of BiH available to the CSA.

The financing of the Register creation in Republika Srpska will be carried out from the funds of the World Bank planned for this purpose.

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

It will be possible to see the expected impact on employment and gender issue after the full implementation only.

The developed and strengthened internal financial controls in the public sector, in the long term, lead to savings and rational consumption of public funds, which provides the opportunity to use these funds in a better manner, for scholarships, co-financing, employment, and other socially useful programs. The adequate establishment of this system will have a positive impact on the use of public funds, and thus on the adequate distribution thereof to other social groups, respecting the principle of gender equality.

6. Expected impact on the environment

The impact on the environment is neutral.

7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
Uncertainty about the implementation of the agreement with the World Bank	Low	Finding other/alternative sources of financing
Insufficient staff capacity of the Central Harmonization Unit sector, which is responsible for the implementation	High	Filling the classified positions and using the support of partners (Coordination Board of the CHU in BiH, Civil Service Agency, etc.)
Insufficient training of the CHU MFRS staff	High	Timely filling of the CHU MFRS with an adequate number of and adequately trained staff
Lack of the beneficiaries' interest in participating in the implementation of activities	High	Initiate a more active participation of beneficiaries through the conclusions of the Government

5.1.3.3. Improvement in the property/real estate taxation

1. Description of measure

During 2022, the Analysis of existing regulations in the field of property taxation in the Federation of BiH was prepared, and based on it, the preparation of a new model of property taxation in the Federation of BiH was initiated. Taking into account the comprehensiveness of the matter, at the beginning of 2023, the drafting of the Law on Property Taxation in the Federation of BiH will be completed, which will be sent to consultations with the cantons and local self-government units, and to the further procedure. The aforementioned measure is based on the Strategy of public financial management in the Federation of BiH 2021-2025. This measure is carried over from the previous document of the Economic Reform Program. The first steps towards the preparation of the preliminary draft of the aforementioned legal solution began in 2020, and the further implementation of the measure will continue in the next medium-term period.

In Republika Srpska, the model of real estate taxation according to the market value thereof has been in force for ten years already, and the Law on Real Estate Tax in its unamended form has been in force for six years. In that period of application, it turned out that this model of real estate taxation is essentially very good, and to be completely successful, certain adjustments need to be made, especially in terms of the involvement of the local self-government units in, first of all, completing the Real Estate Fiscal

Register and determining the real estate initial values. It is also necessary to conduct an analysis and make certain adjustments in relation to the level of tax rates of those taxpayers who have more real estate than those who have only one real estate intended for dwelling purposes.

In addition, the main goal of managing the property owned by local self-government units is to ensure the economically expedient, efficient and transparent management, economic growth, and the protection of public interest and the interest of the LSGUs. Namely, the ultimate purpose is to achieve a public property that contributes to the common good, infrastructure development and strategic development of the local community. Examples of countries in the region show that the strategic property management also influences the increase in property revenues, from 8% to 25% of the LSGU's budget.

As part of the Improvement in the management of real estate owned by the local self-government units measure, the regulatory framework will be analyzed, in particular the bylaws, and, based on the analysis, new regulations will be introduced into the existing regulatory framework or amendments will be made to the existing ones, in order to ensure uniform behavior of local self-government units in real estate management during their implementation. It is necessary to harmonize and establish uniform approaches in determining the ownership over real estate used by public institutions for the same purpose and recording thereof in the local self-government units and public institutions. Through the coordinated action of the ministries, Entity administrations and other institutions of the Entity, the essential assistance and support are to be provided to the local self-government units in terms of real estate management, which include the necessary exchange of data and information for a more rational use of the existing resources and capacities.

Activities planned in 2023:

- Creation of a new property taxation model in the FBiH (FMF),
- Consultations with lower levels of government, cantons and local self-government units (FMF),
- Expanding the scope of taxpayers and real estate – intensifying activities within the Project (MF, MALSG),
- Adoption of the Law on Amendments to the Law on Real Estate Tax (MF),
- Harmonization of bylaws with the provisions of the amended Law on Real Estate Tax (MF),
- Specifying the competences and obligations of all institutions involved in the process of collecting and analyzing the data needed to determine the real estate tax base (MF, MALSG),
- Detailed regulation of the methodology for determining the initial values of real estate in the local self-government units (MF, MALSG),
- Conduct the analysis within which a change in the tax rates of real estate tax would be considered in terms of the introduction of a differential rate that would be determined in relation to the higher value of real estate or the number of real estate of the same taxpayer (MF, MALSG),
- Amendment of penal provisions (MF, MALSG),
- Analysis of the normative and legal frameworks in Republika Srpska related to the improvement thereof, with the aim of a more efficient real estate management in the LSGUs, and the preparation of the main recommendation for improvement to the existing situation (MALSG, MF, MSPCE, RSAGPA, Attorney's Office).

Activities planned in 2024:

- Adoption of the Law on Property Taxation in the Federation of BiH (FMF),
- Implementation of the Law on Real Estate Tax (MF, RSTA),
- Analysis of the scope of taxpayers and real estate (MF),
- Drafting the laws and bylaws aimed at improving the normative and legal frameworks with the aim of a more efficient real estate management in the LSGUs (MALSG),

- Implementation of professional training of the LSGU officials (MALSG).

Activities planned in 2025:

- Adoption of bylaws for the implementation of the Law on Property Taxation in the Federation of BiH (FMF),
- Construction of IT system in the Tax Administration of FBiH for the implementation of new legal solutions and education of taxpayers on the application of new regulations (FMF),
- Set up databases and register of real estate owned by the LSGUs (MALSG),
- Implementation of professional training of the LSGU officials (MALSG).

2. Result indicators

Indicator	Baseline (2023)	Intermediate target (2024)	Target (2025)
Law on Amendments to the Law on Real Estate Tax	Law prepared	Law adopted and being applied	Law being applied
Harmonization of bylaws with the provisions of the amended Law on Real Estate Tax	Drafting the bylaws	All bylaws harmonized with the provisions of the amended Law	Bylaws being applied
Analysis of the scope of taxpayers and real estate	Analysis of the current situation conducted	Analysis of the scope of taxpayers and real estate conducted	Real Estate Fiscal Register established
Analysis and adopted recommendations for improving the management of real estate owned by LSGUs	Analysis conducted and recommendations determined	Normative and legal framework improved	Real estate management in the LSGUs improved
Number of established databases/register of real estate owned by LSGUs	—	10%	35%
Training for the Municipal officials	Analysis of training needs	Training for 64 LSGUs conducted	Capacities for real estate management in the LSGUs improved
Number of days required for tax assessment	>365	<180	<30

3. Expected impact on competitiveness

The very essence of the measure, when it is fully implemented, shall bring about the expected positive impact on reduced administrative barriers, relief of the economy, stronger motivation of investors and, ultimately, economic growth and a unique approach in the territory of the entire Federation of BiH.

The primary impact of the amended Law on Real Estate Tax of Republika Srpska is the completion of the Real Estate Fiscal Register and the increase in revenues based on the real estate tax.

Through the real estate management improvement, the local self-government units will achieve additional sources of revenue, which they can direct to the local economic development.

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

Implementation of the planned activities related to the drafting of regulations shall not require additional costs for the Budget of the Federation of BiH, except for the regular costs for the salaries of the employees involved in the implementation. However, the construction of IT system within the Tax Administration will require additional costs, which cannot be estimated until an acceptable model is adopted.

The measure implementation has no direct and measurable costs for the Budget of Republika Srpska; however, it is expected that the measure will have a positive effect on the budgets of LSGUs, considering that there will be an increase in revenues from the real estate tax.

In 2023, financial resources will not be needed for the implementation of the planned activities since they will be financed through the support of the PIPLS Project, which is implemented by the United Nations Development Program in BiH (UNDP).

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

The planned activities in this implementation stage do not have a direct impact on employment, poverty reduction, and gender equality issue. The implementation thereof shall influence the reduction of administrative barriers, which will improve the business environment, and which, over a longer period of time, should ultimately result in a positive effect on the aforementioned segments as well.

The implementation of the measure in Republika Srpska has no direct impact on social outcomes.

Through the real estate management improvement, the local self-government units will achieve additional sources of revenue that will have a positive impact on the creation of a favorable business environment, and a positive impact on social outcomes, such as employment, poverty reduction, and gender equality issue.

6. Expected impact on the environmental protection

Relieving the administration of papers, and switching to electronic communication with taxpayers and all participants in the process.

No impact.

7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
Insufficient engagement of the officials of local self-government units	Low	Timely education of the officials of local self-government units
Resistance of the LSGUs related to the reform of the LSGU real estate management	Low	Participatory approach to the normative and legal framework
Lack of capacity/human resources in the LSGUs	High	Training and education of the Municipal officials
Non-acceptance of the decision by the cantons	High	Public consultations with lower levels of government during 2023
Inopportune adoption of the proposed legal solutions by the Parliament of the Federation of BiH	High	Conduct the necessary consultations
Lack of funds for the construction of IT system in the Tax Administration	Medium	Timely planning and securing the funds

5.1.3.4. Strengthening the analytical capacities in the Ministries of Finance and Tax Administration (new measure)

1. Description of measure

In the previous period, four individual public finance management strategies were adopted, which were then consolidated into a single, joint strategic document, the Comprehensive Strategy of Public Finance Management in BiH for the period 2021-2025. One of the measures contained in the Comprehensive PFM Strategy is aimed at improving fiscal coordination, consolidation and reporting, both vertically for individual entities and comprehensively for BiH. The problem of consolidation of fiscal data, taking into account the high degree of fiscal decentralization, is burdened by the application of different accounting standards and different methodologies in the implementation of the consolidation process, so that consolidated accounts are not comparable and do not give a clear picture of public finances in BiH. The obligation to produce and present consolidated fiscal data requires alignment with ESA 2010. In order to make progress in this regard, it is necessary to improve capacity in finance ministries at all levels of

government, priority in the MFT which is also responsible for compiling, distributing and publishing consolidated general government fiscal data.

The measure has not been elaborated in detail through activities or time because it is not initially supported as a joint one, however, at the forum of the working body consisting of representatives of the Ministries of Finance in charge of monitoring the implementation of the Comprehensive PFM Strategy and reporting this issue will still be inevitably on the agenda with the aim of finding and proposing solutions in technical terms.

For the purpose of solving the aforementioned issue, two IPA II projects will be implemented in 2023, which will analyze in depth the reporting in accordance with the ESA 2010 at all levels of government (budget and debt) and make recommendations for its improvement. What comes after the implementation of these projects is the consolidation of fiscal data in accordance with the European standards. The greatest burden of the data consolidation process is on the Entities (horizontal consolidation) and the smallest burden is on the Ministry of Finance and Treasury of BiH (vertical consolidation). After having carried out these activities, it is necessary to ensure the prerequisites for the application of the agreed format with the adequate volume and format of the necessary information by means of an appropriate memorandum between the competent institutions. Prerequisites for the full implementation will be ensured through coordination with the BiH Agency for Statistics (BHAS) on the finalization of the sectorization of the BD BiH. The main goal of the reform is for the FTA to become an administration integrated into the taxpayer's business environment, which achieves its primary purpose, the collection of public revenues. The aim of the FTA's reorganization is to increase its efficiency and effectiveness by redesigning the existing business processes, through the optimization of existing ones, the introduction of new ones, and the removal of outdated processes.

Introduction of a risk management system that should identify the fields and taxpayers that do not respect or partially respect/apply tax regulations, using the more modern technologies for interfacing data collected from multiple sources in order to create conditions for the full application of the principle of voluntary compliance.

The focus is on the significant structural changes through the transformation of processes that will strengthen the FTA's administrative capacities, which would enable predictable revenue collection for all budgets in the FBiH along with the efficient use of available resources.

The framework for the implementation of the FTA restructuring should be accompanied by the new Restructuring Program for the period of 2023-2025 and the Action Plan for that period.

The Republika Srpska's tax system is based on the principle of voluntary compliance with tax obligations. In order to increase the degree of voluntary compliance with tax obligations, the Tax Administration of Republika Srpska continuously works on improving the taxpayer services to be adapted to the needs of taxpayers at any time. In this regard, a large step forward was made in the field of business digitalization by enabling the electronic submission of all tax returns and putting into service the "Electronic Box" function. Thus, the RSTA practically became a pioneer of electronic operations in Republika Srpska and beyond in order to facilitate, simplify and reduce as much as possible the costs of the taxpayers in complying with their tax obligations. Besides, by strengthening the tax discipline in taxpayers, one of the basic goals is to contribute to the protection, primarily of citizens and their basic rights. In this regard, the coordinated efforts and intensified activities of all control bodies in Republika Srpska are necessary, but also the active involvement of the business community in order to combat the gray economy as a negative social phenomenon.

In relation to the aforementioned, the previous period was marked by significant modernization of IT equipment and business processes in the RSTA. The project of the Integrated Information System implementation has already given significant results in the automation of certain business processes and had a positive effect on the collection of public revenues, but despite the results achieved so far, the obligation remains to continue the same practice in the next period, first of all respecting the fact that contemporary IT technologies change at high speed. Guided by the quality policy, the RSTA has so far

introduced three ISO standards¹⁰², and plans on introducing a new ISO standard with the aim of providing business continuity.

Activities planned in 2023:

- Adoption of the Restructuring Program for the period of 2023-2025 and the Action Plan of the FBiH (FMF),
- Introduction of one new e-service at the Republika Srpska Tax Administration (RSTA),
- Commence activities on the optimization of administrative procedures relating to enabling access to data to other authorities and institutions on the status of reported and paid obligations (RSTA),
- Full implementation of the new Law on Fiscalization in Republika Srpska (RSTA),
- Continuation of the initiated activities on strengthening the inspection controls in the Republika Srpska Tax Administration (RSTA),
- Evaluation of the processes implemented via the integrated information system at the Republika Srpska Tax Administration (RSTA),
- Introduction of ISO standard 22301 Business Continuity Management (RSTA).

Activities planned in 2024:

- Analysis of available staff at the Ministries of Finance of all levels of government for the development of consolidated budgets and staff strengthening (taking on new employees) (MFT BiH, FMF, MFRS),
- Develop a reporting methodology and ensure its application through a structured training and support program (MFT BiH, FMF, MFRS),
- Create a compliant format for consolidation purposes in accordance with the European standards (MFT BiH, FMF MFRS),
- Adoption of the Law on Tax Administration (TA) of the Federation of BiH (FMF),
- Adoption of the General Tax Law in the FBiH (FMF),
- Development of the IT system platform at the FTA for record management through a comprehensive data and information management model (FMF),
- Reengineering business processes for the introduction of international good standards and operational functions at the FTA (FMF),
- Development of the Restructuring Program for the period of 2024-2026 and the Action Plan of the FBiH (FMF),
- Draw up bylaws for the implementation of the General Tax Law in the FBiH (FMF),
- Introduction of one new e-service at the Republika Srpska Tax Administration (RSTA),
- Enabled access to data to other authorities and institutions on the status of reported and paid obligations (RSTA),
- Fiscalization of the taxpayers who were not subject to fiscalization according to the Law on Fiscal Cash Registers but are covered according to the Law on Fiscalization (RSTA),
- Improve the monitoring system of the adequate application of regulations based on risk assessment (RSTA),
- Full application of the Business Continuity Management ISO standard (RSTA).

Activities planned in 2025:

¹⁰² ISO 9001 (Quality Policy), ISO 27001 (Information Security Policy), ISO 37001 (Anti-Bribery Policy as well as Information Security Management System)

- Harmonization memorandum between the competent institutions (MFT, Ministries of Finance of the Entities and Finance Directorate of the BD BiH) to ensure the prerequisites for the application of the agreed format with the adequate volume and format of the necessary information (MFT BiH, FMF, MFRS),
- Create and publish on the website of all Ministries of Finance the consolidated annual budget based on the latest available budget execution data (MFT BiH, FMF, MFRS),
- Analysis of the institutional and staff needs in all ministries along with the recommendations and improvement proposal (MFT BiH, FMF, MFRS),
- Draw up the necessary proposals of possible laws and bylaws related to recommendations from the previous activity (MFT BiH, FMF, MFRS),
- Development of the Restructuring Program for the period of 2025-2027 and the Action Plan of the Federation of BiH (FMF),
- Draw up bylaws for the implementation of the General Tax Law of the Federation of BiH (FMF),
- Introduction of one new e-service at the Republika Srpska Tax Administration (RSTA),
- Improve the control function at the Republika Srpska Tax Administration (RSTA),
- Implementation of internal and external audits of ISO standards (RSTA).

2. Result indicators

Indicator	Baseline	Intermediate target	Target
1. Newly registered taxpayers in the calendar year (%)	100%	102.5	103.5
2. Growth of newly found revenues by year (%)	100%	95%	110.0
3. Level of collection attained (%)	100%	101%	108%
4. Implementation of the Restructuring Program (%)	0%	100%	100%
Number of users of the RSTA e-services	39.913	10% more compared to the previous year	10% more compared to the previous year
Percentage of increase in the collected public revenues under the RSTA jurisdiction	BAM 3.1 billion	3% more compared to the previous year	3% more compared to the previous year
Percentage of tax debt reduction	BAM 1.037 billion	2.5% less compared to the previous year	2.5% less compared to the previous year
RSTA cost efficiency coefficient	1.10	1.05	1.05

3. Expected impact on competitiveness

Restructuring of the FTA contributes to the creation of conditions for fair business and loyal competitiveness of business entities. By introducing the automatic/electronic and simple tax procedures, the administration of tax obligations enables business entities to fulfill their obligations according to regulations. Reduction in gray economy increases the competitiveness of business entities that operate in compliance with tax regulations.

The strategic commitment of the RSTA is to provide taxpayers with the highest possible quality services, that is, to enable them to fulfill their tax obligations in a simpler way. Besides, improving the control function of the RSTA, as well as strengthening the administrative capacities, ultimately leads to a higher

degree of voluntary compliance with tax obligations and higher collection of revenues under the jurisdiction of the RSTA.

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

Most of the activities would be financed from the FBIH Budget. The estimated amount cannot be predicted due to the larger scope of activities.

For the first activity of improving the fiscal reporting and consolidation in accordance with the European standards (2024), the costs (gross salary and the corresponding part of material costs for new employees at all levels) will be determined later. The remaining activities in 2024 and 2025 will be financed mainly from IPA III, while the activities of analyzing the institutional and staff needs of the Ministries of Finance at all levels of government and drafting recommendations and proposals for regulations will be financed from IPA III.

Almost all activities will be financed from the Budget of Republika Srpska.

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

and gender equality issue

Restructuring of the FTA through business processes will enable a more efficient approach to the registration and deregistration of employees, without physical presence, which will speed up the recruitment process. The FTA business processes would be simple, predictable, consistent and economical, and would enable connections with other institutions and bodies, in order to provide better quality services to citizens.

A consistent tax policy encourages citizens to start and develop independent businesses, which contributes to the increase in employment and reduction in informal economy. Tax collection from the informal economy contributes to the increase in budget allocations for social welfare, education and health, and the reduction in the overall tax burden. The reform will have an equally positive impact on both genders.

The measure has an indirect impact on social outcomes in Republika Srpska. The continuous improvement in the electronic services of the RSTA, the strengthening of the control function of the Tax Administration of Republika Srpska and, consequently, the reduction in the gray economy, through the increase in tax discipline as well as the improvement in IT capacities, should also lead to an increase in tax revenues, which, through the redistribution system, will indirectly have a positive impact on social outcomes.

6. Expected impact on the environment

Automation/electronic services reduce the use of paper.

7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
Delay in the new legislative framework	High	Technical assistance of the IMF in the creation of the FTA's Restructuring Program
Lack of employees in the IT sector who possess knowledge and skills for the reform implementation	High	Increase the number of employees in IT
Lack of human resources with the knowledge and skills necessary for the functioning of the restructured FTA	High	Additional recruitment
Interferences in the implementation of technical aspects of the new Law on Fiscalization in Republika Srpska	Low	Technical and staff readiness for the process implementation

Limited financial resources	High	Provide financial support from other sources through technical assistance and the like
Complicated procedures in performing certain jobs	High	Launching initiatives to change the existing procedures

5.2. Analysis of obstacles in other areas (not covered in subchapter 5.1) and other structural reform measures

5.2.1. Public Finance Management

Covered in subchapter 5.1.3.

5.2.2. Green transition

a. Analysis of main obstacles

By signing the Declaration on the Green Agenda for the Western Balkans, BiH undertook to implement measures in the field of climate change mitigation, energy transition, sustainable mobility and circular economy, etc. In this regard, BiH is obliged to implement specific activities in the field of decarbonization, energy transition and energy efficiency.

The energy sector in BiH is characterized by a high dependence on coal that pollutes the environment and the large hydropower plants: the production capacity of 4,127.5 MW is approximately equally divided between coal and hydropower plants, and there is small capacity in the wind and solar power plants. About 60% of the total annual electricity comes from coal, and the rest is from renewable sources (mainly hydropower plants, with 1-2% of wind and solar energy, mostly in the large production projects). The production mix varies depending on the hydrology and hydropower plant production. In the period of 2018-2020, thermal power plants contributed with 62% to 70% of total production. Therefore, future investments in the infrastructure should be focused on decarbonization, energy transition towards the sources of renewable energy, and energy efficiency.

In the context of the new strategic framework for achieving goals of the European Green Deal, the Economic and Investment Plan for the Western Balkans and the accompanying Guidelines for the implementation of the Green Agenda for the Western Balkans, and respecting the principles of the Sustainable Development Agenda 2030, Bosnia and Herzegovina initiated the development of a nationwide Environmental Protection Strategy and Action Plan 2030, which will determine the most important policies and activities in this field. Within the activities on the development of the aforementioned document, the Environmental Protection Strategy of Republika Srpska was developed, which is an integral part of the BiH Environmental Protection Strategy 2030+.

Limited funds for these purposes, although increased compared to previous years, are still insufficient for a more significant progress in this field. According to the latest data of the BiH Statistics Agency, the total costs for environmental protection in 2021¹⁰³ were BAM 199 million, which is 0.52% of the GDP. Total investments for environmental protection in 2021 amounted to BAM 32.6 million, of which 67.5% are investments at the end of the production process, and the remaining 32.5% are investments in integrated technologies.

For the development of the energy market in BiH, it is first of all necessary to improve the strategic planning of the sector as well as to adopt adequate regulatory measures and laws, and to encourage a more effective implementation of projects in order to comply with the international obligations undertaken within the Energy Community (EC). These are the most significant challenges and a precondition for reforms in this field. While solving these challenges, it is also important to take into account the binding targets of the EU and the Energy Community, as well as the needs of the regional market, since the direction in which a certain energy market will develop in the complex process of energy transition largely depends thereon.

¹⁰³ Source: BHAS, Environmental Protection Costs, 2022

The economy of the Federation of Bosnia and Herzegovina is currently mostly linear, hence it is necessary to improve the efficiency of the use of resources and introduce the concept of circular economy.

The most significant weaknesses in the achievement of quality protection of human health and the environment, and sustainable environmental management are insufficiently elaborated legislation, inconsistency of public policy documents, poor waste management, inefficient energy consumption, and inadequate inspection capacities.

Despite advances in waste management, the FBiH still faces various difficulties, such as the high operating costs, lack of financial resources for investment, insufficient coverage of waste collection services, very limited waste separation, waste disposal in unsanitary landfills, legislation that is not fully aligned with the EU Directives, insufficiently developed institutional framework, insufficient staff capacity at all levels, and the low level of public awareness regarding the solid waste management. A large number of plants do not comply with the latest technical standards and thus pose a risk to human health and the environment.

With the aim of establishing and strengthening the system of supervision over the use of economic instruments in the field of environment and energy efficiency, the adoption of the new Law on Environmental Protection and Energy Efficiency Fund is planned. The need was seen to amend the existing regulations on fees for air pollutants, and on fees for the registration of motor vehicles, which would significantly improve the existing ‘polluter pays’ system and ensure a better link between actual pollution and the fee amount. The lack of data for certain pollutants has been identified, which prevents monitoring, control, and also the provision of fees, where the Fund plans to create a database/register of devices and equipment containing the ozone depleting substances (ODSs) and their alternatives – HVAC. For the purpose of preventing the release of POPs into the environment, improving the hazardous waste management, implementing green chemistry initiatives in the plastics industry, improving agricultural waste management, and destroying the identified stocks of POPs waste, a comprehensive inventory of POPs (such as PCBs, dioxins and furans) is planned.

Continued care for environmental protection is one of the main components of the sustainable development of Republika Srpska, and is also an important factor for its entry into broader integration processes. In this regard, Republika Srpska has significant natural and energy resources needed for the industry operations. However, they are still limited, so it is necessary to pay special attention to their rational use. In Republika Srpska, the issue of environmental pollution is for the most part the result of obsolete technology and equipment in industry, as well as low energy and raw material efficiency, which is partly a consequence of the lack of financial resources to improve the existing situation. On the other hand, industry still has a low awareness of the need to take measures to reduce environmental pollution, efficiently use material resources and increase the rationality of energy use. Besides, Republika Srpska is facing a major challenge in terms of developing the appropriate waste management infrastructure. The population's awareness of the waste, especially hazardous waste and recycling opportunities is at a very low level, and the education in that area is in the initial stage. The fees for the collection and disposal of the municipal and industrial waste are low and do not cover the real economic costs of the system maintenance, and especially fail to enable further investment.

Within the process of Green Agenda and “decarbonization”, there is great pressure on the sectors that contribute to CO₂ emissions, above all on thermal power plants, through the announced introduction of an import tax on carbon-intensive products from countries that do not have a European CO₂ emission taxation system in place and the introduction of the CBAM (the so-called “Carbon Border Adjustment Mechanism”), which represents the introduction of a protective mechanism – a tax for certain goods arriving in the EU market from third countries, and this relates to the products and electricity from BiH as well. Besides the thermal power plants, this would also affect significant part of the economy in Republika Srpska. On the other hand, premature closing of the existing thermal power plants in the process of decarbonization would lead to huge job losses, while Republika Srpska would turn from a net electricity exporter into a net importer, that is, an energy dependent. Decarbonization is part of the Green Deal and represents the development opportunity for the circular economy and economic growth (sources of renewable energy, energy efficiency, services, etc.), as well as threat, unless it is a gradual and so-called “fair” transition. Bearing in mind that the Strategy for energy development of Republika Srpska plans the construction of two new thermal power plants by 2035, it contradicts therein the planned

“decarbonization” of the energy sector. For the Ugljevik 3 (700MW) thermal power plant, there is a previously signed concession agreement, and certain construction permits have been issued.

The reform measures in Bosnia and Herzegovina in this field focus on improving energy efficiency and climate change by harmonization of the real strategic goals that BiH will follow in the coming period.

Strategic commitments to meet BiH's obligations under the Agreement on the Establishment of Energy Community are related to the activities of developing the Integrated National Energy and Climate Plan (NECP) of BiH until 2030. The draft of this document was completed at the end of 2020, and further activities in 2021 and 2022 were related to the development of the Entities' energy and climate plans. NECP BiH is in the phase of negotiations with the European Commission that will result in defining the strategic goals for BiH in this field with the aim of achieving climate neutrality by 2050. Development of a plan for the gradual reduction in coal production with a clear transition plan and investments that would replace jobs, along with the quality dialogue, participation and trust strengthening, are the key elements of achieving a just transition.

The state of the environment in certain spheres, such as waste management, is not at an enviable level. In Bosnia and Herzegovina, 95% of the collected municipal waste is disposed of in landfills. Therefore, it is necessary to significantly change the waste disposal system and establish measures to achieve the goals of waste reuse and recycling in accordance with the EU Directives and recommendations for the establishment of the circular economy.

The water quality is not satisfactory in most of the country. According to the watercourse length in 2020, 50% of the surface water was poor water quality, and only 7% had a high score. Therefore, the goal in the FBiH is to reduce this percentage of watercourses with poor quality to 15%.¹⁰⁴ For violations of environmental protection standards, the appropriate existing regulatory responses must be strictly applied – according to the “polluter pays” principle.

Sources of air pollution in BiH include the use of solid fuels in households, coal-fired thermal power plants/heating plants, industry, and old vehicles. About 58% of the total emissions into the air of the energy production facilities originate from the coal and peat burning, and 20% from the solid fuel and oil product burning, while 9% is contributed by industry, 7-12% by transport, 9% by agriculture, and 4% by waste.¹⁰⁵ The air quality is significantly impaired, especially with PM_x particles and SO₂. The unconditional target of reducing greenhouse gas emissions for 2030 is 12.8%. The conditional target (with more intensive international assistance for decarbonization of the mining areas) for 2030 is 17.5%. The target of reducing greenhouse gas emissions for 2050 is 50% (unconditional) and 55.0% (conditional).¹⁰⁶ The year 2014 was identified as a reference year to define the targets of reducing greenhouse gas emissions.

From the aspect of emissions and air quality protection, BiH will focus on the full transposition of EU legislation related to (a) sulfur content in liquid fuels, (b) Directive on national ceilings, (c) control of volatile organic compounds from gasoline storage and distribution, (d) recovery of gasoline vapor during refueling at gas stations, and (e) limit values for industrial emissions for old and new plants.

b. Reform measures:

5.2.2.1. Climate change mitigation and energy efficiency

1. Description of measure

This measure stems from the obligations of Bosnia and Herzegovina based on the Agreement on the Establishment of Energy Community. The measure is carried over from the previous year. Since it is a complex process of creating a comprehensive document and its harmonization with the relevant EU documents, and taking account of the situation caused by the emergence of the COVID-19 pandemic, it

¹⁰⁴ Source: FBiH, Water Management Plan 2022-2027

(https://voda.ba/uploads/docs/pd3_okolisni_ciljevi_upravljanja_vodama_new.pdf).

¹⁰⁵ Air Quality Management in BiH, World Bank, 2019. The preparation of the 4th National Report on Climate Change is underway, which should contain updated information on the contributions of emissions by source.

¹⁰⁶ Nationally Determined Contribution (NDC) for the period of 2020-2030 for BiH

(https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/BosniaHerzegovina%20First/NDC%20BiH_November%202020%20FINAL%20DRAFT%2005%20Nov%20ENG%20LR.pdf).

can be concluded from the above that the planned activities have been implemented according to plan, and that the implementation of the said reform continues.

In 2019 already, BiH initiated activities to develop the Integrated National Energy and Climate Plan of Bosnia and Herzegovina (NECP BiH). After the process of document harmonization between the relevant institutions and the comments from the Energy Community Secretariat, the alignment of the NECP with the climate neutrality goals established by the Paris Agreement and the Sofia Declaration on the Green Agenda for the Western Balkans from November 2020 ensued, that is, alignment with the NDC of Bosnia and Herzegovina. During 2021 and 2022, activities on the further development of the NECP, that is, the Entities' energy and climate plans, were intensified. Republika Srpska prepared its first draft energy and climate plan. According to the Dynamic Plan for the creation of the NECP BiH and the Entities' energy and climate plans, the scheduled deadline for the preparation of the Final Draft NECP BiH was December 2022.

The said reform measure will advance the implementation of energy efficiency measures in the Federation of BiH and improve the production from renewable energy sources, as well as fulfill the internationally accepted obligations to comply with the requirements of the *acquis* in the field of energy efficiency and renewable energy sources. In addition, the measure will respond to the challenges of climate change through a revolving fund for energy efficiency with the aim of increasing investment in facilities and processes that contribute to the reduction of greenhouse gas emissions.

The reform measure in the field of the electricity market includes the “Green Transition” of the electricity sector in Republika Srpska, which includes the implementation of the new Law on Renewable Energy Sources, the adoption of the Integrated Energy and Climate Plan of RS, and the implementation of capital investments (renewable energy sources (RES) and ecological projects for thermal power plants). It is important to note that the adoption of the Law on Renewable Energy Sources is a measure from the previous ERP RS that was implemented.

The goal of the measure is to present developments in the direction of the Green Agenda – “Green transition” of the electricity sector in Republika Srpska, and to increase the share of renewable energy sources through the implementation of capital investments in the sources of renewable energy and the increase in energy efficiency, as well as the finalization of the Integrated Energy and Climate Plan of Republika Srpska Serbian.

Activities planned in 2023:

- Preparation of the document of the Integrated National Energy and Climate Plan of Bosnia and Herzegovina until 2030 (MoFTER BiH, FMEMI, MEM RS, MSPCE RS, MSTDHEIS RS),
- Amendments to the Law on Energy Efficiency in the FBiH with the aim of setting up the Obligation Scheme/Alternative sources of financing for EE measures in accordance with the conclusions of the Parliament of the Federation of BiH (Parliament of the Federation of BiH),
- Adoption of the remaining bylaws and acts under the Law on Energy Efficiency in the FBiH (adoption by FMEMI),
- Adoption of ECP/NECP (the part relating to the energy efficiency in the FBiH),
- Adoption of the Law on Use of RES and EC in the Federation of BiH,
- Adoption of bylaws and acts under the Law on Use of RES and EC in the FBiH,
- Adoption of ECP/NECP (the part relating to the renewable energy sources),
- Revival of the revolving fund for energy efficiency in the FBiH (FMET),
- Establishing a mechanism for subsidizing successful energy efficiency projects financed from the revolving fund in the FBiH (FMET),
- Develop a model for subsidizing energy efficiency measures for natural persons (households) in the FBiH (FMET),
- Launch of the software/module for climate change monitoring in the FBiH (FMET),

- Conduct trainings for building the capacity of institutions for calculating climate change indicators and managing GHG inventories in the FBiH (FMET),
- Adoption of the Law on the Fund for Environmental Protection and Energy Efficiency of the Federation of BiH (FMET),
- Incentives for electromobility and setting up a network of charging stations for electric vehicles in the FBiH (FMET),
- Adoption of the Energy and Climate Plan of RS (MEM, MSPCE and the RS Government),
- Beginning of the realization of capital investments of “Elektroprivreda RS” (the companies of the MH “ERS”) and private investments in new energy facilities,
- Adoption of the Strategy for the long-term incentives for the renovation of buildings in Republika Srpska (MSPCE).

Activities planned in 2024:

- Adopt the Integral Strategy for the renovation of buildings in BiH for the period until 2050; (MoFTER BiH, FMEMI, MEM RS, MSPCE RS, MSTDHEIS RS)
- Implementation of a certain number of measures and policies defined by the Integrated National Energy and Climate Plan of BiH until 2030 (MoFTER BiH, FMEMI, MEM RS, MSPCE RS, MSTDHEIS RS),
- Functionality of the revolving fund for energy efficiency in the FBiH (FMET),
- Establishing a mechanism for subsidizing successful energy efficiency projects financed from the revolving fund in the FBiH (FMET),
- Subsidizing energy efficiency measures for natural persons (households) in the FBiH (FMET),
- Implementation of the Law on the Fund for Environmental Protection and Energy Efficiency of the Federation of BiH (FMET),
- Incentives for electromobility and setting up a network of charging stations for electric vehicles in the FBiH (FMET),
- Implementation of the Action Plan for adaptation to climate change in the FBiH (FMET),
- Improvement to the Information System for environmental protection: maintenance of and improvement to the POPs database/inventory in the FBiH (FMET),
- Adoption of the remaining bylaws arising from the Law on Energy Efficiency in the FBiH (FMEMI),
- Activities on adoption/implementation of the ECP/NECP (the part relating to the energy efficiency) (FMEMI),
- Adoption of the remaining bylaws arising from the Law on Use of RES and EC in the Federation of BiH (FMEMI),
- Continuity of activities on the adoption/implementation of the NECP/EPC (the part relating to the renewable energy sources in the FBiH) (FMEMI),
- Implementation of the Energy and Climate Plan of RS (MEM, MSPCE, FEPEE, public sector and institutions, energy and business entities, citizens),
- Continued realization of capital investments (modernization and construction of the MH “ERS”) and private investments in RES.

Activities planned in 2025:

- Implementation of a certain number of measures and policies defined by the Integrated National Energy and Climate Plan of BiH until 2030 (MoFTER BiH, FMEMI, MEM RS, MSPCE RS, MSTDHEIS RS),

- Reporting to the Secretariat of the Energy Community on the implementation of measures and policies defined by the Integrated National Energy and Climate Plan of BiH until 2030; (MoFTER BiH, FMEI, MEM RS, MSPCE RS, MSTDHEIS RS),
- Strengthening the mechanism of subsidizing successful energy efficiency projects financed from the revolving fund in the FBiH (FMET),
- Full functionality of the revolving fund for energy efficiency in the FBiH (FMET),
- Subsidizing energy efficiency measures for natural persons (households) in the FBiH (FMET),
- Incentives for electromobility and setting up a network of charging stations for electric vehicles in the FBiH (FMET),
- Further work on the improvement of the Information System for environmental protection in the FBiH (FMET), Functionality of the software/module for monitoring climate change (FMET),
- Adoption of bylaws arising from the Law on Energy Efficiency in the FBiH and the Law on the Use of RES and EC in the Federation of BiH (FMEI, Regulatory Commission for Energy in the FBiH and GFBiH, each within own respective competences),
- Implementation of the Energy and Climate Plan of RS (MEM, MSPCE, FEPEE, public sector and institutions, energy and business entities, citizens),
- Continued realization of capital investments (modernization and construction of the MH “ERS”) and private investments in RES.

2. Result indicators

Indicator	Baseline (2023)	Intermediate target (2024)	Target (2025)
Implementation of measures and policies defined by the NECP of BiH until 2030	Acts prepared on the basis of contracts and agreements and proposals prepared for laws and bylaws from EU Directives	Improved in comparison to the previous year	Improved in comparison to the previous year
Number of EU Directives /Regulations transposed into and implemented in domestic legislation	Acts prepared on the basis of contracts and agreements and proposals prepared for laws and bylaws from EU Directives	Improved in comparison to the previous year	Improved in comparison to the previous year
Degree of realization of the planned targets through the future Energy and Climate Plan – ECP RS	20%	30%	50%
Share of electricity from RES in total consumption in RS	42%	44%	45%
Degree of realization of the planned investments	10%	20%	30%
A fund established to support the energy efficiency projects in the FBiH	NO (2020)	2022	YES
Information System implemented	2021	2022	Number of IS users 100%
Reduction in the consumption of total primary energy supply (TPES) in ktoe, through two scenarios	Reduction in consumption in absolute amount: 77.02	Reduction in consumption in absolute amount: 97.35	Reduction in consumption in absolute amount: 116.74

Share of renewable energy sources in total final consumption	Upon adoption of NECP / ECP until 2030 (estimate) 49.3	Upon adoption of NECP / ECP until 2030 (estimate) 51.5	Upon adoption of NECP / ECP until 2030 (estimate) 55
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The establishment of EU standards in the field of environmental protection through the reduction of environmental burden, the adequate waste management system in line with the objectives of EU regulations, the implementation of measures in the field of climate change, and the established and efficient economic framework for financing and reporting activities and measures in the field of the environment.

3. Expected impact on competitiveness

Increase in the implementation of energy efficiency measures and in the share of energy from renewable energy sources will contribute to both energy savings and the reduction of negative impacts on the environment, as well as to the creation of a more favorable setting for attracting domestic and foreign investments in the Energy Sector, and at the same time facilitate the implementation of the Green Transition and decarbonization of Bosnia and Herzegovina. The implementation of energy efficiency measures, through the work of the construction sector, in any case contributes to the increase of GDP.

Greater investments in the electricity sector would have a positive impact on its competitiveness and increase in the energy security.

The present market prices of electricity in Europe are 10 times higher than the supply prices for consumers in Republika Srpska, hence the competitiveness of electricity as a commodity is at a high level.

The policy of maintaining competitive and reasonably low electricity prices in Republika Srpska would attract new and foreign investment in the energy-intensive economic branches and create a comparative advantage for foreign investment in Republika Srpska, that is, better competitiveness of products in Republika Srpska.

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

The costs of software development and the creation of databases for the environmental information system in the FBiH were identified, that is, the costs in the first phase for the climate change monitoring module are estimated at approximately BAM 500,000.00. In addition, subsidizing successful projects should make the economic mechanism-revolving fund more attractive, especially for businesspersons/private sector, which would initially amount to approx. BAM 200,000.00/year, where partnership and support from international institutions are expected. It is not necessary to secure special funds from the Budget of the Federation of Bosnia and Herzegovina for the adoption of the planned laws and bylaws/implementation acts. To encourage generation of electricity from renewable energy sources, the funds will be provided from the fee for encouraging generation from renewable energy sources, which, in accordance with the Law on Renewable Energy Sources, is paid by all end customers of electricity in the FBiH. The new legal solution stipulates that a portion of the funds under the aforementioned fee is also allocated for the implementation of energy efficiency measures. The total amount of incentive funds and the amount of the unit fee shall be determined by the Government of the Federation of Bosnia and Herzegovina. Financial resources for the implementation of energy efficiency measures will be secured from several sources of financing, such as: partly from the planned budget funds for these purposes, grant funds and loans from the Revolving Fund within the Environmental Protection Fund, other loan arrangements as well as future financial mechanisms that should be defined and established through amendments to the Law on Energy Efficiency in the Federation of Bosnia and Herzegovina (obligation schemes, alternative sources ...).

No cost estimate exists, and the source of financing are loan facilities and foreign capital.

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

The implementation of measures and policies defined by the Integrated National Energy and Climate Plan of BiH until 2030 will have a long-term impact on social outcomes, such as employment, poverty reduction, and gender equality issue.

The implementation of the measure will lead to the improvement in waste management, environmental protection and energy efficiency, which shall generate new jobs. The construction of new capacities for the production of energy from renewable sources shall ensure additional employment, in both the project implementation and exploitation stages, as well as additional recruitment in the case of implementation of energy efficiency measures, energy audits and other supporting activities in the field of design and execution of works, equipment production, construction materials, etc.

Investments in the electricity sector create a positive setting for more job openings and poverty reduction, but the lack of skilled workforce is a limiting factor.

It has no impact on gender equality issue.

6. Expected impact on the environment

The implementation of measures and policies defined by the Integrated National Energy and Climate Plan of BiH until 2030 will have a long-term impact on the environment.

The implementation of the measure will lead to better control of expenditures, purposeful spending of money, and less burden on the environment. The introduction of new actors in the RES production market (prosumers, energy communities, active buyers...) through the new Law on Use of RES and EC in the Federation of BiH will ensure an increase in production from renewable energy sources, but also the improvement and widespread implementation of energy efficiency measures, that is, energy conservation and energy source savings, and this measure will have positive implications for the environment.

The measure will generally and in the long term have a positive impact, especially in the domain of increasing the use of renewable energy sources, reducing the CO₂ emissions, and reducing the use of fossil fuels.

7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
Impossibility to influence the duration of the process in other institutions (the impossibility to influence the duration of the process in other institutions may lead to untimely receipt of information, that is, to delays in delivering the necessary answers and information)	High	One of the planned measures for the actors involved in the preparation of the document is to hold regular meetings, with the aim of exchanging information and harmonizing their positions
Delay in the deadlines set for the adoption of the NECP of BiH and the Entities' energy and climate plans (due to the situation caused by the COVID-19 pandemic, there was a slowdown in the activities on the preparation of the documents, which may lead to a delay in the adoption thereof)	High	Monitor the situation on the ground and adjust activities in accordance with the recommendations so that there are no major delays
Inopportune adoption of the Energy and Climate Plan	Low	Intensify the preparation activities in the first half of 2023
Unfavorable setting for the implementation of capital projects in RES – general recession, inflation, shocks in the energy and capital markets, unfavorable socio-economic setting, social tensions	High	Work on the accelerated restructuring of the MH “Elektroprivreda RS” and the removal of administrative and technical barriers for investment, first of all, in RES
Undercapacity of the environmental sector staff	High	Public administration reform for the purpose of ensuring the capacity of institutions in the field of environmental protection
Undercapacity of the environmental protection inspection	High	Strengthen the inspection capacity
Insufficiently developed system of environmental monitoring and information	High	Strengthen the system of monitoring the environmental parameters through the establishment of the environment

		information system
Insufficient coordination of institutions	High	Strengthen the coordination of institutions at the FBiH level
Inopportune consideration and adoption of the Law on Use of RES and EC and amendments to the Law on EE FBiH. Inopportune adoption of bylaws/implementation acts	High	Provide information and initiate thematic sessions on the need and importance of timely consideration and adoption of proposed legal solutions. Establish Working Groups, bring in professional staff for strengthening, and use technical assistance.
Undercapacity of environmental sector staff	High	Public administration reform for the purpose of ensuring the capacity of institutions in the field of environmental protection

5.2.2.2. Transition to a green and circular economy and the establishment of economic instruments in the field of the environment

1. Description of measure

The introduction of the circular economy concept, which connects many areas, aims to initiate the green economic transition of the Federation of Bosnia and Herzegovina, with the efficient use of resources and energy and the preservation of and improvement to the environment and human health. The introduction of the circular economy concept directly affects the achievement of strategic goals and the achievement of appropriate standards in the field of environmental protection in the short, medium and long terms. The circular economy plays an important role in the development of a competitive economy, which saves resources and affects the reduction of all types of pollution, and especially the reduction in the greenhouse gas emissions, which further affects the decarbonization being the aim at the global level.

To achieve a quality protection of human health and the environment, as well as of the sustainable environmental management, it is necessary to continuously work on improving the legal framework in the field of the environment according to EU standards with the establishment of adequate financial mechanisms.

The goal of this measure is to significantly improve the system of separate collection, recycling and reuse of municipal waste in the entire FBiH, to eliminate and rehabilitate illegal landfills, and to build regional sanitary landfills and regional waste management centers with the supporting infrastructure.

It is necessary to conduct analyses of the efficiency and cost-effectiveness of the existing waste management system (municipal, special categories and all other types of waste), and to propose economically and environmentally sustainable waste management systems. It is especially important to work on a circular economy model in which resources are maintained for as long as possible with the minimal waste production.

For the purpose of protecting the environment and transitioning the industry to the so-called “green economy” and “circular economy”, it is necessary to take appropriate measures in order to minimize the harmful effects of industry on the environment. In this regard, the transition of industry to a green and circular economy and the establishment of economic instruments to improve the management system for special categories of waste measure includes the activity of financial support for the implementation of projects in industry that have an impact on the environmental protection, and which relate to the reconstruction/innovation of the existing technological processes, more efficient use of raw materials and energy in the production process, development of products with a reduced harmful impact on the environment, introduction of standards for the environmental protection management, reduction in waste generation, recycling, etc. Financial support will also be provided to the projects of energy efficiency and the use of renewable energy sources in industry, as well as projects aimed at improving the environmental quality and protection, through the Fund for Environmental Protection and Energy Efficiency of Republika Srpska (hereinafter the FEPEE). In addition, financial support will be provided for the introduction of environmental protection management standards in industry. The measure shall be

promoting the production and use of products with reduced effects on the environment, and raising awareness of the importance of environmental protection. The aim of this activity is to familiarize business entities with the importance of environmental protection, more efficient use of material resources, energy efficiency in industrial processes, opportunities for savings in the production process, etc. The measure will be implemented through the organization of promotional and educational gatherings.

Furthermore, a key role in the development of the waste management system in Republika Srpska is the establishment of a legal framework for sustainable waste management, the establishment of financial instruments for the system implementation, the development of public awareness, planning and improvement of the system, and initiating stakeholders to establish waste management partnerships. Introducing the concept of integral waste management implies the development and implementation of technologies that have a minimal negative impact on the environment.

The implementation of projects in industry, which aim to reduce the impact on the environment, was supported in the previous period by means of incentives for investments and financial resources of the FEPEE.

Activities planned in 2023:

- Adopt the Strategy on environmental protection in the FBiH (Parliament of the Federation of BiH),
- Adopt and implement the Strategy for circular economy of the Federation of BiH, taking account of the entire life cycle of products. The Strategy should contain clearly identified goals and specific measures and deadlines for achieving these goals. In particular, the goals should be defined for special categories of waste for which payment of fees is prescribed (tires, vehicles, oils, accumulators and batteries, packaging and electronic waste) (FMET),
- Define a fiscal policy that stimulates the circular economy in the FBiH (FMET),
- Adopt plans for developing the secondary raw materials market in the FBiH (FMET),
- Renovate the existing and build new systems for separate collection, disposal, recycling and reuse of waste in the entire FBiH (build green islands, transfer stations and recycling yards) (FMET),
- Support for the construction and improvement of infrastructure at the existing regional landfills for waste management in the FBiH (Extended sanitary areas for waste disposal, solving the issue of leachate and building purifiers where necessary), plants for mechanical biological treatment (MBT), municipal waste incineration power plant) (FMET),
- Remove illegal landfills and rehabilitate the existing areas under inadequately disposed waste in the FBiH (hazardous and non-hazardous waste, rehabilitated and removed illegal landfills – at least two a year) (FMET),
- Conduct a study to identify sites contaminated with hazardous waste in the FBiH (FMET),
- Improve the waste management information system in the FBiH (FMET),
- Revival of the Revolving Fund (RF) for waste recycling established in the Fund in the FBiH (RF is intended primarily for the recycling economy in the form of an interest-free loan with subsidies for projects that give the best results, as an incentive to establish a circular economy) (FMET),
- Reaching the joint agreement on green circular business value chains in the Western Balkans through the Memorandum of Understanding “Support provided in identifying and building of green and circular regional value chains to seize untapped economic potential aimed at support related to the implementation of circular economy projects” (Action Plan for a Common Regional Market of the Western Balkans CRM AP 2021-2024 (FMET),
- Initiate activities on the analysis of the overall state of waste management in the FBiH as a basis for drafting the new Law on Waste Management (FMET),

- Adopt the FBiH list of environmental indicators, among which there must also be indicators related to waste management (FMET),
- Implementation of the measures determined by the Strategy for environmental protection of Republika Srpska,
- Financial support for the implementation of projects in industry aimed at reducing the impact on the environment (MEE, MSPCE and FEPEE),
- Financial support for the projects of energy efficiency and use of renewable energy sources in industry, as well as projects aimed at quality improvement and environmental protection (FEPEE),
- Promoting the production and use of products with a reduced impact on the environment, and raising awareness on the importance of environmental protection (MSPCE and MEE),
- Develop and improve the system of separate collection and recycling of special categories of waste, and further improve the information system (MSPCE, FEPEE and economic entities),
- Managing and updating the waste management database (MSPCE, FEPEE and economic entities).

Activities planned in 2024:

- Preparation for drafting the new FBiH Law on Waste Management (FMET),
- FBiH waste management plan, which should address the issues of regional centers for waste management, MBT plants, waste incineration power plants, with recommendations for locations, scope, dynamics of implementation, etc. (FMET),
- Improve the systems for separate collection, disposal, recycling and reuse of waste in the entire FBiH (build green islands, transfer stations and recycling yards) (FMET),
- Develop infrastructure that enables processing of raw materials, reuse of materials, repairs, recovery, restoration and recycling in the FBiH (FMET),
- Invest in infrastructure that enables the conversion of waste into energy, and the organic waste recycling in the FBiH (FMET),
- Remove illegal landfills and rehabilitate the existing areas under inadequately disposed waste (hazardous and non-hazardous waste)(rehabilitated and removed illegal landfills – at least one a year) (FMET),
- Strengthen regional cooperation in the field of infrastructure development for alternative fuels in the FBiH (FMET),
- Financial support for the implementation of projects in industry aimed at reducing the impact on the environment (MEE, MSPCE and FEPEE),
- Financial support for the projects of energy efficiency and use of renewable energy sources in industry, as well as projects aimed at quality improvement and environmental protection (FEPEE),
- Promoting the production and use of products with a reduced impact on the environment, and raising awareness on the importance of environmental protection (MSPCE and MEE),
- Improve the developed management system for special categories of waste (MSPCE, FEPEE and economic entities),
- Use technology in a manner that ensures the rational use of natural resources, materials and energy (MSPCE, FEPEE and economic entities).

Activities planned in 2025:

- Introduce stricter measures for illegal landfills and high fines for waste disposal at illegal landfills in the FBiH (FMET),

- Conduct educational and media campaigns and programs so as to inform consumers about the principles of the circular economy in the FBiH (FMET),
- Stimulate the use of renewable energy sources and sustainable use of energy in industrial production in the FBiH (FMET),
- Improve the systems for separate collection, disposal, recycling and reuse of waste in the entire FBiH (build green islands, transfer stations and recycling yards) (FMET),
- Support for the construction and improvement of infrastructure at the existing regional landfills for waste management in the FBiH (Extended sanitary areas for waste disposal, building leachate purifiers, mechanical biological treatment (MBT) plants) (FMET),
- Remove illegal landfills and rehabilitate the existing areas under inadequately disposed waste in the FBiH (hazardous and non-hazardous waste, rehabilitated and removed illegal landfills) (FMET),
- Financial support for the implementation of projects in industry aimed at reducing the impact on the environment (MEE, MSPCE and FEPEE),
- Financial support for the projects of energy efficiency and use of renewable energy sources in industry, as well as projects aimed at quality improvement and environmental protection (FEPEE),
- Promoting the production and use of products with a reduced impact on the environment, and raising awareness on the importance of environmental protection (MSPCE and MEE),
- Construction of centers for separate collection of special categories of waste from households in each LSGU (FEPEE, LSGUs and economic entities),
- Construction of plants for the treatment of separately collected special categories of waste (FEPEE, LSGUs and economic entities).

2. Result indicators

Indicator	Baseline (2023)	Intermediate target (2024)	Target (2025)
Incentives for the implementation of projects in industry that have an impact on the environmental protection	3.000.000	4.000.000	5.000.000
Establishment of a management system for special categories of waste	No system	Partially established system	Partially established system
Establishment and monitoring of a waste management database	Database established	Updating and managing the database	Updating and managing the database
Centers built for recycling special categories of waste	No centers	Partly built centers	Partly built centers
% of hazardous industrial waste disposed of by export from the total produced	69%	70%	71%
Fund established to support the waste recycling projects	NO (2020)	2022	YES
Information system implemented	2021	2022	Increase in the number of IS users 100%

The establishment of EU standards in the field of environmental protection through the reduction of environmental burden, the adequate waste management system in line with the objectives of EU regulations, the implementation of measures in the field of climate change, and the established and efficient economic framework for financing and reporting activities and measures in the field of the environment. Establish adequate reporting systems on the state of the environment. The FBiH Fund for Environmental Protection initiated activities on the development of reporting methodology, regulations for the mandatory content and method of report preparation, a list of indicators of the state of the environment for the FBiH, as well as a pilot report on the state of the environment in the FBiH. Completion of these activities is planned by the end of 2021.

3. Expected impact on competitiveness

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

The implementation of this measure will contribute to savings in the consumption of energy and materials in the production process, which will ultimately influence an increase in the competitiveness of the company. Establishment of economic instruments in the field of waste management, with increased control over the use of funds, would also generate more efficient measures and activities implemented in the field, which would enable a more significant level of competitiveness to attract potential investors in all areas of the environment and waste management.

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

Establishing a system for adequate waste management in the FBiH creates space for the economic development in an environmentally sustainable way, brings about creation of new jobs and reduction in demographic outflows, and leads to healthier and better living conditions. It is expected that small and medium-sized enterprises will be established to collect and recycle special categories of waste, which will ultimately contribute to the creation of new jobs. One of the key sources of financing for the recycling economy should be the revolving fund within the Environmental Protection Fund of the FBiH, and the fees that the Fund collects for the special categories of waste.

The costs of software development and the creation of databases for the environmental information system were identified, that is, the costs in the first phase for the climate change monitoring module are estimated at approximately BAM 500,000.00. In addition, subsidizing successful projects should make the economic mechanism-revolving fund more attractive, especially for businesspersons/private sector, which would initially amount to approx. BAM 200,000.00/year, where partnership and support from international institutions are expected.

Financial resources for support will be provided from the available funds under the authority of the MEE and from other available alternative sources of financing. Moreover, in accordance with the Law on Waste Management, for manufactured or imported products that become waste after use, a fee is paid for burdening the environment with special categories of waste, in order to cover the costs of establishing a management system for special categories of waste. In accordance with the Entity's Waste Management Plan for the period of 2019-2029, cost estimates are BAM 15,207,000 for the period until 2024. Possible sources of financing are public and private sources. Public sources are the main source of financing the municipal infrastructure required for the implementation of waste management facilities, as well as the very facilities (regional landfills, transfer stations, etc.). Private sources of financing are reflected through public-private partnerships, and concessions.

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

The implementation of the measure will lead to the improvement in waste management, environmental protection and energy efficiency, which shall generate new jobs, reduce the demographic outflow, and create healthier and better living conditions.

The impact is indirect, since increasing the company competitiveness creates conditions for greater employment and a better social status of citizens. There is also active support to employment through production activities, professional training in labor and social integration programs, creation of educational programs for persons with special needs through their inclusion in work processes, and provision of waste management and reuse services.

6. Expected impact on the environment

The measure has a direct impact on the environment, considering that it is planned to support the implementation of projects that reduce the harmful effects of industry on the environment. The implementation of the measure will lead to the purposeful spending of the funds collected from the polluters and invested in the construction of infrastructure for managing special categories of waste, that

is, reusing special categories of waste, which will have a positive impact on human health and the environment.

The proposed activities are in the field of environmental improvement and all these activities have a very significant impact on the environment. The implementation of the measure will lead to better control of expenditures, purposeful spending of money, and less burden on the environment.

7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
Limited funds from public sources	High	Finding alternative sources of financing
Insufficient interest of the company's management	Low	Raising awareness about the transition to a green and circular economy; Incentive measures for the implementation of projects in industrial enterprises
Insufficient inspection capacity	High	Strengthening the inspection capacity
Insufficiently developed system of monitoring and information on generated waste	High	Strengthening the system of monitoring and information on generated waste
Undercapacity of waste management sector staff	High	Recruitment of new persons
Undercapacity of environmental protection inspection	High	Recruitment of new persons
Insufficient coordination of institutions	High	Meetings and workshops
Absence of a sufficiently severe penalty mechanism for non-performance	High	Changing the law
Lack of financial resources for the waste management system development	High	Budget of the Federation of BiH Foreign funds

5.2.2.3. Implementation of energy transition in Bosnia and Herzegovina

1. Description of measure

An important aspect of the green transition is decarbonization. The coal sector is an important segment in the energy sector and the economic structure in Bosnia and Herzegovina. Of the country's total energy potential, coal accounts for more than 90%, making it currently the dominant energy potential. About 14 mines are currently active in Bosnia and Herzegovina. For the purpose of achieving long-term sustainability, it is necessary to put a great focus on the restructuring of the mining sector, the dynamics and direction of which must be harmonized with the chosen strategy for the development of the thermal sector. Strategic priorities in accordance with the Framework Energy Strategy of BiH until 2035 are:

- Transformation of the thermal sector as a prerequisite for further optimization of coal mine operations.
- Creation of an institutional framework that will encourage the continuous improvement of coal mines.
- Development and implementation of programs for restructuring and transformation of the coal mine sector.
- Improvement of production efficiency as a long-term solution for today's interventions in the production price of coal.

For the implementation of these priorities, the ongoing activities are carried out by the World Bank through the Support to the Energy Transition in the Coal Region (2020-2022) project.

The purpose of the project is to provide assistance in the preparation of a preliminary road map for transition away from coal, specifying the governance structures that will be responsible for decision-

making and implementation, options for energy conversion, recommendations for workforce retraining and mobility, as well as land conversion of the former mines and associated facilities. Such a road map would help political structures in making decisions related to coal and the energy sector.

An important aspect of providing support for the road map is getting to know the views of those who will be affected by future decisions regarding the coal transition at the institutional level as well as at the local community level. Thus, the MoFTER shall lead a series of consultations with the involved parties in order to identify the potential impacts and implications of the transition on the local communities, workforce, industries and other business entities.

Desired outcomes

- Establish a common understanding of potential approaches to planning and preparation for transition in the coal sector
- Identify the next steps for the possible provision of technical assistance in the country by the World Bank

As regards the coal transition, the issue of workers and local communities causes the greatest concern. In regions where coal is exploited, the effects of the transition will be particularly pronounced, especially in small, remote mining towns, where the local economy depends on coal. If the coal transition is not managed carefully, sudden mine closures, with consequent job losses, could have serious socio-economic impacts, directly or indirectly affecting workers and communities. However, with proper planning, a Fair Transition for All is possible.

Global differences in the speed and scope of accelerated decarbonization require a pragmatic approach, tailored to the unique challenges and opportunities of each coal region. Experiences from other countries undergoing transition emphasize that the identification and engagement of all stakeholders play a key role in preparing for the Just Transition management, to ensure informed decision-making that reflects the views and concerns of affected workers and communities, as well as other stakeholders, such as the authorities, industry and civil society. This is in line with the regulations on public consultation in Bosnia and Herzegovina, just like the provision of relevant, timely and accessible information to all affected stakeholders is essential in order to give them the opportunity to express their opinions and concerns about the planned transition and its potential impacts. Such a consultative approach will facilitate public discussion and consensus on the transition, which will contribute to the management of emerging social and political challenges.

In 2021, the Ministry prepared and submitted two applications for financing by the Climate Investment Funds (CIF), for the Renewable Energy Integration Program (under which the planned support for countries is USD 70 million) and for the Accelerating Coal Transition Investment Program (under which the planned support for countries is USD 200 to 500 million).

Bosnia and Herzegovina was not chosen in the first round as the country to receive the mentioned assistance. According to the information available to this Ministry, the CIF will hold a meeting in the coming period, on the topic of considering the provision of potential support to countries that have been successfully verified after the first invitation, BiH included.

In this regard, MoFTER sent a letter to the CIF in which it reiterates its commitment to the decarbonization of the energy sector. The letter specifies the activities related to the preparation of the NECP, as well as the activities that MoFTER is carrying out with the World Bank, on the Road Map for coal-rich regions. The CIF was asked to consider the allocation of funds for BiH, as an additional contribution to the previously initiated activities with the World Bank.

Activities planned in 2023:

- Propose a governance structure to manage the energy transition in the coal regions (MoFTER BiH, FMEMI, MEM RS)
- Mapping of energy transition stakeholders in the coal regions (MoFTER BiH, FMEMI, MEM RS)

- Timely planning and overcoming the constraints in the transition of the electricity sector and heating systems.(MoFTER BiH, FMEMI, MEM RS)

Activities planned in 2024:

- Assess the transition-affected workforce to manage the redeployment and retraining of workers, based on the closing dates set by the authorities. (MoFTER BiH, FMEMI, MEM RS, MEE RS, MLWVDPP RS, FMOIT, FMLSP, MFT BiH and FMF)

Activities planned in 2025:

- Legislative review of the possibility of the former mining land and property conversion (MoFTER BiH, FMEMI, FMOIT, FMLSP, MEM RS, MEE RS, MLWVDPP RS, MFT BiH and FMF, The Council of Ministers of Bosnia and Herzegovina, the Government of Republika Srpska, the Government of the Federation of Bosnia and Herzegovina, the Government of Brčko District.)
- Future land use scenarios for pilot areas (MoFTER BiH, FMEMI, FMOIT, FMLSP, MEM RS, MEE RS, MLWVDPP RS, MFT BiH and FMF, The Council of Ministers of Bosnia and Herzegovina, the Government of Republika Srpska, the Government of the Federation of Bosnia and Herzegovina, the Government of Brčko District.)
- Develop a strategic framework for land conversion planning (MoFTER BiH, FMEMI, FMOIT, FMLSP, MEM RS, MEE RS, MLWVDPP RS, MFT BiH and FMF, The Council of Ministers of Bosnia and Herzegovina, the Government of Republika Srpska, the Government of the Federation of Bosnia and Herzegovina, the Government of Brčko District.)

2. Result indicators

Indicator	Baseline (2020)	Intermediate target (2021)	Target (2023)
Update and harmonize relevant legislation and regulations with the aim of creating an institutional framework in accordance with good industrial practices Proposals for laws and bylaws transposed from EU Directives	Acts prepared based on contracts and agreements and proposals prepared for laws and bylaws from EU Directives	Improved in comparison to the previous year	Improved in comparison to the previous year

3. Expected impact on competitiveness

This will contribute to reducing the negative impacts on the environment, increasing the security of energy supply, and creating new opportunities for growth and employment.

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

The transition of the energy sector in Bosnia and Herzegovina is a complex issue and a major challenge before us, which should also be seen as an exceptional opportunity for economic development if we take into account the funds and financing opportunities arising with the EU's ambitious goals in terms of energy and climate change.

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

The complexity of the energy transition issue in BiH can also be observed through the fact that the energy sector in BiH has a long tradition, great potential and a significant impact on the lives of the population. For example, in local communities where thermal power plants are located, the average salaries of employees are higher. Entire regions are dependent on the operation of domestic mines and

old thermal power plants. Thus, it should be emphasized that the issue of the energy sector transition in BiH is a socially sensitive issue.

6. Expected impact on the environment

The negative effects of the energy sector on climate change are becoming increasingly apparent and are associated with the increased concentrations of greenhouse gases (GHG). Given the geostrategic position of BiH as a neighbor of the EU, it is necessary to think about the CO₂ taxes being introduced in the EU in a timely manner, especially taking into account that BiH is an exporter of electricity that mainly comes from fossil fuels.

7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
Insufficient cooperation of other competent institutions with the MoFTER (insufficient cooperation of the competent entity and joint institutions in BiH due to different positions on certain issues can lead to receiving a negative opinion on certain agreements and not signing them, delays in the delivery of answers and information, etc.) Impossibility of influencing the duration of the process in other institutions (the impossibility of influencing the duration of the process in other institutions can lead to the inopportune receipt of information, that is, to delays in delivering the necessary answers and information)	High	Establish Working Groups composed of nominated representatives of the competent institutions, hold regular meetings and discussions and thus agree on the positions of the institutions with real arguments.

5.2.3. Digital transformation

a. Analysis of main obstacles

Bosnia and Herzegovina is in the early stage of preparations in the field of information society and audiovisual media. By signing the Memorandum of Understanding on the Road Map for 5G Digital Transformation and Regional Interoperability and Trust Services, there are indications of commitment¹⁰⁷ to take concrete steps in the field of digital transformation.

Representatives of BiH (Ministry of Transport and Communication of the CoM BiH) regularly participate in the Working Groups in the process of strengthening the regional cooperation and fulfilling the goals of the Digital Agenda for the Western Balkans. The digital transformation subcomponent had a large number of activities and processes in the previous period.

Specifically, work was done on the processes within CEFTA for the purposes of creating the “Analysis of the Regulatory Frameworks for General e-Commerce Framework and Consumer Protection in CEFTA”. The Analysis of the legal framework of e-commerce in CEFTA was done in the light of the EU acquis, which is a prerequisite for the Decision on the Agreement on free e-commerce and consumer

¹⁰⁷ Republika Srpska has given its consent to the signing of the memorandum, with a request to include representatives of the MNRVOID in the working group, which has not happened so far.

As part of the Digital Summit, in Tirana, on November 2, 2020, the Minister of Communications and Transport of Bosnia and Herzegovina, Dr. Vojin Mitrovic, signed the MoU for Regional Interoperability and Trust Services, which is formally legally in force and applies. MoU for the roadmap for 5G digital transformation, not all parties signed, i.e. The Republic of Serbia has not signed the MoU, and as such is not in force, nor is it applied, and accordingly no concrete activities have been undertaken, nor have working groups been formed.

In addition, the Regional Cooperation Council (RCC) is the leader and coordinator of the entire initiative and process, formerly known as MAP REA, and today CRM (Common Regional Market), and the RCC coordinates the work of informal working groups and calls for meetings, etc. In this regard, it is known that representatives of the entities were invited to the meetings, not only in terms of the topics of these two MoUs, but also for other areas.

protection. In early 2021, the Methodology for a full-fledged assessment of needs on the path to the Analysis for Digital Skills was prepared under the title “Draft methodological note for a fully-fledged assessment of digital skills needs and gaps in the Western Balkans”, after which the document “Definition of the scope and details for a fully-fledged assessment of digital skills needs and gaps in the Western Balkans” was published, to serve as the foundation for the Digital Skills Strategy. In the previous period, within the framework of the work of the Working Groups in the WB Region, the document “Report on the State of Application of Digital Economy Society Index (DESI) in Western Balkan Economies” was published, and the aim in 2022 was to publish the DESI for the WB for 2022.

In the first half of 2021, as a result of the work of the regional Working Groups, the document “GDPR Alignment Project Draft Report and Draft Roadmap Bosnia and Herzegovina” was prepared.

In the first half of 2022, as a result of the work of the regional Working Groups, the document “The Regional Framework for the Free Flow of Data in Western Balkans Region (WB6)” was published.

The previous period was marked by activities to complete drawing up the *Proposal for the Law on Electronic Identification and Trust Services for Electronic Transactions of Bosnia and Herzegovina*. The draft law is partially aligned with the eIDAS regulation of the EU because Bosnia and Herzegovina is not a member of the EU, and that Bosnia and Herzegovina would fulfill the undertaken contractual obligation and eu recommendations by adopting the Draft Law. Herzegovina. However, the Parliamentary Assembly of Bosnia and Herzegovina has not adopted this draft law. Republika Srpska did not give its consent to the adoption of the Law on Electronic Identification and Trust Services for Electronic Transactions of BiH because the draft Law is not aligned with the constitutional regulation of BiH, and in certain segments it also went beyond the framework of the eIDAS Regulation. Also, Republika Srpska has drafted amendments to the said draft Law in order to fully harmonize it with the constitutional order of BiH and the eIDAS Directive.

Based on the Law on Electronic Signatures, the Office for Supervision and Accreditation of Certifiers was established. The Office has recently entered in the Register of Accredited Certifiers¹⁰⁸ in Bosnia and Herzegovina a certification body of a member state of the European Union that provides services in Bosnia and Herzegovina in connection with electronic signatures based on qualified certificates that have the same legal effect as domestic qualified certificates.

On this basis, all the criteria for the practical application of the advanced electronic signature based on a qualified certificate have been met. The list from the Register of current accredited certifiers in Bosnia and Herzegovina is available on the official website of the Ministry of Communications and Transport of Bosnia and Herzegovina.

In the Republika Srpska, the Certification Body MSTDHEIS RS¹⁰⁹ was established in 2020, which is the holder of electronic certification in administrative and administrative bodies, and started the process of issuing electronic certificates for electronic signature and electronic seal to legal and natural persons. CA

¹⁰⁸ The CA body is from Slovenia Halcom d.d. Ljubljana, which is on the Trusted List of the EU and as such was first entered in the Register of Certifiers in Bosnia and Herzegovina.

¹⁰⁹The Law on Electronic Signature of RS is not aligned with the eIDAS directive. Under this law, the MSTDHEIS RS issues permits to certification bodies that issue qualified electronic certificates. Based on the request of the certification body for issuing a license, the Minister appoints a Commission to verify the fulfilment of the requirements for the performance of services of issuing qualified electronic certificates, which has three members. The Commission shall appoint experts in the field of information technology, who have experience in the field of application of electronic signatures and who are familiar with the public key infrastructure system. Based on the Recommendation of the Commission, the Minister issues a decision that is resolved upon the application for issuance of a permit. By obtaining a license, the certification body is entered in the Register of certification bodies in the Republika Srpska, which is kept by the Ministry and which is publicly available. Supervision over the application of this Law and the work of certification bodies is carried out by the Republic Administration for Inspection Affairs through competent inspectors. It follows from the above that, within the meaning of the provisions of the EIDAS Regulation, the ministry is entrusted by law to the role of both the supervisory body and the body for assessing compliance, and in one part, in terms of supervision of the application of the law to the Republic Administration for Inspection Affairs. In this regard, it can be noted that in this segment the Law is not aligned with the EIDAS Regulation, which explicitly prescribes the organizational and implementation structure described earlier for the implementation of the Regulation, which provides for clearly prescribed roles of the accreditation body, supervisory body and compliance assessment body. Also, the Law does not contain provisions relating to the procedure of accreditation of conformity assessment bodies.

MSTDHEIS RS is registered in the Register of Certification Bodies for issuing electronic certificates kept by MSTDHEIS RS.

In the private sector business, the issue of insufficient digitalization is evident. The technological progress of companies in BiH varies significantly, ranging from some companies barely using digital technologies to those that are at a higher level of digital business transformation, depending on the sector in which the companies operate.

Many SMEs of the Federation of BiH are not aware of the opportunities that arise from digitalization, and have no capacity to develop and implement such types of projects. This is a significant obstacle to the success of SME business. In this regard, it is necessary to increase the understanding of how companies can gain a sustainable competitive advantage by transforming their business, what strategies they should adopt to improve their business, and how to change the organizational structure to support the new strategy.

Companies engaged in production present business needs for solving problems in production as the main drivers of digital transformation. The internationalization of business is also a significant indicator of the focus on the adoption of digital technologies in business.

In Republika Srpska, the basis for the development of e-government is the existence of a legal and regulatory framework governing the field of e-government, the established basic ICT infrastructure that supports electronic communication services, and a strong social and political commitment to the accelerated development of the information society. However, the more dynamic development of the e-government of Republika Srpska is conditioned by the further development of horizontal building blocks, such as a single interoperable information system, a platform for electronic payments, the strengthening of trust services, that is, of digital identity management, a platform for qualified electronic delivery “e-mailbox”, e-government portal, etc. This is recognized by the Strategy for e-government development in RS for the period of 2019–2022. The key challenge in the development of ICT infrastructure is the provision of quality financial resources, followed by the development of a favorable environment for the digital transformation of public administration and the development of human resources in the public and private sectors. As an unplanned obstacle, the situation caused by the COVID-19 pandemic is the reason why a more significant implementation of the legislative and investment measures in this field has been slowed down due to their mutual dependency, but activities are being planned in cooperation with international organizations and other bodies that should contribute to the implementation thereof. Although aware of the importance of business digitalization, companies still face certain challenges such as wrong perception in companies about what digitalization actually is, followed by the absence of digital literacy and skills of the company employees, insufficient expertise to manage the digital transformation process, etc.

b. Reform measures

5.2.3.1. Improving the communications and information society sector while harmonizing the regulatory framework with the EU standards (MCT)

1. Description of measure

Adoption of laws, policies, strategies and bylaws for the ICT sector in BiH. All regulations must be harmonized with the EU regulations to the maximum extent possible.

Drafting of all regulations is defined by FBD of the CoM BiH for the period 2023-2025.

Activities planned in 2023:

Drafting and adoption of:

- Strategy for electronic government development in the Institutions of Bosnia and Herzegovina/MCT BiH and SG CoM BiH,
- Strategy for broadband access/MCT BiH, FMTC, MSTDHEIS RS

Activities planned in 2024:

Drafting and adoption of:

- Law on Electronic Communications and Law on Electronic Media/MCT, CRA, DEI, competent entity-level and BD BiH bodies.

Activities planned in 2025:

- Broadband Infrastructure Mapping /CRA, MCT BiH, competent entity-level and BD BiH bodies, TC operators.

Drafting and adoption of:

- Strategy for information society development in the Institutions of Bosnia and Herzegovina/MCT BiH.

2. Result indicators

Indicator	Baseline (2023)	Intermediate target (2024)	Target (2025)
BiH legislation harmonized with the EU standards	20%	40%	75%
Broadband service coverage of BiH territory	40%	50%	60%

3. Expected impact on competitiveness

Economic growth will be stimulated by the introduction of new services and openness to investment, creating conditions for the opening of new jobs, increasing productivity of the existing work processes, revenues and returns on investment. Investments in the field of broadband access directly influence the growth of the gross domestic product, the competitiveness of all sectors of the economy, and the improvement in citizens' lives.

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

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

Explained under Point 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
Non-adoption of legislation by the CoM BiH and PA BiH	High	Inform the public about the importance of adopting the prepared legislation

5.2.3.2. Electronic Government – a path to digital society

1. Description of measure

The planned measures for the establishment of a National Center for Digital Identity Management within the Ministry of Scientific and Technological Development, Higher Education and Information Society (MSTDHEIS) were implemented, that is, the basic public key infrastructure (PKI) and a qualified certification body of the MSTDHEIS were established. The role of the National Center 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 natural and legal persons, that is, the work on the issuance of the qualified electronic certificates for electronic signatures and electronic seals through the work of the MSTDHEIS Certification Body. Within the MSTDHEIS Certification Body, a registration body was

established, the role of which is performed by the Agency for Mediation, Information and Financial Services of Republika Srpska (AMIFS).

In the field of electronic service development, the project of electronic registration of childbirth, the “e-baby” project, was implemented. Online registration of business entities continued. Besides, activities were carried out on the application of the “smart city” concept, which refers to the establishment of a unified billing and collection system.

Activities planned in 2023:

- Preparation and adoption of legal acts (Law on e-Government and Law on Information Security), which will improve the field of electronic government and information security in Republika Srpska (MSTDHEIS),
- Application and maintenance of information systems for the e-government development project management and supervision in the field of information security (MSTDHEIS),
- Improving the capacities of the MSTDHEIS and e-government of Republika Srpska for the management of the process of digital transformation of public administration, digital identities and information security of Republika Srpska (MSTDHEIS).

Activities planned in 2024:

- Application and maintenance of information systems for the e-government development project management and supervision in the field of information security (MSTDHEIS),
- Improving the capacities of the MSTDHEIS and e-government of Republika Srpska for the management of the process of digital transformation of public administration, digital identities and information security of Republika Srpska (MSTDHEIS),
- Coordination of the 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 (MSTDHEIS).

Activities planned in 2025:

- Application and maintenance of information systems for the e-government development project management and supervision in the field of information security (MSTDHEIS),
- Improving the capacities of the MSTDHEIS and e-government of Republika Srpska for the management of the process of digital transformation of public administration, digital identities and information security of Republika Srpska (MSTDHEIS),
- Coordination of the 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 (MSTDHEIS).

2. Result indicators

Indicator	Baseline (2023)	Intermediate target (2024)	Target (2025)
e-Government of Republika Srpska develops a key ICT infrastructure for the provision of e-services to citizens and business entities	5 e-services	25 e-services	50 e-services
Capacities of the MSTDHEIS certification body improved with the aim of mass production of qualified electronic certificates for the electronic signature and electronic seal	100 qualified certificates	5.000 qualified certificates	20.000 qualified certificates
Identified and introduced incentive measures for business entities in the field of ICT in	BAM 1.000.000	BAM 2.000.000	BAM 4.000.000

Republika Srpska, the effectiveness of which is being continuously analyzed			
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3. Expected impact on competitiveness

It is estimated that a country can increase its own GDP by 1% thanks to a 20% increase in ICT

investment. Efficient and transparent provision of e-services to citizens and business entities allows a simple and secure market entry process and significantly faster procedures. This will directly influence the reduction in time and costs of business entities and entrepreneurs, and for the territory of Republika Srpska, the improvement in the elements that are evaluated for the competitiveness of a certain location. The positive impact on the reduction of public administration costs in the process of providing public services is also unquestionable.

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

The planned funds for the implementation of these activities are BAM 20,000,000. A small portion (BAM 1,000,000) of funds is planned in the budget of Republika Srpska. The rest of the funds for the implementation of this reform measure are planned to be provided from loans and donor funds.

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

A simple and safe process of entering the market and significantly faster procedures will directly impact the reduction in time and costs of business entities and entrepreneurs, which will provide preconditions for new employment, without gender restrictions.

6. Expected impact on the environment

No impact on the environmental protection.

7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
A large number of participants in the process	High	Active dialogue, promotion of positive outcomes of the measure implementation
Implementation dependence on the dynamics and volume of funds	High	Finding alternative sources of financing

5.2.3.3. Digital transformation of industry, small and medium-sized enterprises (SME)

1. Description of measure

The Federal Ministry of Development, Entrepreneurship and Crafts will undertake a series of activities through the creation of tools and policies aimed at encouraging the SMEs to initiate business digitalization processes in the FBiH. The result of this measure will be the strengthening of competitiveness of the SMEs, increasing their number, as well as encouraging the growth of the innovative and export-oriented SMEs in the FBiH. The activities that will contribute to the realization of this measure are those related to the implementation of the financial instrument for supporting the SMEs by the “Strengthening the competitiveness of SMEs” project in the FBiH. Through this grant scheme, support will be provided to the SMEs, so that they can implement activities and support measures aimed at the business digital transformation. The adoption and use of new technologies will impact the ability of companies in adjusting and innovating their business model to adapt to the market. Specifically, the support will be focused on the use of digital solutions and supporting equipment (software and hardware) with the aim of optimizing the processes, operations, business organization and customer relations in terms of digital transformation. The Digital Hubs established in the FBiH for digital innovations are intended to be a point where companies can get assistance to overcome the challenges of digitalization and thus become more competitive. By providing access to the technical expertise and opportunity for experimentation as a possibility of “testing before investing”, this type of digital infrastructure helps

companies improve their business by advancing business processes, products or services through the use of digital technologies.

Given the global contemporary tendencies in the field of industry, the companies need to implement the process of digital transformation of their business as soon as possible and to the greatest extent possible. Within this measure, the promotion of the digital transformation of industry will be carried out, that is, the familiarization of company employees with global trends, the importance of digital transformation for their business and the existing digital solutions that can improve their business, with the aim of increasing awareness of the need to implement digital transformation. Activities include the organization of informational gatherings, the use of the Center for Digital Transformation services, as well as the organization of information exchange between industrial companies and examples of good practice, which will contribute to better awareness of companies from the industrial sector about the importance and possibilities of digital transformation. Besides, a program of education and consulting of companies on the application of digital solutions in industry will be implemented, within which training will be held and direct advisory services provided on the possible digital solutions that can increase the competitiveness of companies, resulting in the development of certain strategies and short- and long-term plans for the implementation of the company digital transformation process. In addition to informational and advisory support, it is necessary to provide financial incentives to support digital transformation in companies.

Financial support for the digital transformation of industry in the previous period was provided by means of incentives for the development of small and medium-sized enterprises, the purpose of which is the procurement of software with accompanying hardware and the creation of digital platforms.

Activities planned in 2023:

- Implementation of the project “Strengthening the competitiveness of SMEs” (FMDEC)
- Establishment of Digital Hubs (FMDEC)
- Promote the implementation of digitalization in industry (Chamber of Commerce of Republika Srpska – CC RS, MEE and MSTDHEIS),
- Education and consulting of companies on the application of digital solutions in industry (CC RS, MEE, MSTDHEIS),
- Incentives for the digitalization in industrial enterprises (MEE).

Activities planned in 2024:

- Implementation of the project “Strengthening the competitiveness of SMEs” (FMDEC)
- Establishment of Digital Hubs (FMDEC)
- Promote the implementation of digitalization in industry (Chamber of Commerce of Republika Srpska – CC RS, MEE and MSTDHEIS),
- Education and consulting of companies on the application of digital solutions in industry (CC RS, MEE, MSTDHEIS),
- Incentives for the digitalization in industrial enterprises (MEE).

Activities planned in 2025:

- Implementation of the project “Strengthening the competitiveness of SMEs” (FMDEC)
- Establishment of Digital Hubs (FMDEC)
- Promote the implementation of digitalization in industry (Chamber of Commerce of Republika Srpska – CC RS, MEE and MSTDHEIS),
- Education and consulting of companies on the application of digital solutions in industry (CC RS, MEE, MSTDHEIS),
- Incentives for the digitalization in industrial enterprises (MEE).

2. Result indicators

Indicator	Baseline (2023)	Intermediate target (2024)	Target (2025)
Number of promotions of industry digital transformation	5	5	5
Number of trainings held on the application of digital solutions in industry	20	20	20
Amount of incentives for industry digital transformation	1.000.000	1.000.000	1.000.000
Number of SMEs that have established some form of digital transformation in business	20	25	35
% increase in business profit due to the increased work productivity	3%	5%	10%
Number of Digital Hubs established	1	2	3

3. Expected impact on competitiveness

The implementation of such a financial support instrument for SMEs will lead to an increase in the competitiveness of small and medium-sized enterprises in the Federation of BiH, and thus to an increase in the number of SMEs, total revenues, employees, etc.

The implementation of this measure will contribute to increasing the level of automation in business, speeding up the business processes, reducing the business costs, improving the connections and communications, shortening the data processing time and strengthening the company's internal capacities in the direction of digital business, which will ultimately impact the company's competitiveness.

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

The specified activities will be carried out by the staff of the Federal Ministry of Development, Entrepreneurship and Crafts, hence the costs of implementation will be the regular costs for the salaries of employees (there will be no additional costs), except for the funds provided in the Budget.

The Budget funds planned for this measure are BAM 400,000 in 2023, BAM 500,000 in 2024, and BAM 500,000 in 2025.

Financial resources will be provided within the competence of the MEE and from other available alternative sources of financing.

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

The implementation of the planned activities is expected to contribute to the increase in employment, and thus to the poverty reduction. The said activities include the equality of all social groups, as well as gender equality.

The impact is indirect, since improving the competitiveness of companies affects the achievement of better business results of companies, and thus the creation of conditions for higher employment, better social status of employees and poverty reduction.

6. Expected impact on the environmental protection

The implementation of this measure has no adverse impact on the environment.

The measure has an impact on the environment, considering that the application of modern business processes and solutions reduces the harmful effects of industry on the environment.

7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
Unavailability of incentives for the industry digital transformation	Low	Engagement in securing funds from other sources
Insufficient interest of the company's management in digitalization	Low	Promotion of the industry digital transformation; Incentive measures for the implementation of digitalization in industrial enterprises
Lack of the planned financial resources from the Budget of the Federation of BiH	Low	Timely consultations

5.2.4. Business environment and reduction of the informal economy

See Chapter 5.1.:

Main Obstacle No. 2: Improve the business environment through closer cooperation and coordination at all levels of government

5.2.5. Research, development and innovation

a. Analysis of main obstacles

BiH makes efforts in this area to create a stimulating, innovative, developmental and sustainable environment. The direction followed in this regard is smart specialization. This implies the use of the existing knowledge and competencies to increase competitiveness and the use of innovation to stimulate economic growth. Although R&D and innovation are one of the most important conditions for competitiveness, the growth and progress of investment in BiH in this field are still very low compared to other EU countries. The latest data show that BiH invests 0.02% of GDP in this field, which is far below the EU average (2.4%). Insufficient financial resources are the most common reason for the absence of innovative activities in companies in BiH. Due to a lack of skills, a fragmented labor market and a low level of integration into global knowledge flows and value chains, foreign direct investment do not target the knowledge-based sectors. The additional challenge is the departure of highly educated persons, since BiH is losing the race in attracting talent with the countries that offer better conditions. This is confirmed by the fact that the cooperation between universities and the R&D industry in BiH is not at the appropriate level because, in this respect, BiH is ranked 119th out of 132 countries¹¹⁰ which is a significant weakness in this field. In addition, according to the Global Innovation Index 2021 (GII, 2021), Bosnia and Herzegovina is ranked 75th out of 132 countries. These are indicators of the necessity of reforms in this field.

This year, BiH has a better score in the investment than in the results as regards the field of innovation. In terms of investment in innovation, Bosnia and Herzegovina ranks 70th, better than in 2020 and 2019, and in terms of the score resulting from the use of innovation, Bosnia and Herzegovina is in 80th place.

One of the observed challenges is also the inefficient management system of scientific research and innovation potential in BiH. This is supported by the fact that BiH currently does not have a database of available capacities of scientific research institutions, their legal status, staffing levels, financing methods, etc. The positive thing is that in the previous decade, in the field of R&D and innovation, the quality of research and development statistics that follows the Eurostat methodology has been significantly improved, which enables monitoring of the situation in the field.

In this field, BiH aims to reduce the disproportion between the existing potentials at its disposal and the level of their utilization, so that the economy will be based on the principles of sustainable development, i.e. profession, science, knowledge, skills, innovation, and environmental protection. However, this cannot be achieved without the transfer of knowledge, experience, and the new technologies that increase

¹¹⁰ World Intellectual Property Organization, Global Innovation Index 2021

competitiveness, because the absorption of knowledge is also one of the obstacles in this field (118th position out of 132 countries, GII, 2021). Given the World Economic Forum estimates that close to 60% of children currently attending primary school will have occupations that do not exist today, improving the curricula for science, technology, engineering and mathematics in primary and secondary schools is crucial, as well as the efforts in reducing the gap between the labor market and higher education institutions. More precisely, the creation of new market-relevant knowledge and skills and the definition of measures to improve the environment that will be stimulating for innovation and entrepreneurial activity are the course that BiH is taking in this field.

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 unfavorable structure of researchers and research institutions, low level and quality of scientific productivity, incompatibility of enrollment policies with the labor market requirements, unsatisfactory student standard level, 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, discrepancy between the ability of the economy to absorb new technological solutions and the demand for them, underdeveloped awareness of decision-makers about the importance of innovation and the use of modern technological solutions, the absence of a systemic approach to innovation, especially in higher education institutions, insufficient interest of the economy in investing in research centers that can encourage and promote the development of innovation, as well as resistance of scientific-research and academic communities towards competitive institutional and project financing. As regards the internationalization and mobility as a strategic commitment in the field of higher education, that is, research and development, an additional obstacle is the complexity of the current geopolitical circumstances in Europe and the world.

b. Reform measures

5.2.5.1. Strengthening the scientific research and innovation potential

1. Description of measure

In the field of innovation, research and development, BiH bases its strategic focus on the preparation and implementation of the Strategy for smart specialization (S3). In the previous period, the COVID pandemic greatly affected the preparatory activities and implementation, and, in addition, this period showed all the weaknesses and challenges that the coordination of policies and the process of developing this strategy in BiH entails. The reform measure addresses the defined key challenges in this field and will enable the focus and continuity of reform efforts in the field of research, development and innovation, and in this sense represents an upgrade of the reform measure from the ERP 2022-2024. The measure follows the EU recommendations for this field, while its thematic part is related to the European Green Agenda and the Digital Agenda.

The previous period was marked by activities aligned with the methodological framework of the EC (DG JRC) for the development of this strategy. In this regard, an event was held to raise awareness about the importance of the smart specialization process in Bosnia and Herzegovina, which brought together all relevant stakeholders (business community, chambers of commerce, universities, etc.). A quantitative analysis was conducted for an overview of the relevant indicators for S3 and served as a basis for mapping the economic, scientific and innovative potential at the level of administrative units of BiH. The analysis showed that an economy like the BiH's one strongly depends on the labor-intensive and/or low-technology/knowledge-intensive industries that contribute to these potentials, and not on the knowledge-based sectors, while the analysis of data on education indicated a big difference in matching the labor market requirements between educational orientations for the number of enrolled students and graduates and the needs of industry.

The review of the existing policies and priorities important for the process is proceeding according to plan and is an important analytical prerequisite for the S3 process. The multi-sectoral nature of the process further complicates the coordination process, which should result in the identification of industries and the expansion of infrastructure in the field of higher education and science, and direct investments in research and development to industries that have the economic potential for smart

specialization, so as to ensure all the necessary conditions for the development of the economy and knowledge-based society.

Aware of the fact that higher education is an important segment of this field and the overall education system, Republika Srpska focused its activities on linking higher education with the labor market needs, training the quality and scarce staff as a basic resource of a competitive knowledge-based economy, supporting the international mobility of teachers and students, and improving the student standard. Positive developments from the previous period in terms of institutionalization of this field, stronger promotion and better organization of scientific research work and technological development and introduction of the more adequate criteria for co-financing program activities are the basis for continuing the reforms. A special contribution to quality in this field is given by new laws and bylaws in the field of higher education, which are harmonized with the existing normative framework of science and technological development, thus addressing the previously observed obstacles (Law on Higher Education of Republika Srpska, Law on Quality Assurance in Higher Education of Republika Srpska). For the purpose of implementing the measure, the short study programs of 1-2 years have been introduced, which, in a relatively short period of time, can become the basis for a higher rate of employment of the students educated in this manner. The key infrastructure project that should functionally link the scientific research and academic community with the economy is the establishment of the first Science and Technology Park (STP) in Republika Srpska, for which an adequate location at the University of Banja Luka campus has already been secured, as well as grant funds for the creation of the preliminary and main designs.

In the previous decade, the quality of research, development and higher education statistics was significantly improved. Official statistical data include a wide range of indicators, which enables the objectification of the situation and the identification of development directions in these fields as guidelines for the activities of the line ministry. Additional quality will be the use of the Unique Information System in Higher Education (UISHE).

Activities planned in 2023:

- Qualitative analysis that will be the basis for the proposal of priority fields of smart specialization. Deadline: June 2023. Activity leader: Directorate for Economic Planning BiH (DEP BiH), external experts and the Working Group for S3 BiH. Result: Report on qualitative analysis,
- Implementation of the entrepreneurial discovery process in which the priority fields for S3 are confirmed or redefined. Deadline: End of 2023. Workshops are planned to determine the vision, SWOT, priorities as well as the policy mix (goals and activities). Leader: DEP BiH as the process coordinator for the BiH level, independent experts, and a Working Group for the preparation of S3 BiH,
- Continuation of activities on the development of the Smart Specialization Strategy of Republika Srpska (MSTDHEIS in cooperation with all relevant institutions),
- Development of the Center for Science and Scientometrics in cooperation with the National and University Library of Republika Srpska (NULRS, MSTDHEIS),
- Revision of study programs at the HEIs (MSTDHEIS),
- Introduction of new study programs/short study programs (MSTDHEIS),
- Adoption of the Law on Fund for Science and Innovation of Republika Srpska (MSTDHEIS),
- Creation of the preliminary and main designs for the construction of the STP (MSTDHEIS),
- Application for loans for the construction of the STP (MSTDHEIS).

Activities planned in 2024:

- Drafting a strategy document based on the previous activities and analyses (DEP BiH),
- Introduction of the dual system in higher education (MSTDHEIS),
- Establishment of the Fund for Science and Innovation of Republika Srpska (MSTDHEIS),

- Adoption of the Law on Student Employment of Republika Srpska (MSTDHEIS),
- Strengthening the infrastructure of student standards through further investment in student accommodation, benefits, incentives and other types of financial and material support (MSTDHEIS),
- Commencement of the STP construction (MSTDHEIS).

Activities planned in 2025:

- Adoption of the Law on Regulated Professions of Republika Srpska (MSTDHEIS),
- Comparative analysis of the previous and the new management system of scientific research and innovation potential of Republika Srpska (MSTDHEIS),
- Construction of the STP (MSTDHEIS).

2. Result indicators

Indicator	Baseline (2023)	Intermediate target (2024)	Target (2025)
Greater application of innovative processes or products	550 innovatively active companies in RS	650 innovatively active companies in RS	700 innovatively active companies in RS
Increased scientific research productivity	460 realized research and development papers at the annual level	520 realized research and development papers at the annual level	550 realized research and development papers at the annual level
Reduction in the average number of years of study	Reduction in the average number of years by three months	Reduction in the average number of years by one semester	Reduction in the average number of years by one academic year
Research and development allocations (% GDP) (BHAS)	0.21	0.3	0.53
Number of researchers - full employment (BHAS)	1483		
Per million inhabitants (sdg)	(424 per million inhabitants)	500 sdg	600 sdg
Quality of education	82/141 (2019)		

3. Expected impact on competitiveness

The development and implementation of the Smart Specialization Strategy in Bosnia and Herzegovina will have great strategic importance for BiH, as it should encourage public and private investments in research, technological development and innovation. Adequate identification of development priorities will enable the consolidation of research capacities and infrastructure, gathering a critical mass of researchers and innovators who would work together on the strategically important research and development topics, with the aim of achieving research excellence and strengthening the potential of domestic products for commercialization. The results of the smart specialization process will be visible in the development or improvement to the industrial policy, which is of importance as part of the improvement of competitiveness in the EU accession process. On the one hand, the companies compete with the competition in the EU market, and on the other hand, the EU market provides the potential for discovering new markets and the possibility of improvement (through economies of scale, etc.).

A more efficient management system of scientific research, higher education and innovation potential in Republika Srpska means also the harmonization of the now unfavorable structure of (primarily highly educated) potential in relation to the labor market needs, as one of the strongest obstacles to the competitiveness of the Republika Srpska economy.

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

- Qualitative analysis: BAM 30,000 (Source of financing: support by the European Commission (DG JRC) in accordance with the methodology and road map for smart specialization)

- The entrepreneurial discovery process: BAM 60,000
- BAM 30,000 (Source of financing: support from the Joint Research Center of the European Commission in accordance with the methodology and road map for smart specialization)
- BAM 30.000 (Source of financing: donor funds)
- Drafting of the document: BAM 30,000 (Source of financing: donor funds)

In the period of 2023–2025, and in accordance with the planned activities, it is necessary to allocate a total amount of BAM 28,100,000. The funds are planned in a small part by the Framework Budget Document for the specified period, and the largest part relates to grant funds and bank debt.

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

As a result of the planned measures of the BiH Smart Specialization Strategy and other related policies, through product and process innovations, the business sector will become more globally competitive and will be connected to the supply chains of other companies in the wider region in the rapidly growing markets. Employment in the sophisticated manufacturing sector and IT services will increase.

Increasing employment in scientific research and creating new jobs in the real sector certainly have a positive impact on increasing the employment rate and reducing poverty. As regards gender equality, this measure is extremely positive, since its implementation implies a more efficient transfer of knowledge and skills and is not limited to a specific population group.

6. Expected impact on the environmental protection

The creation phase of the Smart Specialization Strategy and the associated analysis is environmentally neutral.

A positive impact on the environment is expected, as a result of the strong joint action of all three sectors in finding solutions to problems in this field of research.

7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
Risk of the absence of institutional cooperation	High	Active dialogue, promotion of positive outcomes of the implementation of the measure
Stagnation or further decline in investment in scientific research, higher education and student standards	High	Alternative model of financing, encouragement and support to organizations that invest their own funds in research
Resistance to change in all sectors	High	Consistency in the application of laws and strategic documents, promotion of the importance of scientific research and innovative potential and linking the work thereof with the business sector

5.2.6. Economic integration reforms

Bosnia and Herzegovina is still not fully integrated into the international economic system, given that despite the end of negotiations, the WTO membership has not yet been formalized. On the other hand, the main integration processes when it comes to the economic integration of Bosnia and Herzegovina are related to the EU through the Stabilization and Association Agreement, and the regional integration within CEFTA. Some indicators point to certain progress in trade integration with the world, given that the share of foreign trade in GDP in the pre-pandemic period was over 90%. However, the share of exports in GDP of about 40%, the share of imports of 53% of GDP and a permanent foreign trade deficit of over 13% indicate both a low level of international competitiveness and an insufficient level of trade integration with the world. This is especially evident when Bosnia and Herzegovina is viewed comparatively with the countries of Central and Eastern Europe, considering that most of these countries

have a share of exports in GDP of over 70%. If we look more closely at the structure of foreign trade, it can be concluded that the export supply of Bosnia and Herzegovina is quite modest with a narrow range of low value-added products that are placed in a small number of export markets. When it comes to export markets, it is evident that BiH exports are highly concentrated towards EU countries with a share of about 75% and the countries in the region within CEFTA of about 15%. The spread of the global COVID-19 pandemic in the first wave had a very negative impact on foreign trade in BiH, given that, in 2020, the total foreign trade decreased by about 15%, with the drop in exports of 16%, while the decrease in imports was about 13.5%. However, in 2021 already, there was a complete recovery of foreign trade with the world, considering that an increase was registered of about BAM 9 billion, or 1/3 compared to the previous year. The growth rates of imports and exports were fairly uniform and amounted to about 30% respectively, compared to the same period of the previous year. Due to the strengthening of export and domestic demand, and the increase in global prices in 2022, the double-digit growth trend in foreign trade with the world continued in Bosnia and Herzegovina. Thus, according to the BHAS data, the growth of total exports in the first half of the year was 30.7%, and the growth of imports was 27.5% compared to the same period of the previous year.

Fragmented legal framework, inconsistency between administrative and technical regulations, quality standards and infrastructure with the standards mandated by the EU acquis represent the most significant obstacle for the economic and foreign trade integration of Bosnia and Herzegovina. Inadequate and uncoordinated harmonization of the legal and institutional framework is a major obstacle to increasing the BiH product exports to the single market of the EU countries. Although this problem has been recognized by the competent institutions, very few concrete steps have been taken to expand and deepen the trade integration of Bosnia and Herzegovina into the EU's single market.¹¹¹ There is still no coordinated quality infrastructure strategy at the level of Bosnia and Herzegovina, which would largely enable export-oriented companies to realize their potential in export markets, increase total exports from the country, strengthen economic growth and ultimately improve the living standard of the citizens. The absence of a comprehensive quality infrastructure strategy not only jeopardizes further trade integration with the EU, but to a large extent hinders integration into the single regional market of the Western Balkans, which Bosnia and Herzegovina joined at the summit in Sofia in November 2020. As regards the improvement of regional trade integration, it is worth noting that Bosnia and Herzegovina has committed itself to implementing the assumed obligations under the Additional Protocol 5. "Trade Facilitation" and Protocol 6.

5.2.6.1. Strengthening the quality infrastructure and developing the legal and planning framework in the sector of free movement of goods according to the EU model

a. Analysis of main obstacles

1. Description of measure

The measure of strengthening the quality infrastructure and harmonizing the legal framework in the fields of free movement of goods with the law and rules of the EU and international agreements (CEFTA, WTO, etc.) in Republika Srpska implies the continuation of the harmonization of domestic regulations on products with the acquis, the principles of the EU and modern standards. It includes the continued removal of the so-called "conflicting" SFRY regulations and JUS standards with the mandatory application from the legal system of Republika Srpska, establishment and improvement to the publicly available Register of Applicable Regulations and, for businesspersons, importers and consumers, the Information Point for applicable regulations and standards about products and domestically designated certification bodies and the certification recognized in the region and the EU. The measure also includes the establishment of the Notification Point for regulations in preparation, which is the obligation of the European integration process (EU requirement) and CEFTA/WTO.

The measure includes activities on the implementation of the "Action Plan for harmonization of the Republika Srpska regulations with the requirements from Art. 34, 35 and 36 of the Treaty on the

¹¹¹ In the context of trade integration with the world, it is worth noting that the World Bank in its regular report "Doing Business 2020", in the Chapter "Trading across Borders", ranked Bosnia and Herzegovina quite high in the 27th position out of 190 countries. This information seems rather surprising given the relatively low ranking of BiH in this report (90th position), as well as the obstacles identified and recognized in the reports on trade integration of Bosnia and Herzegovina.

Functioning of the European Union” and preparations for signing the “Agreement on Conformity Assessment and Acceptance of Industrial Products” (ACAA) with the EU.

The implementation of this measure contributes to free trade in goods, as one of the principles of the single economic market of the region, CEFTA, EU and WTO, and to making the domestic product market safer and more transparent, the production more innovative and aligned with modern trends, and the domestic workforce more specialized. The measure shall also remove the non-tariff barriers to trade in goods, facilitate and increase export of domestic products, and improve the protection of consumers and the environment. The Ministry of European Integration and International Cooperation (MEIIC), the RS Standardization and Metrology Institute (RSSMI) and 10 administration bodies of Republika Srpska are responsible for the implementation of the measure, by adopting sectoral regulations on technical and other requirements for products and services, and participating in the work of the Coordination Body for Quality Infrastructure in Republika Srpska.

Activities planned in 2023:

- Adoption of a legal act on the procedure for reporting regulations in preparation, standards and conformity assessment bodies, managing the point of contact for products and regulations and the Notification Point for the RS regulations in preparation (MEE, MEIIC and CB QI),
- As per the EU requirements, establish and maintain the Register of Regulations of RS, Information and Notification Points for products and regulations, and implement the Action Plan for harmonization of regulations with the requirements of Art. 34, 35 and 36 of the TFEU (MEIIC),
- Analysis and identification of new strategic goals and measures for the development of quality infrastructure in RS (MEIIC, CB QI).

Activities planned in 2024:

- Draft and adopt a new strategic document on improving the quality infrastructure and meeting the requirements of Chapter 1 of the EU acquis in RS (MEIIC and CB QI),
- As per the EU requirements, maintain and improve the Register of Regulations, Information and Notification Points for products and regulations of RS, and harmonize the regulations with the requirements of Art. 34, 35 and 36 of the TFEU (MEIIC),
- Analysis and reporting on the implementation of the Action Plan for harmonization of the regulations of Republika Srpska with the requirements of Art. 34, 35 and 36 of the Treaty on the Functioning of the EU (MEIIC).

Activities planned in 2025:

- Monitoring and analysis of the implementation of the established strategic goals and measures for the improvement in the quality infrastructure of products and services and the fulfillment of the requirements of Chapter 1 of the EU acquis and Art. 34, 35 and 36 of the Treaty on the Functioning of the EU in Republika Srpska (MEIIC, CB QI),
- Adoption of the Guide for the application of the Republika Srpska regulations, which transpose the new EU regulations on products, and the analysis of their application (MEIIC, MSPCE, MEE, MEM, MIA, MAFWM, MHSW, RSSMI, MTT),
- Preparatory activities for signing the Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA) with the European Union (MEIIC, CB QI).

2. Result indicators

Indicator	Baseline (2021)	Intermediate target (2022)	Target (2023)
Level of harmonization of regulations of Republika Srpska (horizontal and vertical) with the acquis Chapter 1 – Free movement of goods	60%	60%	80%

Level of operability and availability of information from the Register of applicable regulations and designated certification bodies of Republika Srpska (software supported)	70%	90%	100%
Implementation of measures and activities from the strategic and planning documents in the field of quality infrastructure of products and services of Republika Srpska	80%	80%	90%
Percentage of removed identified obstacles to free trade in goods in the regulations of Republika Srpska (obligations under Art. 34, 35 and 36 of the TFEU)	20%	40%	60%

3. Expected impact on competitiveness

The said measure will have an impact on the increase in the number of companies from the process manufacturing sector that directly or indirectly export finished products to foreign markets, while meeting the requirements of regulations and safety and eco standards for their placement in foreign markets. It will also have an impact on the increase in the number of domestic products that have the “CE” marking necessary for their free access to the EU and regional markets. The implementation of the measure will lead to the increase in the level of compliance of domestic production technologies and domestic products with the modern requirements of quality standards and eco standards necessary for access to the single EU and other markets, as well as the productivity of domestic companies and their investment in modern and green technologies with the involvement of specialized workforce.

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

In 2023, BAM 400,000 of donor funds are planned for the development of the management software for the register of regulations, the information point on products and regulations, and the notification point for regulations in preparation, while other activities will be implemented with regular funds from the Budget of Republika Srpska, as defined in the FBD 2023–2025 of the institutions responsible for the implementation of the planned activities of this measure (MEIIC, MSPCE, MEE, MEM, MIA, MAFWM, MHSW, RSSMI, MTT).

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

The development of this field affects the increase in the production of competitive and safe domestic products, their export to the EU and regional markets and attracting the investors, which contributes to the creation of new jobs and better social conditions for the citizens.

6. Expected impact on the environmental protection

Increase in the production, export and marketing of the safe and environmentally friendly products, and the introduction of the new green technologies and circular economy have an impact on the better environmental protection.

7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
A large number of competent institutions responsible for the implementation of the measure	Low	Strengthening the role of the Coordination Body for Quality Infrastructure and the coordinating role of the MEIIC
A small number of domestic and internationally recognized (accredited) bodies for the product conformity assessment	High	Support to the product conformity assessment bodies to ensure the conditions for accreditation and inspection bodies to implement product control procedures during the import and marketing

5.2.7. Energy market reforms

a. Analysis of main obstacles

Bosnia and Herzegovina (BiH) is a signatory to the Treaty on the Energy Community of Southeast Europe (SEE), signed for the purposes of liberalization and creation of a single market for electricity and gas in Southeast Europe. BiH is implementing a comprehensive program of reforms in the energy sector in accordance with its international commitments arising from the Treaty on the Energy Community and the EU Integration Agenda. In 2014, the six contracting parties to the Energy Community in Southeast Europe launched the Western Balkans 6 (WB6) Initiative, which aims to strengthen regional cooperation and encourage sustainable growth and employment. Among other things, the measures include the selection of the appropriate national day-ahead market establishment, followed by their integration of the WB6 countries, regional market linking, cross-border cooperation on balancing, etc. While linking the day-ahead markets, relatively small and sometimes illiquid markets with the dominant entities is considered one of the best ways of bringing liquidity to the SEE region, as well as enabling the competitive price formation, there is a possibility of other measures of promoting liquidity in the early stages of market establishment.

There is no organized, formal wholesale electricity market in Bosnia and Herzegovina. The Law on Electricity and Natural Gas Regulator, Electricity Transmission and Market in Bosnia and Herzegovina has not yet been adopted. The proposed text of the law provides for the establishment of the organized market.

The electricity production in BiH is far less concentrated than in other countries in the region. Thus, the room for successful competition is much better. Households and other customers at the low-voltage grid level benefit from prices below the wholesale value of electricity. This prevents new participants from entering the market and increasing the competitive pressure due to cross-subsidization, and the price for households must in the future reflect the production costs, while the subsidization must be ensured through the competent ministries for social affairs by means of creating the social maps of vulnerable customers.

There is currently no short-term energy exchange in Bosnia and Herzegovina. Hence the short-term trade is based on bilateral transactions and public procurement principles. Transactions in the wholesale market in BiH are mostly the bilateral contracts between such parties or transactions in which the licensed participants within BiH buy or sell in a foreign energy market.

For the development of the energy market in BiH, it is first of all necessary to improve the strategic planning of the sector as well as to adopt adequate regulatory measures and laws, and to encourage a more effective implementation of projects in order to comply with the international obligations undertaken within the Energy Community (EC). These are the most significant challenges and a precondition for reforms in this field. While solving these challenges, it is also important to take into account the binding targets of the EU and the Energy Community, as well as the needs of the regional market, since the direction in which a certain energy market will develop in the complex process of energy transition largely depends thereon.

The applicable strategic document in this field is the Framework Energy Strategy for Bosnia and Herzegovina, which determines the direction of energy development in BiH until 2035. Its implementation is in progress. The Framework Energy Strategy until 2035 provides strategic guidelines for the efficient use of resources to ensure a secure and affordable energy supply and energy efficiency. However, Bosnia and Herzegovina failed to create a plan for the implementation of the Framework Energy Strategy. The MoFTER, in cooperation with competent institutions, prepared the Report and it was adopted by the Council of Ministers of Bosnia and Herzegovina, at the 57th session held on 9 November 2022.

Bosnia and Herzegovina has started drafting the Integrated Energy and Climate Plan of Bosnia and Herzegovina until 2030 (NECP). It is expected that the final draft of the NECP will be ready at the end of 2022, and adopted in 2024 at the latest. Among other things, the NECP will define the goals of energy security and the energy market until 2030, as well as the necessary policies and measures to achieve them. After the adoption of the NECP, the Framework Energy Strategy will be updated.

The available statistical data of the energy sector for 2020 confirm the fact that the energy sector is one of the strongest sectors in BiH. Energy export accounted for 7% of the total export of BiH in 2020, or BAM 711 million, while the import amounted to BAM 1.6 billion, or 10% of the total import. The import-export coverage ratio in this category was at 44%. (In 2019, the coverage of imports by exports in this category was 60%). Although BiH is a net exporter of electricity, the development of the electricity market with its neighbors is hindered by the absence of a fully harmonized legislative framework.

The absence of the gas and electricity legal and regulatory framework at the state level prevents the country from unbundling the transmission system operator, enabling an organized internal energy market and establishing a day-ahead market. BiH should urgently ensure harmonization with the Third Energy Package in order to establish a functional internal energy market for electricity and natural gas.

When it comes to the Energy sector, the main obstacle is the lack of a legal and regulatory framework for gas and electricity at the state level, which results in the non-compliance of legislation with the Third Energy Package and the quality establishment of a functional internal energy market for electricity and natural gas.

The Government of RS stands by the already stated position that the Preliminary Draft Law on Electricity and Natural Gas Regulator, Electricity Transmission and Market in BiH, in the form to which it gave its consent in June 2019¹¹², should be sent to the parliamentary procedure. RS has the Law on Gas¹¹³ that is harmonized with the Third Energy Package and that enabled the opening of the market in the natural gas sector in the territory of RS. At the end of 2020, on the basis of this Law and with the previously obtained Opinion of the Secretariat of the Energy Community, the Energy Regulatory Commission of Republika Srpska adopted a Decision on the certification of the natural gas transmission system operator – Joint-stock company for the transport and management of the natural gas transport system “GAS PROMET” PALE. “GAS PROMET” PALE is the only operator of the natural gas transport system in the region (Neither Serbia nor Croatia has any).

At the level of the Federation of Bosnia and Herzegovina, the Law on Gas of the Federation of Bosnia and Herzegovina has not been adopted, which was to be harmonized with the Law on Gas at the state level, which has not yet been adopted. Another obstacle is the inconsistency of the existing legal acts with the Third Energy Package and the obligations that directly arise from the Treaty on the Establishment of the Energy Community in SEE. In the field of energy efficiency, the Law on Energy Efficiency in the Federation of BiH, which was adopted in 2017, created prerequisites for sustainable energy development through energy savings that lead to a reduction in negative environmental impacts, an increase in the security of energy supply, and meeting the energy needs of end consumers, as well as the fulfillment of international obligations undertaken by Bosnia and Herzegovina regarding the energy savings in final consumption and reduction in the greenhouse gas emissions by applying the energy efficiency measures. For the full implementation of the goals established by the Law in the field of energy efficiency, it is necessary to legally define the financial mechanisms for the implementation of the energy efficiency measures defined, which will be additionally defined through the Integrated Energy and Climate Plan of Bosnia and Herzegovina/Federation of Bosnia and Herzegovina (NECP/ECP).

b. Reform measures

1. Description of measure

5.2.7.1. Establish the organized electricity market

As part of this measure, the Secretariat of the Energy Community provided technical assistance by means of which the Study on the establishment of an organized day-ahead market in Bosnia and Herzegovina was conducted. The Study was discussed at the Working Group, but the final decision on whether to establish own electricity market in BiH or to join one of the existing markets should be made by the competent institutions. For the purpose of reaching an acceptable solution, collaboration was achieved with the World Bank's expert team that worked on the project of the Study on the liquidity of the electricity market in Bosnia and Herzegovina, which aims to examine the liquidity of the electricity market and propose measures to improve transparency and competition. When it comes to the said

¹¹² Conclusion number 04/1-012-2-1578/19

¹¹³ “Official Gazette of Republika Srpska, nos. 22/18 and 15/21”

project, input information was collected from all competent entities in BiH. The position of the Secretariat of the Energy Community is that without the establishment of the exchange, the market merger is not possible. Unlike the typical situation in many other countries of Southeast Europe, the electricity sector in BiH is not dominated by one large enterprise. There are three large vertically integrated domestic electricity producers, suppliers and distribution network owners, each known as Elektroprivreda (EP), which have not yet been legally or functionally unbundled. There is no organized wholesale electricity market in BiH. The Law on Electricity and Natural Gas Regulator, Electricity Transmission and Market in Bosnia and Herzegovina has not yet been adopted. The proposed text of the law provides for the establishment of the organized market. The natural first step for further improvement in the BiH wholesale market is to provide market participants with the access to electricity exchange for short-term trading (PX; day-ahead and intraday). This will increase the wholesale price transparency, reduce barriers to contracting and potentially support the better organized markets for long-term contracts. It will also enable the introduction of renewable incentive schemes such as the feed-in premium (FIP), and further reduce obstacles to investment in renewable energy. The Study considered a number of potential measures to strengthen competition and improve the liquidity of the wholesale electricity market in BiH.

Enhancement of the strategic and legislative framework in accordance with the Treaty on the Establishment of the Energy Community – Measure from the Road Map for the implementation of activities that Bosnia and Herzegovina committed to by accepting the Western Balkans 6 Initiative and the EC recommendations from the meetings of the Subcommittee on Transport, Energy, Environment and Regional Development. The missing legal and regulatory framework for gas at the BiH level is a serious and permanent breach of commitments from the Energy Community Treaty and is the biggest obstacle to the liberalization of the gas market. The process of harmonizing the draft law is still ongoing. The Government of RS stands by the already stated position that the Preliminary Draft Law on Electricity and Natural Gas Regulator, Electricity Transmission and Market in BiH, in the form to which it gave its consent in June 2019, should be sent to the parliamentary procedure.

The aforementioned reform will improve the electricity and gas market, meet the internationally assumed obligations of harmonization with the requirements of the *acquis* in the field of energy, SPP and EU partnership, including activities on the implementation and use of IPA funds.

Activities planned in 2023:

- Establish the organized electricity market based on the results of the Study (MoFTER, FMEMI, MEM RS),
- Study on the establishment of an organized day-ahead market in Bosnia and Herzegovina was discussed at the Working Group, but the final decision on whether to establish own electricity market in BiH or to join one of the existing markets should be made by the competent institutions (MoFTER, FMEMI, MEM RS),
- Adopt the Law on Electricity and Natural Gas Regulator, Electricity Transmission and Market in Bosnia and Herzegovina aligned with the Fourth Energy Package (MoFTER, FMEMI, MEM RS),
- Law on Transmission System Operator in Bosnia and Herzegovina (MoFTER, FMEMI, MEM RS),
- Decision on the quality of liquid petroleum fuels (MoFTER, FMEMI, MEM RS),
- The Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina is responsible for the implementation of this activity, together with the Entities' Ministries of Energy (MoFTER, FMEMI, MEM RS),
- Due to the overall situation caused by the COVID-19 emergence, the deadlines for all the mentioned activities have been extended (MoFTER, FMEMI, MEM RS),
- Drafting the Energy Strategy of the Federation of BiH for the period of 2022-2035 with a projection to 2050 (adoption by the PFBiH),
- Adoption of the Law on Electricity in the Federation of Bosnia and Herzegovina harmonized with the state law, that is, the Third Energy Package (adoption by the PFBiH),

- Adoption of the Law on Energy and Regulation of Energy Activities in the Federation of Bosnia and Herzegovina (adoption by the PFBiH),
- Adoption of the Law on Gas in the Federation of Bosnia and Herzegovina harmonized with the state law, that is, the Third Energy Package (adoption by the PFBiH),
- Adoption of the Law on the Gas Pipeline Southern Interconnection of Bosnia and Herzegovina and the Republic of Croatia (adoption by the PFBiH),
- Drafting the Integrated National Energy and Climate Plan of Bosnia and Herzegovina/Federation of Bosnia and Herzegovina (NECP/ECP) (GFBiH and CoM BiH),
- Implementation of the Energy Production and Supply Projects (FMEMI).

Activities planned in 2024:

- Preparation and adoption of bylaws arising from the Law on Electricity in the Federation of Bosnia and Herzegovina (FMEMI, Regulatory Commission for Energy in the FBiH and the GFBiH, each within the scope of their competences),
- Preparation and adoption of bylaws arising from the Law on Energy and Regulation of Energy Activities in the Federation of Bosnia and Herzegovina (FMEMI, Regulatory Commission for Energy in the FBiH and the GFBiH, each within the scope of their competences),
- Preparation and adoption of bylaws arising from the Law on Gas in the Federation of Bosnia and Herzegovina (FMEMI, Regulatory Commission for Energy in the FBiH and the GFBiH, each within the scope of their competences),
- Continued activities on Drafting of the Integrated National Energy and Climate Plan of Bosnia and Herzegovina/Federation of Bosnia and Herzegovina (NECP/ECP),
- Implementation of the Energy Production and Supply Projects (FMEMI).

Activities planned in 2025:

- Continuity of activities from 2024 on the preparation and adoption of bylaws arising from the Law on Electricity in the Federation of Bosnia and Herzegovina, the Law on Energy and Regulation of Energy Activities in the Federation of Bosnia and Herzegovina and the Law on Gas in the Federation of Bosnia and Herzegovina (FMEMI, Regulatory Commission for Energy in the FBiH and the GFBiH, each within the scope of their competences),
- Implementation of the Energy Production and Supply Projects (FMEMI).

2. Result indicators

Indicator	Baseline (2023)	Intermediate target (2024)	Target (2025)
Number of EU Directives transposed into and implemented in domestic legislation Number of prepared proposals for laws and bylaws transposed from EU Directives Intensify own efforts to implement connectivity reform measures to support the functional operation of the regional market Improve electricity interconnections Ensure adequate infrastructure for the energy transport Integrate the market Ensure adequate treatment of energy poverty	Acts prepared on the basis of contracts and agreements and proposals prepared for laws and bylaws from EU Directives	Improved in comparison to the previous year	Improved in comparison to the previous year
Number of EU Directive transposed into and implemented in domestic legislation	4	5	5

Number of prepared proposals for laws transposed from EU Directives	3	3	3
Number of prepared bylaws transposed from EU Directives	2	6	8

3. Expected impact on competitiveness

Expected impact on competitiveness via the environment.

The implementation of reform measures through the adoption of the necessary legislative and legal framework and its harmonization with the EU Directives, based on the principles of non-discrimination, transparency, market competition, freedom of movement of goods, freedom to provide services, protection of the rights of end customers, and freedom of choice of suppliers, among other things, will create the 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 fulfillment of the obligations assumed under the Treaty on the Establishment of the Energy Community of SEE. Besides, the impact of the reform measures will contribute to the security of energy supply, energy savings and reduction in the negative impacts on the environment, as well as the creation of a favorable setting for attracting domestic and foreign investment in the energy sector.

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

It is not necessary to secure special funds from the Budget of the Federation of Bosnia and Herzegovina for the adoption of the planned laws and bylaws/implementation acts. For the Development of the Energy Strategy of the Federation of BiH for the period of 2022-2035 with a projection to 2050, the funds are planned in the Budget of the Federation of BiH in the amount of BAM 500,000.00.

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

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

There are no legal restrictions as regards neutrality of the impact on gender equality issue.

6. Expected impact on the environment

Strengthening the electricity and gas market will have positive implications for the environment.

7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
Insufficient cooperation of other competent institutions with the MoFTER (insufficient cooperation of the competent entity and joint institutions in BiH due to different positions on certain issues can lead to receiving a negative opinion on certain agreements and not signing them, delays in the delivery of answers and information, etc.) Impossibility of influencing the duration of the process in other institutions (the impossibility of influencing the duration of the process in other institutions can lead to the inopportune receipt of information, that is, to delays in delivering the necessary answers and information)	High	Establish Working Groups composed of nominated representatives of the competent institutions, hold regular meetings and discussions and thus agree on the positions of the institutions with real arguments.

Inopportune adoption of laws by the Parliament at all levels of government in Bosnia and Herzegovina	High	Provide information and initiate thematic sessions on the need and importance of timely consideration and adoption of the proposed legal solutions
Inopportune adoption of bylaws /implementation acts by competent ministries, institutions and the Government of the Federation of Bosnia and Herzegovina	High	Establish Working Groups composed of nominated representatives of the competent institutions, hold regular meetings and discussions and thus agree on the positions of the institutions with real arguments. Use technical assistance in the preparation of bylaws/implementation acts.

5.2.8. Transport market reforms

a. Analysis of main obstacles

The planning document for the transport and infrastructure network in Bosnia and Herzegovina is the Framework Transport Strategy of BiH,¹¹⁴ which contains structural proposals for the development of the transport sector and capacity building programs to align with the long-term goals and strategic documents of the European Union in the field of transport. The adoption of the Framework Transport Strategy by the Council of Ministers of BiH provided access to financial support from the EU and international financial institutions for infrastructure projects. The Framework Transport Strategy of BiH 2016-2030 was developed in accordance with the Framework Transport Policy. The strategic goals are: compliance with the EU standards and regulations, financial sustainability, minimal impact on the environment, and compliance with the information and security requirements.

Due to the impact of the COVID pandemic, a significant decline in all indicators in the road, rail and air transport is evident in 2020. The largest number of passengers is still transported by road (86.6%).¹¹⁵ The statistics of transported goods by road and railway show a decrease in the transport of goods. In accordance with the European Green Deal, it is necessary to encourage the use of multimodal transport and the shifting of freight transport from road freight transport to railway and the transport of goods by inland waterways.

The low quality of the general infrastructure is evident. According to the Global Competitiveness Report of the World Economic Forum (2019), Bosnia and Herzegovina is ranked 84th in terms of the quality of general infrastructure (out of 141 countries), while the quality of transport infrastructure is in a worse position (ranked 108th). Insufficiently developed transport infrastructure affects the low level of traffic safety, especially in road traffic. Analyzing the data on traffic accidents in the past 10 years (2010 - 2020), it is evident that the number of traffic accidents in road traffic, as well as the fatalities, has decreased and increased several times. In the period of 2017-2020, the number of traffic accidents showed a decreasing trend. The lowest number of fatalities in traffic accidents was recorded in (261).¹¹⁶

Air traffic is slowly developing. According to the latest World Economic Forum report,¹¹⁷ airport connectivity is 98th out of 141 countries, which is the same level as in the previous year. According to the air transport statistics,¹¹⁸ a total of 9,771 airport operations were carried out in 2020, which shows a decrease of 53.2% compared to the previous year.

The existing road infrastructure in the Federation of BiH is based on the road network that was built 3 decades ago (except for the part of the motorway from Sarajevo to Zenica).

At the same time, there was a huge increase in the number of motor vehicles operating on the roads in the Federation of BiH (in 2021, a total of 690,597 vehicles were registered in the Federation of BiH,

¹¹⁴ Framework Transport Strategy of Bosnia and Herzegovina 2016-2030 ("Official Gazette of BiH", no. 71/16)

¹¹⁵ Source: BH Agency for Statistics, Press Release, Road, Railway and Air Transport, IV Quarter 2019

¹¹⁶ Source: BIHAMK

¹¹⁷ Source: Report on Global Competitiveness 2019, World Economic Forum

¹¹⁸ Source: BH Agency for Statistics, Press Release No. 1, Air Transport

which is 2.9% more than in 2020, when a total 671,369 vehicles were registered). Revenues that are collected based on the use of road infrastructure (excise, fees and taxes, use of the road land, etc.) are not to a significant extent recovered as investments in the development and maintenance of road infrastructure, due to the fact that the expenditure system of these revenues has not been precisely defined and established. Thus, the said revenues are invested in other purposes through public budgets, which is why there is a lack of funds for the development and modernization of road infrastructure. This is particularly pronounced at the level of individual cantons because there are no independent cantonal directorates for the management of regional roads, so the funds collected for roads are not paid into the budget of the institution that manages the roads, but into the budget of the canton.

The increase in the number of vehicles has resulted in a significant number of traffic accidents on the roads, with the fatalities and major material damage. During the year of 2021, a total of 30,238 traffic accidents occurred on the roads of Bosnia and Herzegovina, of which 6,931 resulted in fatalities and injured persons, and 23,307 traffic accidents with the material damage.

In traffic accidents in Bosnia and Herzegovina, 255 people lost their lives, 1,471 people suffered serious physical injuries, while 8,328 people suffered minor physical injuries.

During 2021, 150 persons got killed in traffic accidents in the Federation of BiH, which means that the number of fatalities increased by 11 persons compared to 2020 and represents 58.82% of the total number of traffic accident fatalities in BiH. In Brčko District, 4 persons got killed during the past year, while the number of persons killed in traffic accidents in Republika Srpska remained the same compared to 2020, that is, 101 people got killed, which represents 39.6% of the total number of traffic accident fatalities in BiH.

Thus, we have two specified significant obstacles.

Information on connections with national strategic documents or sectoral strategies and wider reform efforts:

In the adopted Transport Strategy of the Federation of Bosnia and Herzegovina for the period of 2016-2030 ("Official Gazette of the FBiH", no. 22/17 of 24 March 2017), which was also adopted by the Parliament of the FBiH and the Council of Ministers of BiH ("Official Gazette of BiH, no. 71/16 of 23 September 2016), the following is planned in the Action Plan: "Harmonization with the EU policies for road safety", which relates to Obstacle no. 2. The activity also planned in the adopted Strategy is the "Harmonization of the existing FBiH laws with the EU Directives and legislation on EIA", which relates to Obstacles no. 1 and 2.

The strategically adopted goal of the Transport Community, which includes the Western Balkan countries, is a 50% reduction in fatalities and serious injuries by 2030, and the same goal was adopted by the UN. We must strive for goals that are difficult to achieve in order to advance. In the coming period, Republika Srpska will focus its activities on completing the process of restructuring the Republika Srpska Railways. These activities are a continuation of the project of the Government of Republika Srpska with the support of the World Bank.

b. Reform measures

5.2.8.1. Market and safety development in the field of transport

1. Description of measure

The main goal of the measure is to quantitatively, qualitatively and safely satisfy to the full the needs of citizens and legal entities, and to contribute to the economic and social development of the entire society.

One of the goals of this measure is to enable the improvement of the situation in the department of transport and communications and in road transport, and to ensure the safety of road users and reduce material damage on the roads in the FBiH. Creation of the new Law on Roads in the Federation of BiH will enable a better system of road management (maintenance, rehabilitation and construction of roads) and charging for the use of road land. In addition, the reason for the adoption of the new law on roads is the need for harmonization with the decrees and regulations of the European Union. The Federal Ministry of Transport and Communications, along with the previously submitted proposals and initiatives of the JP Ceste Federacije BiH and JP Autoceste Federacije BiH, is preparing the text of the Preliminary Draft

Law on Roads. The prerequisite to commence drawing up the Preliminary Draft Law is the preparation of the analysis of the establishment of the Traffic Safety Agency. It is important to emphasize that the Law on Road Traffic Safety in the FBiH would establish a Safety Agency in the FBiH that would carry out operational activities with the aim of increasing safety and reducing the number of traffic accidents. This measure is aligned with the United Nations plan that by 2030, the number of people killed or seriously injured in transport be reduced by 50%. This goal was also adopted by the Transport Community, which also relates to the Western Balkan countries, BiH included.

Republika Srpska will carry out activities to improve the transport sector in the coming period. Activities to build modern road infrastructure and improve traffic safety will continue. Please note that Republika Srpska has the established legislative framework that regulates this field. Namely, the said field is regulated by the Law on Public Roads¹¹⁹ and the Law on Road Traffic Safety of Republika Srpska.¹²⁰

Activities planned in 2023:

- Law on Roads of the Federation of BiH (GFBiH)

Activities planned in 2024:

- Law on Road Traffic Safety in the Federation of BiH (GFBiH)

Activities planned in 2025:

2. Result indicators

3. Expected impact on competitiveness

The drafting of the Law on Roads and the Law on Road Traffic Safety of the Federation of BiH

is expected to have a positive impact on the growth of competitiveness, because a better business environment will be created. The new Law on Roads will in more detail and more precisely determine the system of road management and collection of funds from the use of road land, and this will enable domestic businesspersons to do business more easily, as well as better collection of funds in the state budget and the budget of road operators. The Law on Road Traffic Safety of the Federation of BiH will create preconditions for the establishment of the Traffic Safety Agency in the Federation of BiH, that is, undertaking operational activities aimed at reducing the number of traffic accidents, thereby reducing the number of traffic fatalities and significantly reducing major material damage. The public digitization of society is a goal in which advanced countries have already made great progress, thereby enabling easier business and raising the competitiveness of the economy. Besides, reducing the negative impact of transport on the environment provides the opportunity to develop infrastructure and related activities.

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

In the initial stage, the costs of the specified activities relate to the work of employed persons, which is financed from the budget of the Federation of BiH. Possibly, at a later stage, additional costs could be expected (hiring of experts, preparation of technical and study documents, etc).

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

The Analyses and the Law on Roads are expected to have a direct positive impact on employment and poverty reduction. It is important to state that direct engagement of domestic companies and workforce is expected during the implementation of the specified measures.

6. Expected impact on the environment

Since this is a transport sector, there is no negative impact on the environment during the implementation of these measures. The impact is positive because the implementation of these measures reduces travel time and traffic congestions, which directly influences the reduction in vehicle emissions.

¹¹⁹ "Official Gazette of Republika Srpska", nos. 89/13 and 83/19

¹²⁰ "Official Gazette of Republika Srpska", nos. 63/11 and 111/21

7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
Political situation can be a limiting factor in the adoption of the proposed legal solutions.	Medium	Timely consultations conducted with stakeholders and the professional community
Political instability	Low	Timely planning and implementation of the specified measures
Possible extraordinary circumstances caused by natural or other disasters	Low	Timely planning and implementation of the specified measures

5.2.9. Agriculture, industry and services

a. Analysis of main obstacles

According to the available data of the Agency for Statistics of BiH,¹²¹ in the structure of GDP in terms of the gross value added, the most important item is the wholesale and retail trade with 14%, and together with other items it can be seen that services significantly lead in the BiH GDP. In addition, the process manufacturing is significant, with a share of 13%, while agriculture accounts for 6%.

Looking at the structure of employees by field of activity¹²² in the last three years, the dominance of employees in the service sector is evident with about 50% share in total employment in BiH. The share of employees in industry was 30%-32%, and in agriculture 16-19%.

Agriculture is a very important branch in BiH where a significant proportion of households are engaged in agricultural activities. However, the long-term trade deficit (BAM 545 million¹²³ in 2020 which has increased by 10% compared to the previous year) causes concern. Most of the trade was done with the neighboring countries, namely Serbia and Croatia. A step forward in defining the policies in this sector was made with the adoption of the Strategic Plan for Rural Development of Bosnia and Herzegovina for the period of 2018-2021.¹²⁴ The Strategic Plan for Rural Development emphasizes better market access (and transport infrastructure) for rural households, as well as a gradual increase in public investment to accelerate farmers' integration into agro-food value chains, improve access to modern technology and increase exports to the European (and other, mostly specific) markets where farmers and food processors from rural areas of BiH can have comparative advantages.

Special challenges for the coming period are the creation of agricultural policy and the introduction of those instruments that will, first of all, enable the improvement in the competitiveness of agriculture, forestry and water management; the increase in the volume of production of agricultural products; the informatization of the sector; the harmonization of the system of the official veterinary and phytosanitary controls with the European standards; the strengthening of administrative capacities, especially with regard to inspection services and laboratories; the transposition and implementation of the EU regulations and the establishment of structures that will ensure the achievement of the required level of quality and food safety standards for the unhindered trade in agricultural goods and the export of all goods of animal origin to the European Union market.

Even before the pandemic, industrial production in Bosnia and Herzegovina indicated a certain slowdown. Namely, according to the BHAS data for 2019, a decrease in the physical volume of industrial production of 5.5% was recorded in Bosnia and Herzegovina compared to the previous year.¹²⁵ This trend of declining industrial production continued in 2020, primarily with the outbreak of the COVID-19 epidemic. The most significant reductions in production were within the export-oriented branches, where

¹²¹ BHAS, Press Release, Gross Domestic Product for BiH 2020, July 2021

¹²² BHAS, Labor Force Survey 2019

¹²³ Source: BHAS, Foreign Trade January-December 2020. Press Release No. 12

¹²⁴ The document was adopted by the Parliamentary Assembly of BiH.

¹²⁵ Agency for Statistics of Bosnia and Herzegovina, Press Release, "Industrial production volume index in Bosnia and Herzegovina for December 2019 – preliminary data", 28 January 2020

double-digit rates of decline in production were registered. The technological structure of the production base (low technical-technological complexity), high participation of loan businesses, as well as its high dependence on developments in the markets of major trading partners in the previous period were additional aggravating factors, where all the vulnerabilities of the industry, especially the processing industry in Bosnia and Herzegovina came to the surface.

The key obstacles to competitiveness and inclusive growth of the processing industry are: lack of working capital due to the reduction in business activities owing to the harmful effects of the pandemic, low product competitiveness, unsatisfactory level of investment, low level of technological development, lack of skilled labor and development capacities.

Tourism in Bosnia and Herzegovina shows a growth trend and has the potential to increase its development factor. Tourism deserves special attention in the field of services, as it accounts for over half of the inflow of service sector in Bosnia and Herzegovina. For further development of tourism, it is necessary to increase its competitiveness. Thus, activities will be undertaken in the Federation of BiH to improve the legal framework regulating the field of hospitality. In the coming period, the focus should be on reducing the impact of the coronavirus on tourism and increasing the number of foreign tourists.

The agricultural sector in the Federation of BiH is still burdened by numerous problems of insufficiently developed agriculture, as well as by additional conditions of new requirements arising from internationally assumed obligations or expressed intentions of Bosnia and Herzegovina. The agricultural sector is particularly important for the employment of the entire population, rural in particular. One of the worst macroeconomic indicators of the agricultural sector in the Federation of BiH is the foreign trade in agricultural and food products. The trade balance of these products is negative and ranges from BAM -1.41 billion (2015) to BAM -1.69 billion (2019). The coverage of import by export of agricultural and food products is quite low and ranges from 16.12% (2014) to 22.09% (2017). In the light of global events in food production, and especially based on the experiences related to the COVID-19 pandemic and the possibility of market destabilization in the provision of sufficient quantities of food products, it is necessary to change the current trend of food production, primarily of the strategic products such as wheat and corn. The obstacle lies in the insufficient application of ecological practices in production that adapt and mitigate the impact of climate change. Agriculture is a significant emitter of greenhouse gases, which are inherently the leading cause of the current accelerated climate change. According to the regular national reports on climate change and reports on the emission of greenhouse gases, in this regard, the agriculture of BiH is in a somewhat more favorable position with about 10-15% of the total emitted greenhouse gases in the country. The same reports, however, warn that with the retention of current agricultural production and other practices in BiH, the greenhouse gas emissions from agriculture could increase by more than 60% by 2040. Among the measures that can help agriculture adapt to climate change are the improvement of the irrigation system and the inclusion of agriculture in water management programs, the changes in land cultivation (conservation cultivation, anti-erosion measures) and agronomic measures (crop rotation, sowing dates, crop mixtures, mulching, green fertilization, etc.), while introducing into production the new variety creations that are more resistant to drought. The agricultural sector in the Federation of BiH is characterized by low competitiveness both in domestic and foreign markets. It is the result of numerous problems and weaknesses along the entire value chain and is reflected in the following: (i) the productivity of the primary agricultural production expressed in terms of total volume and yield is extremely low, far below biological capabilities, (ii) agricultural production takes place on the small, fragmented land holdings and is characterized by a small share of production for the market, (iii) farmers' technological and economic knowledge is at a low level, the application of agrotechnical measures is insufficient, and farms are poorly equipped. In addition, most of the arable land is not being irrigated, there is a low level of protection from the weather, which results in low and unstable yields, which in the context of climate change is a major threat to the development of the sector. The level of organization and cooperation among producers is not satisfactory, nor is among other participants in the value chain. There is also a lack of capacities for reception, processing, storage, cooling and preparation of products for the market. One of the reasons for the low competitiveness of the sector is the absence of knowledge transfer, innovation and promotion (training, fairs); support for the creation of added value in agriculture, the association of producers, and the work of associations. Due to all the aforementioned, it is necessary to take a whole series of measures that will strengthen the competitiveness

of the sector, in which support for the research, introduction of new technologies and digitization will play an important role.

A huge obstacle is that we still have not met the prerequisites to use the funds intended for agriculture and rural development, the IPARD funds. For this reason, we must focus more strongly on the process of building the IPARD operating structure, which implies the reform of the existing management (or parts of management) into the IPARD operating structure. Although the positions regarding the IPARD operating structure are not fully harmonized, all competent institutions are of the opinion that it is necessary to reach an agreement on these issues as soon as possible, and that it should be considered as part of all activities to fulfill the conditions for EU accession. Activities should be restarted for the creation of the proposal model of the Governing Body of the Instrument for Pre-Accession Assistance for Rural Development in Bosnia and Herzegovina. To this end, it is necessary to improve and harmonize the legislation of the agriculture sector with the EU acquis, and to harmonize the financial support system with the EU standards and procedures. It is necessary to upgrade the Register of Agricultural Holdings (RAH) and the Register of Domestic Animals, and establish a system for collecting and analyzing the agricultural accounting data (FADN) and maintaining the Agricultural Market Information System (AMIS).

The development of tourism for the planned three-year period is primarily determined by the development of sustainable green tourism, the improvement of the legal and institutional framework being brought closer to the European Union standards through the adoption of the Tourism Development Strategy of the Federation of BiH, the Law on Tourism of the Federation of BiH, the Law on Residence Tax of the Federation of BiH, and the Law on Hospitality in the Federation BiH. The key obstacles in the fields of tourism and hospitality are the lack of an adequate legal framework, the limited budget funds and a lack of human resources.

The limited growth of agricultural production, and the value added in agriculture related thereto, has been caused by both the consequences of the COVID-19 pandemic emergence and the market disruptions due to the increase in the price of all energy sources, and thus the input for the agricultural production, as well as by the still insufficient level of financing of the agricultural sector to respond to such challenges, and the low level of investment in the construction of supply chains between the primary and food industries. The crisis in Ukraine led to a further increase in the prices of energy sources, agricultural products and mineral fertilizers, exacerbating the precarious economic situation in the low- and middle-revenue countries, which are still recovering from the consequences of the COVID-19 pandemic. Moreover, the low share of high value-added products in the structure of the agricultural and food industries, as well as in the production of export-oriented products, reduces the positive economic result in the sector. Such circumstances have already had a negative impact on the level of production in the spring sowing of 2022, and it is expected that the negative impact will be repeated in the autumn sowing as well, which will result in the smaller sowing areas and the consequently worse prospects for the food security of the population. A highly decentralized agricultural production, which includes small-scale agriculture with mixed production systems, produces small amounts of market surplus, and together with a low level of association in producer organizations and a lack of new technologies and knowledge, makes it difficult for farmers to achieve economies of scale in production and produce the quantities needed for foreign and domestic markets, which restricts the growth of agriculture. The impact of the open market, the porosity of borders and the lack of adequate measures to protect domestic production represent a structural obstacle to growth and competitiveness. The impact of climate change and increasingly frequent weather extremes (high temperatures and lack of precipitation caused an extreme drought throughout BiH this summer), as well as the sporadic appearance of contagious diseases that are new to these areas, represent an additional risk not only to the development of the sector, but also to human health. An additional challenge lies in the negative demographic changes in the form of pronounced migration, both the permanent and the rural-urban migration, absence of generational change in agriculture, pronounced migration of women from rural areas due to difficult living conditions and lack of jobs.

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

1. Description of measure

The measure serves the purpose of harmonizing the financial support system with the EU and WTO standards and procedures. Direct payments have been and remain the most important part of the FBiH's agricultural policy. For this reason, it is necessary to implement certain structural changes in this segment. A single payment per hectare should be introduced for all agricultural production, and the calculation base shall be an acceptable hectare of plant production, which is defined in the Law. Change in the financial support system and, first of all, the introduction of direct payments per unit of area, aims to harmonize the agricultural policy and the established administrative and information systems in the FBiH and BiH with the Common Agricultural Policy of the EU (CAP EU), and, on the other hand, it will contribute to the improvement in the competitiveness of domestic agricultural production in the long run. The basic or single payment in plant production will be per unit of land area and hectare of arable land, regardless of the crop being grown. (Measure 1.1.2. – a priority from the new Agriculture Strategy 2021-2027). The aim of the uniform direct support per hectare for all crops is to tie the producer to individual production as little as possible. An additional payment is being introduced for the two strategic types of production to further stimulate the production of wheat and corn (grain) in the increasingly present global crisis and market disturbances. Both of these products have a strategic character in human and animal nutrition. We are largely dependent on the import of wheat for human consumption, so it is necessary to support these agricultural producers.

Improving the competitiveness of agriculture, forestry and water management is one of the strategic goals defined by the Strategic Development Plans in all three strategic sectors: agriculture, forestry, and water management. The priorities defined for the next three-year period are as follows: increasing the scale of production of domestic agricultural products, informatization 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. Harmonization of the legislative and legal framework and strategic programs in terms of their approximation to the framework of the European Union and the common agricultural policy is also one way to improve the competitiveness of the sector. The measure is implemented continuously and represents an ongoing activity towards reaching the European Union average measured by indicators, such as productivity in the sector, the level of investment and employment in the sector.

Activities planned in 2023:

- Implementation of the new Agriculture and Rural Development Strategy 2021-2027 (FMAWMF),
- Law on Financial Support in Agriculture and Rural Development in the FBiH or an amendment to the current one (FMAWMF),
- In the FBiH, upgrade the Register of Agricultural Holdings (RAH), the Register of Domestic Animals, and establish a system for collecting and analyzing the agricultural accounting data (FADN) and maintaining the Agricultural Market Information System (AMIS) (FMAWMF),
- Participate in the implementation of the Agricultural Census (FMAWMF),
- Adoption of the new Law on Agriculture (MAFWM),
- Commence the implementation of the Agricultural Sector Resilience and Competitiveness Project, which will include activities on the creation of information systems, the construction of value chains and the resilience of the agricultural sector to climate change (MAFWM),
- Improve the information systems for the more efficient use of resources and more efficient application of funds, including the systems of the land parcel digitization (MAFWM),
- Improve the market infrastructure for the purchase of domestic agricultural products and support to the contracting of agricultural production and linking of domestic primary agricultural production with the domestic food industry (MAFWM),

- Implementation of new strategic measures to improve competitiveness, productivity and sustainable development, including measures for the introduction of digital technologies, as well as support for circular economy models in the agriculture and food industry sector (MAFWM),
- Commence the implementation of the Economic Development Project (Unit for the Coordination of Agricultural Projects and the MAFWM),
- Implementation of the Action Plan of the Forestry Development Strategy of Republika Srpska 2022–2032.

Activities planned in 2024:

- Decision on the adoption of the Fund Spending Program with the criteria for the allocation of funds as the “subsidy to private companies and entrepreneurs” – “Incentive for Agriculture” determined by the FBiH Budget for 2024 to the Federal Ministry of Agriculture, Water Management and Forestry (FMAWMF),
- Adoption of the Rulebook on integral production and other implementation acts in the FBiH (FMAWMF),
- Upgrade to the software for direct payments in the FBiH, for the purpose of implementing the basic payment measure per ha of the cultivated area and the support measure for additional payment per ha for strategic production (FMAWMF),
- Improve the information systems for a more efficient use of resources and more efficient use of funds (MAFWM),
- Improve the market infrastructure for the purchase of domestic agricultural products and support to the contracting of agricultural production and linking of domestic primary agricultural production with the domestic food industry (MAFWM),
- Implementation of new strategic measures to improve competitiveness, productivity and sustainable development, including measures for the introduction of digital technologies, as well as support for circular economy models in the agriculture and food industry sector (MAFWM),
- Implementation of the Action Plan of the Forestry Development Strategy of Republika Srpska 2022–2032.

Activities planned in 2025:

- Decision on and the Program of financial support in agriculture and rural development for 2025 (FMAWMF),
- Draft the implementation regulations in accordance with the new law (FMAWMF),
- Improve the information systems for a more efficient use of resources and more efficient use of funds (MAFWM),
- Improve the market infrastructure for the purchase of domestic agricultural products and support to the contracting of agricultural production and linking of domestic primary agricultural production with the domestic food industry (MAFWM),
- Implementation of new strategic measures to improve competitiveness, productivity and sustainable development, including measures for the introduction of digital technologies, as well as support for circular economy models in the agriculture and food industry sector (MAFWM),
- Implementation of the Action Plan of the Forestry Development Strategy of Republika Srpska 2022–2032.

2. Result indicators

Indicator	Baseline (2023)	Intermediate target (2024)	Target (2025)
Established information system, that is, the agriculture, water management and forestry database	Two systems being developed (inventorization of land parcels and information system in forestry)	Four systems being developed (inventorization of land parcels, information system in forestry, veterinary information system and information system in water management)	Two systems in operation (inventorization of land parcels, veterinary information system), and two being developed (information system in forestry and information system in water management)
Number of incentive measures, the introduction of digital technologies, as well as support for the circular economy models in the agriculture and food industry sectors	1 measure	2 measures	3 measures
Percentage of the agrarian budget for investments in agriculture	5%	10%	15%
Percentage of the collected funds for special purposes for forests placed for the implementation of the Action Plan of the Forestry Development Strategy	50%	60%	75%

3. Expected impact on competitiveness

Change in the financial support system and, first of all, the introduction of direct payments per unit of area, aims to harmonize the agricultural policy and the established administrative and information systems in the FBiH and BiH with the Common Agricultural Policy of the EU (CAP EU), and, on the other hand, it will contribute to the improvement in the competitiveness of domestic agricultural production in the long run.

The percentage of real growth in the revenue of the agriculture and forestry sector in the GDP of Republika Srpska: the introduction of new information systems and databases will enable a higher degree of control and reliability in all phases of production and other business activities. Increasing the level of financing in investments and modernization of production will contribute to the increase in productivity, and thus the value added of the agricultural sector.

The percentage of increase in the formal employment in the sector, which can be measured by increase in the number of active farms, would be a result of establishing the more favorable conditions for investment in the agricultural sector and the establishment of start-up farms.

Increasing the work productivity in forestry through the production process modernization.

The percentage of coverage of imports by exports in the agriculture, forestry and fishing sector should emerge as a result of the implementation of measures aimed at improving the export capacity of entities in the agriculture sector, as well as the institutions in charge of quality control of the goods in import and export.

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

Financial resources for the implementation of measures are planned in the Budget of the FBiH within the framework of regular resources, that is, in the cantonal and local community budgets for activities related to their contribution to the implementation of the measures.

Reform measure	Expenditure	Sources of financing
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Improving the competitiveness of agriculture, forestry and water management	82,500,000	
Adoption of the new Law on Agriculture, which includes changes in the registration system of agricultural holdings	500,000	Agrarian budget, World Bank loan
Improving the resilience of the agricultural sector to climate change through support for the construction of irrigation systems	30,000,000	RS Budget / World Bank loan
Improve the information systems for the more efficient use of resources and more efficient application of funds, including the systems of the land parcel digitization	2,000,000	RS Budget / World Bank loan
Improve the market infrastructure for the purchase of domestic agricultural products and support to the contracting of agricultural production and linking of domestic primary agricultural production with the domestic food industry	10,000,000	RS Budget / World Bank loan
Implementation of new strategic measures to improve competitiveness, productivity and sustainable development, including measures for the introduction of digital technologies, as well as support for circular economy models in the agriculture and food industry sector	10,000,000	RS Budget / World Bank loan
Implementation of strategic goals in forestry	30,000,000	RS Budget / World Bank loan

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

All projects and programmes that are implemented meet the gender component and this issue is given the necessary importance. The proposed reform measure will in the long term contribute to the improvement in competitiveness of domestic agricultural production and the increase in the number of employees in these activities. All future amendments to the regulatory framework will be harmonized with the provisions of the Law on Gender Equality in BiH in order to respect the gender equality.

The impact of the measure on employment is twofold. On the one hand, improving the productivity and transparency in the sector can contribute to the decrease in the required workforce, especially if the subject of investment is the work process automation, equipment modernization, procurement of mechanization for a wider scope, etc. Besides, the informatization of the process can lead to the reduction in administrative procedures, and hence administrative workers. On the other hand, the increase in productivity and the level of financing in the sector can lead to the inclusion of new entities in agriculture and forestry, the establishment of new start-up companies, and thus the opening of new opportunities for employment and self-employment. Therefore, the short-term impact is weak or negative, and the long-term impact is positive. The measure has a strong long-term qualitative impact, while the quantitative impact is an increase in employment in the agricultural sector by 5%.

The impact of the measure on poverty reduction, that is, on income increase, is twofold and I reflected in a direct income increase per farm or entity (in forestry, it is a forest farm), on the one hand, and the revenue increase or value added at the sector level, on the other hand. In this case too, the greater effect can be measured in the long term, after the implementation of reform measures and the completion of at least one investment cycle. The measure has a strong long-term qualitative impact, while the quantitative impact is a revenue increase in the agricultural sector by 10%.

The impact of the measure on gender equality is relevant for the agriculture sector and neutral for the forestry sector, and relates to the number of women who are farm owners, the number of women who are support measure beneficiaries, the number of women employed in the sector, etc. These indicators are subject to regular monitoring withing the implementation of the agricultural policy measures at the MAFWM. The measure has a strong long-term qualitative impact, while the quantitative impact is rise in the number of women-farm holders by 10%.

6. Expected impact on the environment

The proposed reform measures have no negative impact on the environment.

The impact on the environment relates to the efficient use of both forest and land resources. In this regard, the impact of the measure is relevant both in the short and the long term. The measure has a strong short-term and long-term qualitative impact, while the quantitative impact is an increase in the agricultural area utilized by 10%, as well as increased forest cover through the implementation of afforestation projects.

7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
Absence of agreement and cooperation at all levels of government in the creation and implementation of policies and legal acts, and the establishment of institutional systems for the field of agriculture and rural development in accordance with the EU requirements	High	More coordination in the implementation of the EU assistance in order to implement the necessary reforms
New and stricter policies and legal frameworks in the EU coming into force after 2021	Medium	Timely planning and consideration of possible new challenges
Insufficient financial resources	Medium	Timely planning and implementation of the specified measures
Natural disasters	High	Measures of insurance against natural disasters; Investment in irrigation; Investment in frost protection; Investment in the field of fire protection; Institutional coordination at the level of the Government of Republika Srpska for crisis management caused by natural disasters; Drafting of strategic documents for adapting to climate change
Lack of the budget funds for the implementation of new strategic measures	Low	Contracting the projects financed by the World Bank loans: the Project of Resilience and Competitiveness of the Agricultural Sector and the Project of Development of the Forestry Economy

Tourism

a. Analysis of main obstacles

The strategic framework of the tourism and hospitality sector for the planned three-year period is primarily determined by the improvement of the legal and institutional framework in bringing it closer to European Union standards through a series of directives and regulations that have a direct and indirect impact on the field of tourism in the Federation of Bosnia and Herzegovina. The key obstacles in this field are the lack of an adequate legal framework in the fields of tourism and hospitality, limited budget funds and a lack of human resources. The measure is carried over from the previous year and the activities that were planned the previous year were not implemented, due to the return of the Law on Tourism from the Parliamentary procedure for revision. Currently, the unorganized area of tourism promotion, as well as the absence of electronic registers in the area of tourism and hospitality, is one of the obstacles to the development of the Sector.

In the field of tourism in Republika Srpska, for the planned three-year period, the implementation of strategic policies and legal acts, the realization of measures to reduce the impact of the Covid-19 pandemic, as well as activities to attract foreign tourists are foreseen. The key obstacles are limited budget funds, the epidemiological situation in Republika Srpska and the world, a smaller volume of increase in consumption through the visit of foreign tourists and a decrease in domestic consumption caused by the epidemiological situation.

In Republika Srpska, the strengthening of the tourism sector and increase in tourist traffic will continue in the coming period, and as a continuation of the measure: "Reducing the impact of the consequences of the Covid-19 pandemic on tourism and increasing the number of foreign tourists" from PER RS 2022–2024, which was not transferred to PER RS 2023 –2025. In order to ensure the growth trend of tourism in Republika Srpska, it is necessary to continue the implementation of regular measures and activities determined by the Tourism Development Strategy of Republika Srpska for the period 2021-2027 carried out by the Ministry of Trade and Tourism within its competence. The strengthening of the tourism sector and the increase of tourist traffic in the next programme cycle will be continued through the realization of established strategic goals and through the implementation of planned activities in this area, namely: the issuance of tourist vouchers from the funds of the Compensation Fund of Republika Srpska, which proved to be an effective measure and had a significant role in reducing the impact of the Covid-19 pandemic in the previous period, promoting investment in tourist infrastructure, continuing activities on the implementation of the Tourism Development Strategy, such as investments in spa centers, creation and promotion of new tourist offers, creation of an encouraging environment for tourism development, and development of human resources.

5.2.9.2. Support the development of entrepreneurship in the tourism sector and hospitality in the Federation of Bosnia and Herzegovina - Support for the development of tourism

1. Description of measure

The aim of the measure is to raise the level of competitiveness of the tourism industry, by improving the existing normative regulations in the field of tourism and hospitality in FBiH with the aim of harmonizing regulations and the legal framework with EU legislation. This measure is contained in the Development Strategy of the Federation of BiH 2021-2027.

In the coming period, the tourism and hospitality sector would focus its activities on sustainable tourism, which implies respect for the socio-cultural authenticity of the host communities, preservation of cultural heritage and traditional values, ensuring sustainable, long-term economic activity, which provides socio-economic benefits to all interested parties, including stable employment and the possibility of earning income and social services in households, which contributes to the alleviation of poverty. Also, a significant role in the activities would be the digitalization of the tourism and hospitality sector.

In the first phase, the establishment of the electronic General Hospitality Register in FBiH is planned. Furthermore, the establishment of an electronic General Hospitality Register in FBiH is foreseen, which would include all entities engaged in the hospitality industry, which would contribute to greater transparency of hospitality services in FBiH. Also, this measure should ensure the development of innovative, specialized and common tourist products, as well as the activation of new tourist products with greater added value. This requires an increase in the quality of accommodation capacities and the inclusion of a greater number of local entrepreneurs and their products/services in the destination value chain, which ensures market differentiation based on local and authentic characteristics. Furthermore, it is necessary to consider the redirection of the existing tourist communities in the FBiH into the so-called destination management organization, which can significantly contribute to the establishment of destination tourism and the value chain. Further development of the tourist infrastructure is planned, with the aim of improving the accessibility of transport and other services to visitors, such as well-placed road signs, brown and other signals, and digitization in rural areas. It is necessary to improve the quality of tourist information centers in such a way that a series of highly visible, central points for accessing information will be developed in areas with high visitor traffic; add new information points for visitors in key cities throughout FBiH; provide adequate and comprehensive information about the various thematic activities and experiences available in the cluster, through printed and digital tools, as well as through cross-cluster promotion.

Activities planned in 2023:

- Decision of the Government of the Federation of BiH in order to form a structured working group for formulating policies - Tourism Competitiveness Coalition; (FMET)
- Decision of the Government of the Federation of Bosnia and Herzegovina for the Support Programme focused on accommodation facilities that promote ecological standards and are energy self-sustainable, and enable the application of renewable energy technologies; (FMET)

- Law on Tourism of the Federation of BiH; (FMET)
- Law on Residence Tax of the Federation of BiH; and
- Law on Hospitality in the Federation of BiH, as well as the Tourism Development Strategy in the Federation of BiH 2022-2027; (FMET)
- Health tourism development plan in the field of rehabilitation, dentistry and aesthetic surgery in FBiH with application and strengthening of international quality standards of medical services (FMET)
- FBiH Programme for the revitalization of mountains as well as old traditional houses in abandoned villages for tourist purposes and the programme of tourist services in rural areas to increase income from tourism activities (FMET)

Activities planned in 2024:

- Decision of the Government of the Federation of Bosnia and Herzegovina for the Support Programme aimed at accommodation facilities that promote ecological standards and are energy self-sustainable, as well as enabling the application of renewable energy source technologies. (FMET)
- Digitalization of the tourism sector (Project - Establishment of the electronic General Hospitality Register in FBiH (FMET)
- Drafting of by-laws derived from legal regulations in the field of tourism and hospitality (FMET)

Activities planned in 2025:

- Decision of the Government of the Federation of Bosnia and Herzegovina for the Support Programme aimed at accommodation facilities that work to promote ecological standards and are energy self-sustainable, and enabling the application of renewable energy source technologies (FMET)
- Digitalization and development of tourist infrastructure (FMET)
- Drafting of by-laws derived from legal regulations in the field of tourism and hospitality in FBiH (FMET)

2. Result indicators

Indicator	Baseline (2021)	Intermediate target (2022)	Target (2023)
Arrivals at FBiH	348.733	398.552	1.400.000
Overnight stays in FBiH	664.503	795.432	2.800.000
Number of employees in FBiH tourism sector	35.630	40.720	45.810

3. Expected impact on competitiveness

The implementation of the reform measure will contribute to the growth of competitiveness in the field of tourism. Additional savings will be made available to the private sector when registering and conducting business. Also, the introduction of the electronic General Hospitality Register of FBiH would contribute to greater transparency of hospitality services in the FBiH. The implementation of the measure will contribute to the re-establishment of tourist activity, as the parameters used to monitor the effects of tourism are expected to increase in the coming period.

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

The cost estimate would follow the costs planned in the Tourism Development Strategy of the Federation of BiH 2022-2027, and the source of financing would mainly be the Budget of the Federation of Bosnia and Herzegovina and technical support from the EU and other international organizations.

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

Tourism is a labour-intensive economic activity, and from that aspect it is expected that the implementation of project activities within the Measure will contribute to an increase in the total number of employees, and given that in the tourism sector the female population is the majority of employees, it also contributes to the economic strengthening of women, which ultimately contributes to poverty reduction. Also, the positive effect of the implementation of the Measure is reflected in the reduction of rural-urban migratory movements and the increase in the number of young people who remain in rural areas. (correlation with 1, 2, 8, 10 and 11 UN Sustainable Development Goals).

6. Expected impact on the environment

The implementation of activities within the Measure takes place with minimum negative impact on the environment/climate change. The measure contributes to: an increase in the number of catering establishments that apply ecological standards and properly manage resources, as well as the intensification of tourist activities based on out-door tourism products compared to other activities. In this way, the Measure ultimately contributes to the transition to a circular economy and the reduction of air, water and land pollution (correlation with recommendations 2 and 3 of the Green Agenda for the Western Balkans).

7. Potential risks

Complete and include the Table below for each measure. In the Table, identify the main risks that may affect the implementation of the measure and the actions you will take to minimize the risk or mitigate the effects of the risk if it occurs.

Risk	Probability (low or high)	Planned mitigating action
Untimely passing of laws by the FBiH Parliament	High	Implementation of consultations
Non-execution of activities according to plan caused by the implementation of tender procedures	Medium	Detailed elaboration of project tasks with the provision of logistics (round tables, trainings, panels...) in the preparation of tender documents
Coordination/efficiency of work on the implementation of project activities	Low	The need for joint action of all levels of government in BiH on the implementation of project activities, formation of a working group - tourism competitiveness coalition
Available human resources	Low	Development of new standards of education, competence, skills, improvement of professional/dual education, lifelong learning

5.2.9.3. Support to the processing industry

1. Description of measure

Given the importance of the processing industry in Republika Srpska, in the previous period a framework was established to support business entities operating in the aforementioned area and the following incentive measures have been implemented hitherto: incentives for direct investments, i.e. the introduction of new technology and equipment, and incentives for increasing workers' wages. Recognizing the main obstacles to competitiveness and growth, as well as the great importance of the processing industry, it is necessary to continue providing support, which is reflected in the allocation of incentives for salary increases and direct investments. Significant support to this sector is realized through the application of the Law on Incentives in Economy of Republika Srpska and the Decree on the Procedure for Awarding Incentives for Direct Investments. In this regard, the measure is aimed at supporting business entities in improving competitiveness, faster inclusion and positioning of business

entities within the global value chain with the aim of saving resources, time, and more efficient use of production factors.

The reform was carried over from the previous period and includes several components. The first component represents a response to the needs of the processing industry and includes an instrument of financial support to business entities for improving business efficiency, applying new technologies and encouraging innovation. The second component refers to increasing the productivity of the processing industry of Republika Srpska through encouraging business entities for increasing the wages of workers in the real sector. The third component represents support for the development of a competitive base industry and domestic product. The fourth component represents the improvement of the business environment for companies from the processing industry by improving the regulatory framework through amendments to the Law on Technical Regulations, the new Law on the Production and Transport of Weapons and Military Equipment in Republika Srpska and the new Law on Business Companies.

Activities planned in 2023:

- Support for investment projects for direct investments, monitoring of realization and their effects (MEE),
- Support for investors of special importance (MEE),
- Allocating incentives to increase wages of workers in the real sector (MEE),
- Improvement of the e-incentive application (MEE),
- Mapping the needs and possibilities of the economy for the development of its own product (MEE),
- Preparation of a study on the possibility of producing one's own product (MEE),
- Analyzing data on materials and products imported into Republika Srpska (MEE),
- Amendments to the Law on Technical Regulations, the Law on the Production and Transport of Weapons and Military Equipment, and harmonization of technical regulations with the EU (MEE).

Activities planned in 2024:

- Support for the realization of investment projects for direct investments (MEE),
- Support for investors of special importance (MEE),
- Monitoring the realization and effects of supported investment projects (MEE),
- Promotion of the potential for domestic product development (MEE),
- Making amendments to the Law on Public Enterprises (MEE),
- Harmonization of technical regulations with EU legislation (MEE).

Activities planned in 2025:

- Support for the realization of investment projects for direct investments (MEE),
- Support for investors of special importance (MEE),
- Monitoring the realization and effects of supported investment projects (MEE),
- Promotion of the potential for domestic product development (MEE),
- Defining incentive measures for the development of the domestic product (especially in sectors where we have potential base industries) - MEE,
- Providing support for placing the domestic product on the market (MEE),
- Drafting the new Law on Companies (MEE),
- Harmonization of technical regulations with EU legislation (MEE).

2. Result indicators

Indicator	Baseline (2023)	Intermediate target (2024)	Target (2025)
Number of supported investment projects	200 and more (depending on available funds)	200 and more (depending on available funds)	200 and more (depending on available funds)
Percentage of salary increase compared to the previous year	15%	17%	18%
A mapping of the needs and possibilities of domestic product production and a study on the possibility of producing one's own product was carried out	Mapping for the textile, leather and footwear sector performed, study made	Mapping for the wood processing and metal sector performed, promotion of study results	Mapping for key sectors of the processing industry, promotion of study results
Improved business environment through better legislative framework/law adoption	Drafted Amendments to the Law on Technical Regulations, the Law on the Production and Transport of Weapons and Military Equipment	Drafted Law on Amendments to the Law on Public Companies	Drafted Law on Companies
Number of supported projects of special importance	1	2	3

3. Expected impact on competitiveness

The implementation of the referenced measures will support the survival and development of business entities from the processing industry. The aforementioned will affect the improvement of the business environment, liquidity and maintenance of employment, thus it will directly affect the increase in competitiveness and productivity of the processing industry. The development of the domestic product, both at the micro level and at the sector level, directly contributes to reducing the dependence of Republika Srpska economy on disruptions in the global market. Incentive measures for investments of special importance are aimed at attracting investors who employ a larger number of workers, with higher than average wages, who bring new technologies and have a positive impact on education.

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

At this moment, it is not possible to estimate the costs of implementing the abovementioned measure. Funds to support the implementation of the projects will be provided from the budget of Republika Srpska, and part of the funds for the implementation of the measure will be provided through the support of donors. In DOB 2023–2025, in 2010, funds for the realization of projects in the amount of 23,000,000 KM were planned.

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

By strengthening the competitiveness of companies, prerequisites are created for new employment and the improvement of the social status of employed workers.

6. Expected impact on the environmental protection

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

7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
Unavailability of funds	High	Timely planned funds in DOB 2023-2025 for the implementation of projects in the amount of KM 23,000,000; Activities to find and increase available funds to support the implementation of projects
Insufficient interest of investors to invest in the development of domestic products	Low	Promotion of the potential and possibilities of product placement; Defining incentive measures for investment in basic industry projects and domestic product development
Global economic trends that can affect the interest of foreign investors in investments in general	High	Promotion of domestic economic potential, direct marketing

5.2.10. Education and skills

a. Analysis of main obstacles

The main reason for the implementation of this reform measure is the extremely high percentage of the unemployed, especially young people, which requires measures to increase their employability in terms of the development of quality human resources. The reform, which implies the development of key competencies in the field of secondary and higher education, the creation of new qualifications based on learning outcomes, the alignment of occupational standards and qualification standards with the needs of the labor market, is the only way to accelerate economic development and greater employability.

According to the BiH Statistics Agency, in July 2022, the number of registered unemployed persons in BiH was 361,774, of which 209,754 were women. According to the qualification structure, the largest number of unemployed persons were those with highly-skilled (VKV) and skilled (KV) qualifications, i.e. 114,821, followed by persons with secondary education, i.e. 103,081 of them and 98,983 non-qualified persons. The smallest number of semi-qualified persons (PK) is 5,649, followed by persons with higher education (VŠS) 6,195. The share of the female population in the registered unemployed is 58% or in absolute terms 209 754 female persons. In the female population, the largest number of unemployed persons is with secondary education (SSS) 66,580, non-qualified (NK) 58,340 and with highly-skilled and skilled (KV) qualification - 53,923 female persons.

The quality of primary and secondary education is considerably conditioned by the need to implement a complete curricular reform, harmonizing various educational policy documents, increasing the equipment and availability of educational infrastructure, ensuring the necessary support for every child in the educational process at all levels of government. The system of adult education and lifelong learning is insufficiently functional with insufficient involvement in lifelong learning and education processes. Also, considering the low level of achievement of pupils from BiH on international knowledge and skills surveys (PISA 2018 and TIMSS 2019), the need for interventions, i.e. programme activities, which will influence the improvement and development of pupils' functional knowledge and skills, is recognized. Recognizing the need for lifelong learning of adults in order to be able to follow the trends and requirements of the labor market, the need for programmatic activities with the aim of supporting adult education programmes was recognized, focusing on those that will facilitate the integration of the unemployed into the labor market, primarily women, who are more numerous in this sense according to the employment services' records of the unemployed.

Obstacles to growth and competitiveness in the field of education and skills are: insufficient alignment of enrollment policies with labor market requirements; an insufficiently expressed entrepreneurial-innovative and digital component in the educational process; practical teaching and training carried out outside educational institutions is not available to all pupils to the same extent, lack of mentors in companies; organizing practical classes in conditions of the Covid-19 pandemic, especially if we take into account the availability and equal conditions for acquiring education and training, the development

specifics of the area based on the established needs for employment, and the interest and needs of local self-government units, the labor market and social partners. On the other hand, the analysis of the situation in the labor market indicates insufficient flexibility and low efficiency of the labor market, which result in a low rate of activity and employment, the existence of a high rate of long-term unemployment, and limited opportunities for the integration of young people into the labor market.

a. Reform measures

5.2.10.1. Improve the connection between education and the labor market¹²⁶

1. Description of measure

Improving the quality of education through the development of knowledge and key competencies based on learning outcomes so that young people are ready for a working and living environment in varying conditions. Such an approach to education implies an individual approach to learning, the development of basic and mathematical literacy, and the acquisition of general and specialized knowledge and skills.

The basic prerequisite is the implementation of the qualification framework in Bosnia and Herzegovina, which, among other things, includes the development of occupational standards and qualification standards, as well as new study programmes and curricula based on learning outcomes and key competencies.

The framework for the implementation of the Sustainable Development Goals in BiH is in focus of the 2030 Agenda for Bosnia and Herzegovina. The Education Quality Accelerator emphasizes the need to develop knowledge that will prepare young people for a changing working and living environment and for a sustainable future, focusing in particular on an individual approach to learning, building basic and mathematical literacy, and acquiring general and specialized knowledge, skills and competences, based on learning outcomes.

In the document IPA III Strategic response of Bosnia and Herzegovina for the period up to 2025 and in the Action Fiches, proposals from the field of education for funding from IPA III for the period 2023-2025 are defined. The focus is on the digitalization of educational systems in Bosnia and Herzegovina with an emphasis on primary education; initial and continuous training of teachers and pupils (development of relevant skills and new green and digital competences based on learning and life outcomes and key competences for lifelong learning); modernization of study programmes in higher education and improvement of infrastructure for research activities (equipment of laboratories).

The former name of the measure is "Improving the connection between education and the labor market and strengthening access to and quality of education". The aim of the measure is to increase employment and reduce structural unemployment through harmonizing education with the needs of the labor market. The measure will further influence the improvement and development of functional knowledge and skills of pupils in FBiH.

Furthermore, recognizing the need for lifelong learning of adults in order to be able to follow the trends and requirements of the labor market, the need for programme activities with the aim of supporting adult education programmes was recognized. The mismatch between the needs of the labor market and existing qualifications is evident, especially among women. The problem is also the mismatch of the number and profile of study programmes with social and economic needs, as well as the content of study programmes with clearly defined learning outcomes. In this regard, the goal is to provide support to public secondary schools and higher education institutions for training programmes, professional training and development of adults with a focus on women, projects connecting with the labor market for study programmes of the first and second cycle of studies through quality assurance of study programmes. This measure implies constant monitoring of labor needs, flexibility of HEIs according to the needs of the labor market in terms of introducing courses and training. It is also necessary to increase investments in the continuous education of personnel and to include the economy in the research and development activities of the university.

¹²⁶ The former name of the measure is "Improving the connection between education and the labour market and strengthening access to and quality of education"

The measure is implemented in accordance with the following strategic documents: Development Strategy of the Federation of Bosnia and Herzegovina 2021-2027, Priorities in the Integration of Entrepreneurial and Digital Competence in the Education System in Bosnia and Herzegovina 2019-2030;

Funds from the Budget of the Federation of BiH are distributed throughout the territory of the Federation of Bosnia and Herzegovina, at the proposal of the cantonal ministries of education.

FBiH Programme "Support for training programmes, professional training and improvement of adults with a focus on women for easier integration into the labor market" ensures easier employability. The programme is intended for public secondary schools that conduct and realize training, professional training or improvement programmes and for non-governmental organizations that realize the aforementioned programmes in cooperation with public secondary schools.

Funds are allocated from the Budget of the Federation of Bosnia and Herzegovina on the territory of the entire Federation of Bosnia and Herzegovina on the basis of a public call. In FBiH, the programme "Support to public higher education institutions for projects connecting with the needs of the labor market for study programmes of the first and second cycle of studies" provides financial resources for the implementation of the support programme for public higher education institutions for projects connecting with the needs of the labor market for study programmes of the first and second cycles of study in Federation of Bosnia and Herzegovina.

Funds are allocated to public HEIs on a linear basis from the Budget of the Federation of Bosnia and Herzegovina.

Education should assume one of the key roles in the development of society, and 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, the primary development goal should be the improvement of the educational system through strengthening access to and quality of education. Since curricula are one of the basic components of the education system, from the 2020/2021 school year, new curricula and programmes for a total of 106 professions distributed in 14 professions are being implemented, from the 2022/2023 school year, curricula for the 3rd grades of vocational and technical secondary schools have been approved, which are consistent with modern didactic-methodical requirements and achievements of science. Openness towards other systems and the 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 is a priority of the Republika Srpska.

Although the revision and standardization of occupations has been completed, it is necessary to continuously work on the harmonization of professions and occupations, with the aim of easier adaptation of programme contents to the new requirements of the labor market of local communities (LC). In the context of the sustainable development of LC, it is necessary to work on defining new occupations, needed by the labor market, through the creation of a sample curriculum, which would be monitored in the process of application, and after the evaluation of the programme, the justification of 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. occupational classification, which is subject to constant revision in terms of amendments, in accordance with the needs of the labor market, employers and the business community, with continuous cooperation with educational institutions. The development of the labor market requires a new definition of occupation in accordance with the modern requirements workplace. The strategy of adult education in Republika Srpska for the period 2021 - 2031, for adult education, as a subsystem of the education system, is the first strategic document that provides a planned approach to the development and improvement of adult education in the context of lifelong learning. In order to develop the adult education system to a greater extent, it is necessary to improve the framework in which it is developed and implemented, i.e. to make changes to legal and by-laws and revise the adopted adult education programmes.

Activities carried over from an earlier period:¹²⁷

- Introduction of key competencies in curricula with a focus on digital competencies. (Activities are carried out at the level of the competent authorities)
- Developing a methodology for the evaluation of non-formal and informal learning in order to ensure sufficient passability and recognition of qualifications, and remove obstacles in the efficient monitoring of the labor market. (Activities are carried out at the level of the competent authorities)
- Developing a quality assurance system in secondary professional and higher education, as well as links between the education and training sector and work and employment. (Activities are carried out at the level of the competent authorities)
- Development of guidelines for the field of adult education in BiH in the context of lifelong learning according to valid EU standards (Activities are carried out at the level of the competent authorities)

Activities planned in 2023:¹²⁸

- Creation of a document for career guidance in the process of lifelong learning (Activities are carried out at the level of the competent authorities)
- Evaluation of the Platform for the Development of Preschool Education in Bosnia and Herzegovina (Activities are carried out at the level of the competent authorities)
- Further development of occupational standards and qualification standards for vocational and higher education (Activities are carried out at the level of the competent authorities)
- Development of new study programmes for initial teacher education based on learning outcomes and key competencies, in accordance with occupational standards and qualification standards (Activities are carried out at the level of the competent authorities)
- Strengthening of human capacities in the educational sector with a focus on continuous professional development (Activities are carried out at the level of the competent authorities)
- Support for programmes to develop functional knowledge and skills of preschool children and pupils of public primary and public secondary schools" EUR 163,613.40; (Activities are carried out at the level of the competent authorities)
- Support for training programmes, professional training and improvement of adults with a focus on women for easier integration into the labor market" EUR 51,129.18 (Activities are carried out at the level of the competent authorities)
- Support to public higher education institutions for projects connecting with the needs of the labor market for study programmes of the first and second cycle of study" EUR 51,129.18 (Activities are carried out at the level of the competent authorities)
- Creation of an enrolment policy in accordance with the labor market real needs and the development policies of Republika Srpska, based on assessments of needs in the labor markets of local communities (MEC), harmonization of curricula and programs in secondary education and upbringing with current trends and needs (MEC),
- Defining the minimum standards of knowledge that each pupil must achieve (MEC),
- Creation of catalogue of knowledge by subject programmes (MEC),
- Development of flexible programme contents (MEC),
- Development of new curricula or revision of existing ones in accordance with the needs of the labor market (MEC).

¹²⁷ Activities are carried out at the level of competent educational authorities

¹²⁸ Activities are carried out at the level of competent educational authorities

Activities planned in 2024:¹²⁹

- Development of guidelines for the field of adult education in BiH in the context of lifelong learning according to valid EU standards (Activities are carried out at the level of the competent authorities)
- Further development of occupational standards and qualification standards for vocational and higher education (Activities are carried out at the level of the competent authorities)
- Development of new study programmes for initial teacher education based on learning outcomes and key competencies, in accordance with occupational standards and qualification standards (Activities are carried out at the level of the competent authorities)
- Strengthening of human capacities in the educational sector with a focus on continuous professional development (Activities are carried out at the level of the competent authorities)
- Support for programmes to develop functional knowledge and skills of preschool children and pupils attending public primary and public secondary schools" EUR 184,065.07 (Activities are carried out at the level of the competent authorities)
- Support for training programmes, professional training and improvement of adults with a focus on women for easier integration into the labor market" EUR 51,129.18; (Activities are carried out at the level of the competent authorities)
- Support to public higher education institutions for projects connecting with the needs of the labor market for study programmes of the first and second cycle of studies EUR 51,129.18 (Activities are carried out at the level of the competent authorities)
- Creation of an enrollment policy in accordance with the real needs of the labor market and the development policies of Republika Srpska, based on assessments of needs in the labor markets of local communities (MEC),
- Harmonization of curricula and programmes in secondary education and upbringing with current trends and needs (MEC),

Activities planned in 2025:¹³⁰

- Development of guidelines for preschool education in Bosnia and Herzegovina (Activities are carried out at the level of the competent authorities)
- Further development of occupational standards and qualification standards for vocational and higher education (Activities are carried out at the level of the competent authorities)
- Development of new study programmes for initial teacher education based on learning outcomes and key competencies, in accordance with occupational standards and qualification standards (Activities are carried out at the level of the competent authorities)
- Strengthening of human capacities in the educational sector with a focus on continuous professional development (Activities are carried out at the level of the competent authorities)
- Support for programmes to develop functional knowledge and skills of preschool children and pupils of public primary and public secondary schools" EUR 163,613.40 (Activities are carried out at the level of the competent authorities)
- "Support for training programmes, professional training and improvement of adults with a focus on women for easier integration into the labor market" EUR 51,129.18; (Activities are carried out at the level of the competent authorities)
- Support to public higher education institutions for projects connecting with the needs of the labor market for study programmes of the first and second cycle of studies EUR 51,129.18 (Activities are carried out at the level of the competent authorities)

¹²⁹ Activities are carried out at the level of competent educational authorities

¹³⁰ Activities are carried out at the level of competent educational authorities

- Creation of an enrollment policy in accordance with the real needs of the labor market and the development policies of Republika Srpska, based on assessments of needs in the labor markets of local communities (MEC),
- Harmonization of curricula and programmes in secondary education and upbringing with current trends and needs (MEC),

2. Result indicators

Indicator	Baseline (year)	Intermediate target (year)	Target (year)
Number of new study programmes for initial education (the indicator is at the result level)			2025
% of young people aged 15 to 29 in the total number of the unemployed registered with employment services	22,9% ¹³¹	22%	21%
% of people (aged 25-64) who, after regular education, attended formal and/or informal education in the previous 12 months from the day of the survey	8,1	15	20
Harmonized and coordinated enrollment policies in the field of higher education. (Joint action between local communities; cantonal, Federation and state institutions; HEIs; alumni organizations; professional associations; chambers of commerce; employment offices; businessmen; statistical agencies and all other actors who create enrollment policies at all levels of education for the labor market.)	Supported at least one project of connection with the needs of the labor market at all six public HEIs in FBiH (linear support).	Supported at least one project to connect with the needs of the labor market at all six public HEIs in FBiH (abandonment of linear support and creation of conditions for better use of the Ministry's financial resources - public call).	The highest quality projects are supported (whose holders do not have to be exclusively HEIs).
New curricula (NC)	Curricula for 13 professions and 98 occupations for the 1st class	Curricula for 14 professions and 106 occupations for the 3 rd class	Curricula for 14 professions and 106 occupations for the 4 th class
New curricula for talented and gifted students	Analysis of the needs for the preparation of a curriculum for additional teaching	For secondary education, additional programmes in mathematics for 1 st to 3 rd classes	For secondary education, additional programmes in mathematics for the 4 th class
New curricula for all grammar school courses	Expert consensus on grammar school reform	Analysis of the existing curricula four grammar school courses	Curricula for 1 st class for four grammar school courses
An improved system of education at the employer with the aim of introducing pupils to the world of work as early as possible, with the aim of easier employment	20% of secondary schools have signed contracts on practical teaching with the employer	30% of secondary schools have signed contracts on practical teaching with the employer	50% of secondary schools have signed contracts on practical teaching with the employer

¹³¹ Source: data from the Federation Employment Agency (Bulletin No. 08/22, p. 13)

3. Expected impact on competitiveness

The foreseen measure in FBiH will have a positive effect on competitiveness. Increasing the efficiency of education, and indirectly, the labor market, will significantly affect the competitiveness of Republika Srpska economy, whose ultimate goal is to reduce the unemployment rate. Investing in education at each level generates certain effects at all other levels. Furthermore, the aforementioned investment is reflected in the next levels of education and further learning, as well as the further improvement of education, and has a long-term impact on improving competitiveness and reducing the unemployment rate.

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

In the ERP 2023-2025, realistic cost estimation may be a challenge due to the greater uncertainty of budget frameworks in the process of recovery from the crisis caused by the Covid-19 pandemic. Uncertainties and assumptions related to cost estimates and financing should be explained. Only funds that have already been secured should be planned and the use of the "to be determined" category should be avoided. For measures that require significant financial resources or the costs of which are highly uncertain, a contingency scenario should be developed with an indication of which activities will be implemented as a priority in the event that all planned funds are not available. For measures that do not immediately result in direct expenses (e.g.: loan guarantees or reduction of fees and charges) in this part, the resulting potential liabilities or revenue reductions should be specified.

The financing of the implementation of reform measures is not foreseen in the budget of the BiH institutions. The implementation of the listed measures at the BiH level is planned to be financed from EU funds and other donor funds.

The estimate of the funds needed for the realization of the planned activities at the annual level is: 1,200,000.00 KM (year 2023), 1,250,000.00 KM (year 2024) and 1,300,000.00 KM (year 2025)).

Currently, it is not possible to estimate the fiscal effects, since it is a measure that will be implemented in the medium term.

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

Improving the connection between education and the labor market is a long-term process that requires continuous activity, both from competent institutions and society as a whole.

The expected long-term results of these activities should be an increase in the level of pupils' functional knowledge and skills and better results on international knowledge surveys. We also expect to raise awareness of the importance of lifelong learning and the participation of unemployed adults, primarily women, in training programmes, professional training and improvement, with the aim of improving their own competencies and employability, i.e. integration into the labor market.

Increasing the competitiveness of the economy through increasing the efficiency of the labor market will have a direct impact on employment and the social position of the population. Increasing the efficiency of education, thus the labor market, will affect the competitiveness of the economy and decrease the unemployment rate. Quality primary and secondary education is the basic assumption for the functional and quality development of other levels of education.

6. Expected impact on the environment and climate change

The measure is neutral when it comes to the impact on environmental protection.

7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
Possible problems and risks may be in the lack of readiness for cooperation on the part of the cantonal ministries of education in the implementation of the planned activities	Medium	It is beyond the influence of the Federal Ministry of Education and Science.

Insufficient quality projects reported for support, unsuccessful implementation and delay in implementation.	Medium	Defined criteria and rules. Measurable indicators.
The risk may represent a delay in the payment of funds to the account of the institutions that implement the projects, which may lead to a delay in the implementation of the projects themselves.	Medium	It is beyond the influence of the Federal Ministry of Education and Science.
A large number of partners included in the analysis for each LGU	High	Planning in accordance with the needs of LGUs
Low level of employment of active job seekers	High	Strengthening the mediation function; promotion of lifelong learning
Lack of financial resources	High	The possibility of using donor funds
Insufficiently informed parents about the importance of early learning	Low	A media campaign aimed at promoting the importance of early learning

5.2.11. Employment and labor market

See Chapter 5.1.:

Main Obstacle No. 1: Increase employment, especially of youth, women and other vulnerable groups

5.2.12. Social protection and inclusion

In order to further improve the social protection system in Bosnia and Herzegovina, it is necessary to continuously monitor and carry out a detailed analysis of the situation in this area, taking into account complex and sensitive issues. The obstacle is the improvement of policies at all levels of government in Bosnia and Herzegovina, which should provide effective social protection to all categories of persons of all ages. In this process, there is a risk in terms of the accuracy of the data obtained from the local self-government units that are necessary for the analysis.

Implementation of activities that were not implemented in the previous period due to difficult working conditions caused by the COVID-19 pandemic needs to be improved and implemented. By developing services and access to difficult services for the most vulnerable categories of people, most of the challenges faced by children with developmental disabilities, people with disabilities and the elderly can be eliminated.

The perceived challenge is also the difficulty of developing an efficient, sustainable and fair system of social protection, as well as the protection of families with children, which will be guaranteed the basic and uniform rights of socially vulnerable categories through the harmonization of the legal framework for exercising rights in the field of social protection, with the aim of reducing social exclusion.

The system of social protection and protection of families with children is not sufficiently efficient and sustainable. The legal framework for the basic rights of socially vulnerable categories is not uniform and coordinated with the needs of protecting individuals and families with children. Social exclusion is high and the system of social services does not sufficiently contribute to the reduction of social exclusion.

The assessment of the situation in the field of social protection in the last ten years indicates an increase in the number of beneficiaries, the need for greater allocation of financial resources for the functioning of the social protection system, insufficient capacity of professional workers and financial resources in social protection institutions. In relation to the increase in the number of users of the social protection system, the biggest challenge is the allocation of financial resources for realizing the right to an allowance for assistance and care of another person. This right is not conditional on the income of the individual or the family. Multiple initiatives for changes to the current law by local self-government units point to the foregoing problem. Furthermore, social welfare institutions for housing social welfare beneficiaries face an increase in business costs due to the increase in the cost of labor and the increase in the prices of goods and services. Centers for social work are faced with an increase in the number of users and their

increasingly difficult needs, along with a shortage of professional workers, who are not provided with training programmes in specific areas of work. As a special obstacle, they often have inadequate technical conditions for work. The aforementioned challenges faced by the social protection system point to the need for a comprehensive strategic document in the field of social protection that will provide an answer to better targeting the needs of citizens in certain circumstances in which they find themselves, which will lead to the improvement of the situation of individuals who are not in the position to secure their own existence, as well as of those from risky areas that need help. Furthermore, providing a uniform assessment of disability for all persons with disabilities, regardless of the causes and time of onset of disability, would contribute to the improvement of the assessment of the functional state of users for everyone under equal conditions in the entire territory of Republika Srpska. After a detailed analysis of existing regulations and practices in assessment and referral for the purpose of exercising the rights of children with developmental disabilities and persons with disabilities, the need arises for reform of the system of assessment of children with developmental disabilities and persons with disabilities in Republika Srpska. Also, the fact that there is no unified record of users and potential users of rights and services leads to the need to create a social card that would improve the situation and facilitate the realization of rights in such a way that the data found in the electronic registers would be linked and available when dealing with the rights of social protection users, but they would also serve to analyses the situation and plan certain measures. Also, one of the challenges in the subject area is the insufficiently regulated area of humanitarian activities and public kitchens due to the increase in abuses of sensitive categories of citizens.

In the field of child protection, there is also a need for additional improvement, with the aim of greater coverage of users. Namely, in the period from 2002 to 2022, a total of 36,020 persons, children and supporting staff participated in the Project "Socialization of Children of Republika Srpska". It is important to note that due to the limited accommodation capacities that are currently being rented, it was not possible to include a larger number of children in the implementation of the referenced project.

5.2.12.1. Improve the system of social and child protection

1. Description of measure

Contribute to the improvement and increase of cooperation and coordination between competent institutions in the field of social protection at all levels of government in BiH, which will encourage the building of institutional capacities with longer-term benefits.

Develop an efficient, sustainable and fair system of social protection and protection of families with children that will guarantee the basic and uniform rights of socially vulnerable categories through the harmonization of the legal framework and the establishment of a fair system for the exercise of rights in the field of social protection and protection of families and children and the establishment, improvement and support to the system of social services with the aim of reducing social exclusion. In addition, it is also necessary to ensure a sustainable and efficient system of support for PWDs and CVWs in FBiH, and to improve the social inclusion of marginalized groups (PWDs and CVWs).

As part of the measure, the adoption of the Social Protection Strategy is planned, as well as the implementation of the activities foreseen in it, and the development of action plans. Together with action plans, it should respond to the needs of society and define directions for the further development of social protection policies, as well as for a more effective and efficient connection of social protection policies with development priorities and other sectors. Also, it is planned to establish a Social Protection Institute that will monitor and study social phenomena and problems, prepare analyses and reports on the situation concerning social protection and propose measures, develop standards, criteria and norms for the performance of professional work related to development, monitoring and ensuring the quality of work of employees in the field of social protection. A body for the assessment of children with developmental disabilities and persons with disabilities will be established within the Institute. With the establishment of the Social Protection Institute, the situation concerning the individual needs of users, knowledge and possibilities of empowering users will be better monitored in accordance with the remaining possibilities, along with standards, criteria and norms, and an increase in the quality of the work of professionals will be ensured. Also, as one of the activities, it is planned to prepare a report on the justification of the establishment and analysis of the situation on the ground, as well as the establishment of the Centre for Education of Children and Youth for the entire territory of Republika Srpska based on it. Also, it is

planned to amend the Law on Social Protection or adopt a new law, the Law on Social Card, the adoption of which would provide the technical prerequisites for the establishment of the Social Card Register of Republika Srpska, as well as the Law on Humanitarian Activities.

Bearing in mind the allocation of financial resources for the stated activity, through the project activity of the Public Institution Child Protection Fund "Socialization of Children of Republika Srpska" in the previous period, planning the provision of a facility for the realization of this activity is considered justified. By providing a facility on the seashore or a mountain for the needs of the implementation of the child socialization project, a greater coverage of the project's users would be enabled, those who would have the opportunity to carry out the activities envisaged by the project in even better conditions.

Activities planned in 2023:

- Law on Social Services in the Federation of Bosnia and Herzegovina; (FMLSP)
- Law on Amendments to the Law on Foster Care in the Federation of Bosnia and Herzegovina; (FMLSP)
- Law on social work activities in the Federation of Bosnia and Herzegovina. (FMLSP)
- Ensuring the legal framework and funds for medical expertise in the second instance (Law on the Basics of Social Protection, Protection of CVW and Protection of Families with Children of FBiH and Rulebook on Single Criteria and Procedure for Assessment of Medical Expertise of Health Condition and List of Disabilities which is an integral part of it) (FMLSP)
- Drafting of the Law on the Protection of CVW in FBiH (FMLSP)
- Establishing a register of representative PwDs organizations and CVWO (FMLSP)
- Drafting of the Law on Uniform Principles and Framework of Material Support for PWDs in FBiH (FMLSP)
- Amendments to the Law on Professional Rehabilitation, Training and Employment of Persons with Disabilities in FBiH (FMLSP)
- Development of the Strategy for Improving the Rights and Position of PWDs in the FBiH for the period 2023-2027 (FMLSP)
- Amendments to the Law on the Unified Register of Cash Benefit Beneficiaries, to which FBiH contributions are not paid (FMLSP)
- Strategy for the development of social protection in Republika Srpska - adopted Strategy and developed action plans (MHSW),
- Social Protection Institute - the beginning of the work of the Institute, monitoring and coordination of work, and establishing a body for the assessment of children with developmental disabilities and persons with disabilities within the Institute (MHSW),
- Centre for Education of Children and Youth - preparation of a study on the justification of the establishment of the institution (MHSW),
- Law on Social Protection - analysis of the situation regarding the exercise of rights (MHSW),
- Draft law on the social card - the technical prerequisites for establishing the register have been met, the law has been adopted (MHSW and MLWVDPP),
- Law on Humanitarian Activities (MHSW),
- The law regulates the licensing of social protection institutions and social protection professionals (MHSW),
- Procurement/construction of a facility for the implementation of activities for the implementation of the right to meet the developmental needs of children (MHSW).

Activities planned in 2024:

- Law on the basics of social protection, protection of the CVW and protection of families with children FBiH (FMLSP)
- Drafting of the Strategy for Improving the Rights and Position of PwDs in FBiH for the period 2023-2027 (FMLSP)
- Strategy for the development of social protection in Republika Srpska - Implementation of the activities foreseen in the Strategy and Action Plans (MHSW),
- Centre for education of children and youth - establishment of an institution in accordance with the study (MHSW),
- Law on social protection - adopted a new one or amendments to the existing law (MHSW),
- Law on social card – adopted (MHSW),
- Provision of a facility for the implementation of activities for the implementation of the right to meet the developmental needs of children (MHSW).

Activities planned in 2025:

- Rulebook on the unique criteria and procedure for medical expert assessment of health status and list of disabilities that is an integral part of it (FMLSP);
- Drafting the Strategy for Improving the Rights and Position of PWDs in FBiH for the Period 2023-2027 (FMLSP)
- Monitoring the work and improvement of the Centre for Education of Children and Youth (MHSW),
- Law on social card - application (MHSW).

2. Result indicators

Indicator	Baseline (2023)	Intermediate target (2024)	Target (2025)
The number of drafted Terms of Reference (ToR) for projects within the IPA 2024	-	2	-
The number of beneficiaries who were introduced to rights under the Law on the Basics of Social Protection, Protection of Civilian Victims of War and Protection of Families with Children - NI and CVW	(NI 43700) (CVW 8450)		(NI 45000) (CVW 8250)
Laws adopted within the planned deadlines			
Established register of PWDs and OCVW and stable funding			
Realization of the activities foreseen in the Strategy and action plans	An analysis of the situation in social protection was carried out, the Strategy and action plans were adopted	15% of the measures foreseen in the Strategy have been implemented	30% of the measures foreseen in the Strategy have been implemented
The Centre for Education of Children and Youth was established	Development of the study on the justification of the establishment of the Centre for the education of	The Centre for Education of Children and Youth was established	Functional Centre for education of children and youth

	children and youth		
The Social Card Register of Republika Srpska was established	The analysis was made and the technical prerequisites for the establishment of the Social Card Register were provided	The Law on the Social Card of Republika Srpska was adopted	The Law was implemented
The area of humanitarian activities and public kitchens regulated by law	An analysis of the situation was made and the law adopted	The law in application	The law in application
Operationalization of the Social Protection Institute	The beginning of the work of the Institute for Social Protection	Established body for assessment of children with developmental disabilities and persons with disabilities	

3. Expected impact on competitiveness

We are not able to state in what way and to what extent the implementation of the stated measures will affect competitiveness, economic growth and employment growth, as the main goals of the ERP.

The stated activities as part of this measure will affect the improvement of the living conditions of the beneficiaries of social protection, as well as the working conditions and competences of the employees in social protection, which will affect the fairer targeted distribution of funds to those who are unable to independently provide the necessary support, with the aim of improving the quality of services provided and realized rights to end users. The competitiveness of the measure is also reflected in the creation of conditions for the use of the facility owned by Republika Srpska in order to reduce the project implementation costs.

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

We are currently unable to present an estimate of the funds needed to implement all of the above-mentioned activities. Namely, before passing the law, it is necessary to carry out an assessment of the impact of the census, which should be the basis for the legislator to choose the option he will opt for.

Name of the measure	2023	2024	2025	Total
Measure 1	288.235.100,00	290.270.100,00	293.320.100,00	871.825.300,00
Measure 7	50.000,00	50.000,00	50.000,00	150.000,00
				871.975.300,00

It is estimated that the annual amount of funds for the implementation of this measure will be around BAM 7,650,000. The amount of BAM 650,000 for the work of the Institute, about BAM 1,000,000 for the establishment of the Centre for Education of Children and Youth, about BAM 650,000 for the work of the Centre, about BAM 6,000,000 for the establishment of the Social Card Register. The provision of the facility for the realization of activities for the implementation of the right to meet the developmental needs of children is roughly estimated at BAM 10,000,000.

The source of funding is the budget of the Republika Srpska and the own income of the Institute and the Centre for Education of Children and Youth.

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

Adoption of the Law on Social Services in the Federation of Bosnia and Herzegovina and the Law on Social Work Activities in the Federation of Bosnia and Herzegovina can be expected to have a positive impact on employment. The implementation and improvement of the aforementioned regulations and documents will have a preventive effect on the social exclusion of PWDs and CVWs and improve their inclusion in all aspects of life.

All the measures foreseen in the document form an integral part of the overall changes in society and will have a positive impact on reducing poverty, improving the social and economic situation on the entire territory of Republika Srpska.

6. Expected impact on the environment

Neutral influence.

7. Potential risks

Bearing in mind that according to the Constitution of the Federation of Bosnia and Herzegovina, social policy is the responsibility of the Federation and cantonal authorities, we note that in the implementation of these activities, problems are encountered related to the non-provision of support by the cantons during the adoption of these laws, especially related to the provision of financial resources necessary for their enforcement.

Risk	Probability (low or high)	Planned mitigating action
In accordance with the Constitution of the Federation of BiH, social policy is the responsibility of the Federation and cantonal authorities, and cantonal support is necessary in the implementation of policies	Medium	Adequate consultation process
Undercapacity of the Sector for Social Protection and Protection of Families with Children	Medium	Increase in the number of employees in the Sector
Realization of the activities foreseen in the Strategy and action plans	An analysis of the situation in social protection was carried out, the Strategy and action plans were adopted	15% of the measures foreseen in the Strategy have been implemented
The Centre for Education of Children and Youth was established	The study on the justification of the establishment of the Centre for education of children and youth was made	The Centre for Education of Children and Youth was established
The Social Card Register of Republika Srpska was established	The analysis was carried out and the technical prerequisites for the establishment of the Social Card Register were provided	The Law on the Social Card of Republika Srpska was adopted

The area of humanitarian activities and public kitchens regulated by law	An analysis of the situation was done and the law adopted	The law in application
Operationalization of the Institute for Social Protection	The beginning of the work of the Institute for Social Protection	Established body for assessment of children with developmental disabilities and persons with disabilities
Human resources – professional capacities, monitoring and evaluation	Low	Continuous monitoring of the needs of professionals and planning of adequate measures to solve the problem
Work conditions - monitoring and evaluation	Low	Analysis of the needs of institutions for the improvement of working conditions, planning and allocation of funds
Material resources - monitoring and evaluation	High	Timely allocation of budget funds, both Republika Srpska and local self-government unit funds, for vulnerable categories of the population
Acceptance of responsibility and user participation	High	Working with users with remaining capabilities that contribute to the improvement of their functioning

5.2.13. Health care systems

a. Analysis of main obstacles

The Constitutions at all levels in Bosnia and Herzegovina oblige the competent authorities to ensure the conditions for exercising the right to health and health care, which are defined by international documents as basic human rights. In order to provide accessible, efficient and high-quality health care that meets the needs of the population, competent authorities must rationally use available resources and monitor health care costs.

The costs of the health systems in Bosnia and Herzegovina are monitored through the National Health Accounts (NHA). The purpose of the analysis of indicators of health financing and health spending is to indicate the possibilities offered by NHA as a basis for health policies at the macro level. The indicators provide information on general trends in healthcare spending in BiH and enable international comparisons that point to areas in which BiH differs from other European countries.

According to the latest available data from the National Health Accounts of Bosnia and Herzegovina, in 2019 a total of 9% of GDP was allocated to healthcare in Bosnia and Herzegovina, of which 70% is public expenditure and 30% private.

Most of the money is allocated for hospital treatment. In 2019, more than half of the total spending on healthcare was spent on treatment and rehabilitation services, while a quarter of the funds were spent on medicines and medical devices. About 2.3% is spent on the administration and management of health systems, which is a decrease compared to the previous year when it was 2.5%.

Spending on healthcare may require even greater expenditures due to the aging of the population, but also the impact of Covid-19, and due to the fact that treatment becomes more "expensive" with the introduction of new technologies and a greater range of laboratory findings and treatment methods.

In 2020, the highest general mortality rate was recorded in Bosnia and Herzegovina, 12.8 per thousand, which can be partially explained by the aging of the population and the impact of the Covid-19 pandemic. The largest share of deaths is related to cardiovascular diseases (45%), the second cause of death is malignant neoplasms (18%), while the third was Covid-19 (10%).

In order for the work of health systems in BiH to be more efficient and successful, which will result in the improvement of the health of the population, it is necessary to reform health care systems, and special

attention should be paid to reducing spending in health care without jeopardizing the quality of health care, i.e. better distribution of funds in the health care sector. Thanks to better cost control and greater fiscal responsibility, it will be possible to achieve savings in health systems and direct these funds to increase the quality of health services, as well as preventive programmes. Furthermore, it is necessary to strengthen/modernize the capacities of competent institutions in the field of health in Bosnia and Herzegovina in order to enable more efficient provision of quality health services to patients in health institutions and to strengthen the application of mechanisms that will contribute to raising the level of preparedness and response to emergency health situations in the field of health in Bosnia and Herzegovina.

A major problem in the public sector (public health institutions and health insurance institutes) of the Federation of Bosnia and Herzegovina is represented by significant accumulated losses from the previous period, total liabilities and claims. The disparity between liabilities and receivables indicates liquidity problems of these healthcare institutions. Also, the problems in the health care of the Federation of BiH can be further illustrated by the fact that in previous years the public sector has continuously reported a consolidated loss, mostly at public health institutions, as well as, in certain years, at certain health insurance institutes, especially if it is taken into consideration longer period of time.

The above represents a great risk for the financial sustainability of the public health system in the Federation of Bosnia and Herzegovina, which is ultimately a risk for preserving the achieved level of safety and quality of health services provided to the population and ensuring their availability.

The Covid-19 pandemic and the economic crisis caused by the crisis in Ukraine had an additional effect on the growth of the costs of goods and services in the field of health, and on the extension of the deadlines for the implementation of current investment projects, as well as the planned deadlines for the start of the implementation of certain investment projects. Systems around the world are facing similar challenges and are trying to find the most effective ways to deal with the growing challenges in the health sector and create measures to improve the effectiveness and ability of the health sector to respond to all challenges. Ensuring the long-term sustainable development of any organizational system is becoming a more difficult and complex task every day. This statement applies primarily to non-economic organizational systems, which include health institutions, including primary, secondary and tertiary levels of health care. In a particularly challenging position, when it comes to sustainability and efficiency, there are institutions of secondary and tertiary level of health care, that is, general hospitals and clinical centers. The challenges for the next period in the area of the health care system, in addition to overcoming the consequences of the global pandemic and global crises, are especially related to the aging of the nation, the growth of malignant diseases, monitoring modern technologies of medical equipment and treatment methods, population migration, ensuring the appropriate structure of health workers and preserving sustainable financing of the health care system.

5.2.13.1. Reforming the health system and strengthening governance and financial sustainability

1. Description of measure

Healthcare systems in Bosnia and Herzegovina should further strengthen and improve the capacities of competent institutions in order to enable the efficient provision of quality healthcare services to patients, in accordance with constitutional competences. This includes the application/piloting of new service delivery concepts for certain target groups. Also, there is a need for further improvement of existing mental health services as a result of the COVID-19 pandemic. Application of modern IT, electronic and telecommunication achievements in healthcare systems, i.e. provision and provision of healthcare services based on the use of electronic and communication technologies (telemedicine). Development/further improvement of tools and practices of collaboration, research and education of health professionals using ICT-supported services. Improvement of technical working conditions in healthcare institutions.

The emergency situation caused by the COVID-19 pandemic indicated the need to further strengthen and improve the preparedness of health systems for such situations and the capacity to respond to them, as well as mechanisms related to the implementation of International Health Regulations (International Health Regulations - IHR) in Bosnia and Herzegovina, in accordance with constitutional competences.

The Government of the Federation of Bosnia and Herzegovina is determined to implement reforms in the health care sector and to create legal, financial and technical preconditions in the coming period for the settlement of outstanding obligations of public health institutions and the prevention of further debt accumulation. The stated measure is also defined in the Development Strategy of the Federation of Bosnia and Herzegovina for the period 2021-2027, as well as in the Work Plan of the Federal Ministry of Health. To implement this measure and achieve the defined goals, it is necessary to carry out additional informatization of the health system, which is necessary for decision-makers at all levels of the health system, to identify problems and needs, enabling evidence-based decision-making and adaptation to EU requirements. The implementation of this measure will contribute to the creation of preconditions for comprehensive reforms in the health sector aimed at improving the quality of health care and the financial sustainability of the health system in FBiH, as well as to more efficient management at all levels in health institutions and health insurance institutes.

The strategic commitment of the Government of Republika Srpska is to provide for the settlement of outstanding obligations of public health institutions and the Health Insurance Fund from the previous period in the following period, and to complete the process of introducing public health institutions into the treasury system of operations. In this regard, the Government of Republika Srpska and the health system institutions of Republika Srpska managed to stop the growth of unpaid obligations of public health institutions in the previous period, by establishing a regular dynamic of settling current obligations for taxes and contributions. The government also allocated funds from the budget of the Republika Srpska to settle the obligations of a certain number of public health institutions and ensured the introduction of the relevant institutions into the treasury system without financial obligations from the previous period. The government is also continuously implementing the Programme for the settlement of obligations based on contributions for pension and disability insurance of employees in public health institutions 2021-2026. In this way, it will contribute to the preservation of fiscal discipline within the health system, and create prerequisites for the system structural reform, which will be based on the standardization of the network of health institutions, the preservation of the continuity of operations of public health institutions, continuous investment in staff education, construction, reconstruction and equipment facilities, updating the package of health care services, and finding new models/sources of financing health insurance. The goal of the health system reform is to ensure the financial sustainability of the system and better health care for the population.

As part of the aforementioned reform activities, in 2022 the National Assembly of Republika Srpska adopted the new Law on Health Care, the Law on Health Documentation and Records in the field of health and the Law on Compulsory Health Insurance. In the coming period, the preparation/updating of by-laws in accordance with the abovementioned new set of laws will follow, as well as their implementation.

Activities planned in 2023:

- Ensure the continuity of the work of the Commission for the Implementation of International Health Regulations (IHR 2005) in Bosnia and Herzegovina. (MCA BiH, MHSW RS, MH FBiH)
- Ensure the participation of health professionals from Bosnia and Herzegovina in professional education/training/simulation exercises on the topic of preparedness and response to emergency situations in the field of health (MCA BiH, Ministry of Health of RS, Ministry of Health of FBiH)
- Realization of the Financial Consolidation and Restructuring Programme of individual health institutions for BAM 75 million provided for by the Law on Financial Consolidation and/or Restructuring of Public Health Institutions in the FBiH from the FBiH Budget (FMH);
- Support to the management of health institutions, Federal and Cantonal Health Insurance Institutes and Ministries of Health to strengthen internal needs for analysis, planning of reforms, pilot testing and evaluation of reforms; strengthening skills in the preparation of plans for the restructuring and financial consolidation of health care institutions (FMH)
- Conduct a situational analysis of information and communication technologies (ICT) in the Federation of BiH (FMH);

- Realization of the COVID-19 Project, with the aim of improving work in the health sector to respond to the pandemic (MHSW),
- In cooperation with the Ministry of Finance, defining the plan for the settlement of tax obligations of health centers, models and sources of financing (Ministry of Health, Ministry of Finance),
- Preparation of human resources plans for a period of five years by public health institutions (PHIs and MHSW),
- Adoption of the new Law on Activities in Healthcare (MHSW),
- Implementation of the Project for the construction and equipping of a new hospital in Doboj (Doboj Hospital, MHSW),
- Implementation of the Project for the construction and equipping of a new facility for stationary traffic of PHI UCC RS (UCC RS, MHSW).

Activities planned in 2024:

- Implementation of the Financial Consolidation and Restructuring Programme of individual health institutions for BAM 75 million from the FBiH Budget (FMH);
- Drafting and revision of by-laws that regulate the field of ICT in healthcare in the Federation of BiH (e.g.: Rulebook on the definition of the architecture of the health-information system of primary health care and other regulations for which the need arises after the analysis) (FMH);
- Procurement and installation of IT and network equipment according to the recommendations of the situation analysis (FMH);
- Development of software to enable healthcare institutions and Health Care Insurance (HCI) to improve budget planning, execution and monitoring, including their reporting on outstanding obligations, debts and financial risk (FMH);
- Development of integrated dashboards for hospitals that provide information on resources, activities and key performance indicators (including feedback from service users, e.g. waiting lists).
- Establishing a publicly available database on outstanding obligations per health facility.
- Training of health and non-health workers in the use of ICT, reporting, etc. (healthcare facilities, health care facilities, PHI)
- Drafting of an act on the nomenclature of health services at the primary, secondary and tertiary levels of health care (MHSW),
- Realization of the electronic health record and electronic health referral within the health system of Republika Srpska (FEI, PHI, MHSW),
- Finding new models/sources of financing the health system (MoF, Ministry of Health, Ministry of Health, Ministry of Health, Government of Republika Srpska),
- Realization of the Reconstruction and Extension Project of Orthopedic Surgery in Slatina ("Dr. Miroslav Zotović" Institute, MHSW),
- Realization of the Programme for settlement of obligations based on contributions for PII of employees in PHI 2021–2026. year (MHSW).

Activities planned in 2025:

- Further support for capacity building in the field of management of institutions and institutions in the health sector (continuous education, procurement of necessary equipment, professional supervision, etc.)
- Strengthening capacity for procurement (e.g. expensive drugs, medical aids ...)
- Capacity building for more effective contracting of health services

- Support for further improvement of information systems (FMH)
- IT support for the reporting system for the needs of public health (FMH).
- IT support for health service quality monitoring (FMH)
- Establishing a register of health workers (MHSW, PHI),
- Determining/updating the prices of DRG services in the health system (HIF, HI, MHSW),
- Adoption of the Plan of the network of health institutions in Republika Srpska (local self-government units, Ministry of Health, the Government of Republika Srpska),
- Implementation of the Project for the construction and equipping of a purpose-built facility for the provision of health care for patients with malignant diseases at the PHI UCC RS (UCC RS, MHSW),
- Implementation of the Project for the construction and equipping of a new hospital in Trebinje (Trebinje Hospital, MHSW),
- Implementation of the Prijedor Hospital Capacity Improvement Project (Prijedor Hospital, MHSW),
- Implementation of the Programme for settlement of obligations based on contributions for PDI of employees in public health institutions of Republika Srpska 2021–2026. (MHSW).

2. Result indicators

Indicator	Baseline (2023)	Intermediate target (2024)	Target (2025)
The indicators will be defined later in the IPA III 2024 programming process, after the activities have been defined. Number of health professionals trained in preparedness and response to emergency situations in the field of health. Continuous work of the Commission for the Implementation of International Health Regulations (IHR 2005) in Bosnia and Herzegovina.			
Accumulated debts of public health institutions (reduction in %)	224,6 mil BAM (2021)	25% (2022)	35% (2024)
Computerized primary, secondary and tertiary health care in cantons	2/10 (2022)	3/10 (2023)	4/10 (2025)
The Law on Activities in Health Care was passed	Adopted Law	Passed by-laws	Application
Introduction of health centers into the treasury system	5	10	10
Realized electronic health referral within the health system of Republika Srpska	Primary and secondary level of HC	Tertiary level of HC	Full application

3. Expected impact on competitiveness

The reform of the healthcare system will establish a financially sustainable system, which will enable more efficient health care and thereby improve the health of the population, thus enabling better work productivity and efficiency. Also, the settlement of arrears of PHI based on taxes and contributions from previous years will have a positive impact on the income side of the Republic's budget and related creditor funds for calculated contributions, which will be able to use the relevant funds to improve competitiveness and capital spending.

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

Estimate of costs and sources of financing of planned activities within the framework of the reform measure, given in Tables 10a. and 10b., refer to the total estimated needs of funds for the settlement of arrears of public health institutions from previous years and the realization of planned capital investments in the amount of about 745,598,199 BAM. The planned structure of sources of funding for the estimated needs is: 178,634,000 BAM from the budget of Republika Srpska, 137,240,591 BAM from project loans, and for 429,723,608 BAM it is necessary to determine the sources and method of financing.

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

The implementation of the measure aims to achieve more transparent and efficient management, especially financial management and cost control, which will ultimately lead to the provision of better quality services and a better and more rational organisation of work within healthcare institutions. By standardising the network of health care institutions, it is possible for the analysis to indicate that the existence of some health care institutions is not justified, which may affect the reduction of the number of employees in those institutions. The implementation of the rest of the activities of the reform measure will have a positive effect on the employment of younger staff, work conditions, the standard of employees, the quality of health care and the like.

6. Expected impact on the environment

The impact of the measure on the environment and climate change is neutral. The implementation of the measure will have a positive impact on environmental protection, primarily in the construction of new energy-efficient buildings.

7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
Insufficient human resources to carry out the planned activities.	Low	Competent institutions will provide the necessary human resources that will be hired to carry out the activities.
Insufficient financial support for the implementation of activities in the planned scope.	Low	Competent institutions will choose the concept of implementation of the activity that will be adapted to the available budget.
Increase in costs in the health care system due to the increase in the prices of medicines and consumables, energy sources, etc.	High	Development of a new Tariff for health services
Lack of financial resources	High	Negotiation with international donors and creditors with the aim of finding missing financial resources
Health and economic consequences caused by the Covid-19 pandemic	High	The relevant reform measure, as well as other measures of competent decision-making instances with the aim of strengthening health care
Consequences of the global crisis caused by the crisis in Ukraine	High	The relevant reform measure, as well as other measures of competent decision-making instances
Inflation and availability/provision of sources of financing	High	The relevant reform measure, as well as other measures of competent decision-making instances

6. THE COST AND FINANCING OF STRUCTURAL REFORMS

Regarding the costs and sources of funding for structural reforms, an estimate of the costs of activities and sources of funding for individual reforms is given in Chapter 5 for the Federation of Bosnia and Herzegovina, and for the level of Bosnia and Herzegovina and Republika Srpska in Chapter 4. In some cases, at the moment, there was no it is possible to estimate costs and/or funding sources, while some of the activities do not require additional 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 4./5. by individual reforms.

7. INSTITUTIONAL ISSUES AND STAKEHOLDER INVOLVEMENT

The Economic Reform Program (PER) 2023-2025 cycle was officially launched by the European Commission on June 22, 2022.

PER BiH 2023-2025 was prepared with the participation of the following public authorities: Directorate for Economic Planning of BiH, Ministry of Finance and Treasury of BiH, Ministry of Foreign Trade and Economic Relations of BiH, Ministry of Communication and Transport of BiH and Ministry of Civil Affairs of BiH with the participation of entity coordinators and ministries.

The Council of Ministers considered the Proposal of the Activity Plan of the Program of Economic Reforms of Bosnia and Herzegovina for the period 2023 - 2025, the European Commission's Assessment of the Program of Economic Reforms of Bosnia and Herzegovina for the period 2022 - 2024, and the Guidelines for the Economic Reform Programs of the Western Balkans and Turkey from 2023 to 2025 at the 57th session of the Council of Ministers of Bosnia and Herzegovina on November 9, 2022 and concluded in this regard: - The Council of Ministers of Bosnia and Herzegovina adopted the Activity Plan of the Program of Economic Reforms of BiH 2023-2025, The European Commission's assessment of the BiH Economic Reform Program 2022-2024 and the Guidelines for the 2023-2025 Economic Reform Programs of the Western Balkans and Turkey; - the Directorate for Economic Planning of Bosnia and Herzegovina is tasked with coordinating the Program of Economic Reforms of Bosnia and Herzegovina for 2023-2025 at the level of Bosnia and Herzegovina in cooperation with entity coordinators and the Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina, the Ministry of Communications and Transport of Bosnia and Herzegovina, the Ministry of Civil Affairs of Bosnia and Herzegovina, the Ministry of Finance and Treasury of Bosnia and Herzegovina and, if necessary, other institutions of the Council of Ministers of Bosnia and Herzegovina, implement the Activity Plan in accordance with the Guidelines for Economic Reform Programs 2023-2025. of the Western Balkans and Turkey, and prepare the document Program of Economic Reforms of Bosnia and Herzegovina for 2023-2025, within the deadlines set by the Activity Plan of the Program of Economic Reforms of BiH 2023-2025; - the Directorate for Economic Planning of Bosnia and Herzegovina is tasked with informing all competent institutions about the obligation to implement the Activity Plan of the Economic Reform Program of Bosnia and Herzegovina for 2023-2025. in accordance with the Guidelines for Economic Reform Programs 2023-2025 of the Western Balkans and Turkey.

All feedback, comments and suggestions received as part of the stakeholder consultation process were forwarded to the relevant ministry/agency for consideration and inclusion, at their discretion, in their revised contributions to the PER.

As part of the process of developing the PER RS 2023–2025, the Government of the Republika Srpska, at its 185th session held on September 1, 2022, considered and adopted the Information on activities on the development of the Program of Economic Reforms of the Republika Srpska for the period 2023–2025. and the coordination of activities related to the preparation of the BiH Economic Reforms Program for the period 2023–2025.¹³² Also, the Government of Republika Srpska has appointed a Team for the preparation of the Program of Economic Reforms of Republika Srpska for the period 2023–2025.¹³³ and tasked all ministries to fully participate in the process of creating PER RS 2023-2025, perform diagnostics, analyze the situation, identify key obstacles to competitiveness and sustainable and inclusive growth, as well as to make proposals for key reforms for the next period, which would be eliminated previously identified obstacles, as well as obstacles caused by the covid 19 pandemic and the crisis in Ukraine. Furthermore, the Government of Republika Srpska tasked the coordinators from Republika Srpska to carry out the process of drafting the BiH Economic Reform Program 2023–2025 exclusively in such a way that Republika Srpska remains clearly visible in the process and document, in accordance with the constitutional powers and competences of institutions of Republika Srpska.

¹³² Decision of the Government of the Republika Srpska No. 04/1-012-2-3295/22 of 1 September 2022.

¹³³ Conclusion of the Government of the Republika Srpska No. 04/1-012-2-3258/22 of 1 September 2022.

The basic framework for the preparation of the PER RS Proposal 2023–2025 are the Memorandums on joint policies and measures signed in December 2017 with the social partners of the Government of the Republika Srpska, the Guidelines for Economic Development prepared by the Government of the Republika Srpska together with representatives of the Union of Employers' Associations of the Republika Srpska and Privredna Chamber of the Republika Srpska, Work Program of the Government of the Republika Srpska for the mandate period 2018–2022. year, Joint socioeconomic reforms for the period 2019–2022. of the year, proposals of the social partners of the Government of Republika Srpska, i.e. the Union of Employers of Republika Srpska, the Chamber of Commerce of Republika Srpska and the Union of Trade Unions of Republika Srpska for PER RS 2023–2025, Opinion of the European Commission on BiH's request for membership in the European Union, Policy Guidelines of the European Commission adopted in May 2022¹³⁴ as well as the European Commission's Assessment for PER 2022–2024¹³⁵.

During the process of developing diagnostics, analyzing the situation and defining the reform draft, consultations were held and proposals were requested from the social partners of the Government of the Republika Srpska, i.e. the Union of Employers of the Republika Srpska, the Chamber of Commerce of the Republika Srpska and the Federation of Trade Unions of the Republika Srpska, which were partially taken into account when drafting the reform plans. measures and activities. Also, in the organization of the Union of Employers of the Republika Srpska, as part of the contribution to the creation of PER RS 2023–2025, on September 20, 2022, a business conference was held under the name: "Challenges and the future of business", in which all relevant actors from the Government took part. Republika Srpska. The conference is part of the good practice of the Union of Employers of the Republika Srpska in the development of the Program of Economic Reforms of the Republika Srpska, and was organized as part of the implementation of the project: "Contribution of civil society organizations to improving the impact of entrepreneurship on the socio-economic development of BiH - EISE" financed by the European Union and implemented Union of Employers of the Republika Srpska. The panels of this year's conference cover the following topics: 1) Challenges and the future of business, 2) New business reality - risks and opportunities, 3) Human capital in the era of automation and digitalization, and 4) Energy stability as a prerequisite for economic growth.

It is important to note that the Memorandum on joint policies between the Union of Employers and the Government of Republika Srpska is being prepared. After its adoption, it will represent the framework for the development of economic reform programs in the future.

As part of 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 as part of the project: "Strengthening the capacity of line ministries to assess the fiscal implications of structural reforms", which is financed from the funds of the Multi-Beneficiary IPA of the European Union.

Bearing in mind all of the above, and with the intention of fully following the methodology and guidelines of the European Commission for the preparation of documents defining economic policies for the next medium-term period, the Proposal for PER RS 2023–2025 is submitted for the seventh time to the National Assembly of the Republika Srpska for consideration and adoption.

¹³⁴ Joint Conclusions of the Economic and Financial Dialogue process between the European Union and the Western Balkans and Turkey were published on 24 May 2022 – Joint Conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey, 24 May 2022, 9459/22, <https://www.consilium.europa.eu/en/press/press-releases/2022/05/25/western-balkans-and-turkey-joint-conclusions-of-the-economic-and-financial-dialogue-of-24-may-2022/>.

¹³⁵ Commission Staff Working Document Economic Reform Programme of Bosnia and Herzegovina (2022–2024) Commission Assessment, Brisel, 20. 4. 2022. SWD (2022) 121 final, https://ec.europa.eu/info/publications/2022-economic-reform-programmes-albania-montenegro-north-macedonia-serbia-turkey-bosnia-and-herzegovina-and-kosovo-commissions-overview-and-country-assessments_en.

ANNEX 1: TABLES TO BE CONTAINED IN THE ECONOMIC REFORM PROGRAMMES AND THEIR UPDATES

Table 1a: Macroeconomic prospects

	ESA Code	2021	2021	2022	2023	2024	2025
		bn EUR	Rate of change				
1. Real GDP at market prices	B1*g	19.499	7.6	2.7	1.7	2.7	3.0
2. Current GDP at market prices	B1*g	20.411	12.6	10.2	6.3	5.4	5.5
Components of real GDP							
3. Private consumption expenditure	P3	13.410	4.6	0.8	0.3	0.4	1.2
4. Government consumption expenditure	P3	3.758	3.1	1.8	0.4	0.6	0.5
5. Gross fixed capital formation	P51	4.113	4.8	2.5	2.8	3.6	5.7
6. Changes in inventories and net acquisition of valuables (% of GDP)	P52+P53	0.908	4.7	5.7	6.0	6.6	7.1
7. Exports of goods and services	P6	7.562	24.6	15.2	6.6	6.8	7.3
8. Imports of goods and services	P7	10.252	20.5	12.0	4.7	4.6	5.7
Contribution to real GDP growth							
9. Final domestic demand		21.3	4.9	1.4	0.9	1.1	2.1
10. Change in inventories and net acquisition of valuables	P52+P53	0.9	4.0	1.4	0.5	1.1	0.8
11. External balance of goods/services	B11	-3	-1.4	-0.1	0.3	0.5	0.2

Table 1b: Price developments

	ESA Code	2021	2022	2023	2024	2025
1. GDP deflator	% yoy	4.7	7.3	4.5	2.6	2.4
2. Private consumption deflator	% yoy	2.2	10.5	4.5	2.3	2.2
3. HICP ¹³⁶	% yoy	:	:	:	:	:
4. National CPI change	% yoy	2.0	13.1	6.7	3.1	2.2
5. Public consumption deflator	% yoy	2.5	8.5	3.8	2.5	2.5
6. Investment deflator	% yoy	4.0	7.0	1.8	1.8	1.8
7. Export price deflator (goods & services)	% yoy	11.5	7.6	2.6	2.0	1.9
8. Import price deflator (goods & services)	% yoy	5.1	11.1	1.3	1.3	1.4

¹³⁶ Agency for Statistics of Bosnia and Herzegovina does not publish HICP.

Table 1c: Labour markets developments

	ESA Code	2021	2021	2022	2023	2024	2025
		Level	Level/Rate of change				
1. Population (thousands)			3,470.5	3,462.4	3,453.9	3,444.8	3,435.2
2. Population (growth rate in %)			-0.2	-0.2	-0.2	-0.3	-0.3
3. Working-age population (persons)			2,320	2,296	2,296	2,296	2,296
4. Participation rate			60.0	59.8	59.8	59.8	59.8
5. Employment, persons			1,151	1,158	1,164	1,175	1,192
6. Employment, hours worked			:	:	:	:	:
7. Employment (growth rate in %)			-1.9	0.6	0.5	1.0	1.4
8. Public sector employment (persons)			200.8	203.4	:	:	:
9. Public sector employment (growth in %)			0.8	1.3	:	:	:
10. Unemployment rate			17.4	15.7	15.3	14.4	13.1
11. Labour productivity, persons		33.1	9.6	2.1	1.2	1.7	1.6
12. Labour productivity, hours worked			:	:	:	:	:
13. Compensation of employees	D1	17.8	6.4	:	:	:	:

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).

Source: <https://bhas.gov.ba/News/Read/42?lang=en.%20In%202021>

From 2021, Labour Force Survey in Bosnia and Herzegovina was carried out under the new, redesigned methodology harmonized with the new Regulation of the European Parliament and the Council. Therefore, the results of the 2021 Labor Force Survey are not comparable to the results of the 2020 Labor Force Survey (the data series was interrupted). All survey data for 2022 represent the average of Q1, Q2 and Q3. More details in the methodological explanations in the document at the link:

https://bhas.gov.ba/data/Publikacije/Saopštenja/2022/LAB_00_2022_Q3_1_BS.pdf

Projections on the working age population (15-64) are not available, so the last available data from 2022 has been retained until the end of the projection period. 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. For 2022, data for Q1, Q2 and Q3 were available.

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 2022, 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	2021	2022	2023	2024	2025
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	-1.4	-4.6	-1.3	-1.5	-2.0
<i>of which:</i>						
- Balance of goods and services		-11.5	-15.9	-12.4	-12.1	-11.7
- Balance of primary incomes and transfers		9.1	10.5	10.5	9.9	9.1
- Capital account		0.9	0.7	0.7	0.7	0.6
2. Net lending/borrowing of the private sector	B.9/ EDP B.9	-4.2	-5.6	-2.0	-2.8	-4.2
3. Net lending/borrowing of general government		1.8	0.3	0.0	0.7	1.6
4. Statistical discrepancy		0.0	0.0	0.0	0.0	0.0

Table 1e: GDP, investment and gross value added

	ESA Code	2021	2022	2023	2024	2025
GDP and investment						
GDP level at current market prices (in domestic currency)	B1g	39.9	44.0	46.8	49.3	52.0
Investment ratio (% of GDP)		21.0	20.9	20.5	20.6	21.0
Growth of Gross Value Added, percentage changes at constant prices						
1. Agriculture		-8.0	:	:	:	:
2. Industry (excluding construction)		11.4	:	:	:	:
3. Construction		2.2	:	:	:	:
4. Services		9.4	:	:	:	:

Note: Projections for growth of gross value added are not available.

Table 1f: External sector developments

		2021	2022	2023	2024	2025
1. Current account balance (% of GDP)	% of GDP	-2.3	-5.5	-1.3	-0.6	-0.5
2. Export of goods	bn EUR	6.5	8.1	8.9	9.6	10.5
3. Import of goods	bn EUR	10.2	13.2	13.5	14.3	15.3
4. Trade balance	bn EUR	-3.7	-5.1	-4.6	-4.7	-4.9
5. Export of services	bn EUR	1.9	2.3	2.5	2.8	3.2
6. Import of services	bn EUR	0.6	0.8	0.7	0.8	0.8
7. Service balance	bn EUR	1.3	1.5	1.8	2.1	2.3
8. Net interest payments from abroad	bn EUR	-0.1	0.0	-0.1	0.0	0.0
9. Other net factor income from abroad	bn EUR	-0.2	0.0	0.1	0.1	-0.1
10. Current transfers	bn EUR	2.2	2.4	2.4	2.5	2.6
11. <i>Of which</i> from EU	bn EUR	1.6	1.8	1.8	1.9	1.9
12. Current account balance	bn EUR	-0.5	-1.2	-0.3	-0.1	-0.1
13. Capital and financial account	bn EUR	0.0	0.2	0.1	0.2	0.3
14. Foreign direct investment	bn EUR	0.5	0.6	0.7	0.9	1.0
15. Foreign reserves	bn EUR	8.3	8.2	8.4	8.6	8.9
16. Foreign debt	bn EUR	11.7	11.8	11.9	12.1	12.2
16a. <i>Of which</i> : public	bn EUR	4.8	4.8	:	:	:
18. <i>Of which</i> : foreign currency denominated	bn EUR	11.7	11.8	11.9	12.1	12.2
19. <i>Of which</i> : repayments due	bn EUR	:	:	:	:	:
20. Exchange rate vis-à-vis EUR (annual average)	NCU/EUR	1.95583	1.95583	1.95583	1.95583	1.95583
21. Exchange rate vis-à-vis EUR (end-year)	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	:	:	:	:	:

Table 1g: Sustainability indicators

	Dimension	2018	2019	2020	2021	2022
1. Current Account Balance	% of GDP	-3.1	-2.5	-3.2	-2.3	-5.5
2. Net International Investment Position	% of GDP	-40.4	-36.1	-34.1	-29.9	-27.8
3. Export market shares	%, yoy	6.4	-4.0	-2.0	:	:
4. Real Effective Exchange Rate	%, yoy	0.5	-1.0	-0.6	-0.4	3.2
5. Nominal Unit Labour Costs	%, yoy	:	:	:	:	:
6. Private sector credit flow	% of GDP	2.7	3.0	0.0	0.8	1.9
7. Private sector debt	% of GDP	55.5	56.7	57.3	51.9	49.3
8. General Government Debt	% of GDP	31.8	30.7	34.0	32.0	30.5

Note: Data on general government debt were submitted by the Ministry of Finance and Treasury of BiH, and other data in the table were taken from the CBBH.

Table 2a: General government budgetary prospects – Bosnia and Herzegovina

	ESA Code	2021	2021	2022	2023	2024	2025
		mill. KM	% of GDP				
Net lending (B9) by sub-sectors							
1. General government	S13	729.1	1.8	0.3	0.0	0.7	1.6
2. Central government	S1311	250.7	0.6	0.0	-0.6	-0.2	0.4
3. State government	S1312		0.0	0.0	0.0	0.0	0.0
4. Local government	S1313	357.9	0.9	0.3	0.3	0.3	0.4
5. Social security funds	S1314	120.5	0.3	0.0	0.2	0.5	0.8
General government (S13)							
6. Total revenue	TR	16,121.4	40.4	40.4	41.1	41.3	41.5
7. Total expenditure	TE	15,392.3	38.6	40.2	41.1	40.7	39.9
8. Net borrowing/lending	EDP.B9	729.1	1.8	0.3	0.0	0.7	1.6
9. Interest expenditure	EDP.D41 incl. FISIM	243.2	0.6	0.6	0.9	1.0	1.0
10. Primary balance		972.3	2.4	0.9	0.9	1.7	2.6
11. One-off and other temporary measures		124.6	0.3	-0.4	0.0	0.0	0.0
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		8,431.0	21.1	22.2	22.5	22.4	22.1
12a. Taxes on production and imports	D2	6,954.7	17.4	17.9	18.1	17.8	17.4
12b. Current taxes on income and wealth	D5	1,472.2	3.7	4.3	4.5	4.6	4.8
12c. Capital taxes	D91	4.1	0.0	0.0	0.0	0.0	0.0
13. Social contributions	D61	5,724.7	14.3	14.5	14.9	15.4	15.9
14. Property income	D4	113.8	0.3	0.3	0.4	0.4	0.5
15. Other (15 = 16-(12+13+14))		1,851.9	4.6	3.3	3.3	3.1	3.0
16 = 6. Total revenue	TR	16,121.4	40.4	40.4	41.1	41.3	41.5
p.m.: Tax burden (D2+D5+D61+D91- D995)		14,155.7	35.5	36.7	37.5	37.8	38.1
Selected components of expenditures							
17. Collective consumption	P32	6,577.1	16.5	16.8	17.3	16.9	16.5
18. Total social transfers	D62 + D63	5,769.4	14.5	15.0	15.6	16.0	15.9
18a. Social transfers in kind	P31=D63	851.2	2.1	2.3	2.3	2.3	2.2
18b. Social transfers other than in kind	D62	4,918.2	12.3	12.7	13.3	13.8	13.7
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	243.2	0.6	0.6	0.9	1.0	1.0
20. Subsidies	D3	747.6	1.9	1.8	1.8	1.8	1.7
21. Gross fixed capital formation	P51	1,307.2	3.3	3.8	3.8	3.4	3.4
22. Other (22 = 23-(17+18+19+20+21))		747.8	1.9	2.0	1.7	1.5	1.4
23=7. Total expenditures	TE	15,392.3	38.6	40.2	41.1	40.7	39.9
p.m. compensation of employees	D1	4,119.9	10.3	10.4	11.0	10.7	10.4

Source: Ministry of Finance and Treasury of Bosnia and Herzegovina, Ministry of Finance of the Federation of Bosnia and Herzegovina, Ministry of Finance of Republika Srpska and Finance Directorate of Brčko District

Table 2a: General government budgetary prospects – Institutions of Bosnia and Herzegovina

	ESA Code	2021 mill. KM	2021	2022	2023	2024	2025
% of GDP							
Net lending (B9) by sub-sectors							
1. General government	S13	63.6	0.2	-0.1	-0.2	-0.1	-0.1
2. Central government	S1311	63.6	0.2	-0.1	-0.2	-0.1	-0.1
3. State government	S1312	0.0	0.0	0.0	0.0	0.0	0.0
4. Local government	S1313	0.0	0.0	0.0	0.0	0.0	0.0
5. Social security funds	S1314	0.0	0.0	0.0	0.0	0.0	0.0
General government (S13)							
6. Total revenue	TR	987.4	2.5	2.3	2.6	2.5	2.4
7. Total expenditure	TE	923.8	2.3	2.4	2.8	2.6	2.5
8. Net borrowing/lending	EDP.B9	63.6	0.2	-0.1	-0.2	-0.1	-0.1
9. Interest expenditure	EDP.D41 incl. FISIM	0.9	0.0	0.0	0.0	0.0	0.0
10. Primary balance		64.5	0.2	-0.1	-0.2	-0.1	-0.1
11. One-off and other temporary measures		1.3	0.0	0.0	0.0	0.0	0.0
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		780.0	2.0	2.0	2.3	2.2	2.1
12a. Taxes on production and imports	D2	780.0	2.0	2.0	2.3	2.2	2.1
12b. Current taxes on income and wealth	D5	0.0	0.0	0.0	0.0	0.0	0.0
12c. Capital taxes	D91	0.0	0.0	0.0	0.0	0.0	0.0
13. Social contributions	D61	0.0	0.0	0.0	0.0	0.0	0.0
14. Property income	D4	0.0	0.0	0.0	0.0	0.0	0.0
15. Other (15 = 16-(12+13+14))		207.4	0.5	0.3	0.3	0.3	0.3
16 = 6. Total revenue	TR	987.4	2.5	2.3	2.6	2.5	2.4
p.m.: Tax burden (D2+D5+D61+D91- D995)		780.0	2.0	2.0	2.3	2.2	2.1
Selected components of expenditures							
17. Collective consumption	P32	822.4	2.1	2.2	2.6	2.5	2.4
18. Total social transfers	D62 + D63	10.0	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	10.0	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	0.0
21. Gross fixed capital formation	P51	85.4	0.1	0.1	0.1	0.1	0.0
22. Other (22 = 23-(17+18+19+20+21))		65.4	0.0	0.1	0.1	0.1	0.1
23=7. Total expenditures	TE	984.1	2.3	2.4	2.8	2.6	2.5
p.m. compensation of employees	D1	680.5	1.7	1.7	2.2	2.1	2.0

Source: Ministry of Finance and Treasury of Bosnia and Herzegovina

Table 2a: General government budgetary prospects – Federation of Bosnia and Herzegovina

	ESA Code	2021	2021	2022	2023	2024	2025
		mill. KM	% of GDP				
Net lending (B9) by sub-sectors							
1. General government	S13	796.6	2.0	1.4	0.8	1.0	1.7
2. Central government	S1311	417.4	1.0	1.2	0.4	0.3	0.6
3. State government	S1312	0.0	0.0	0.0	0.0	0.0	0.0
4. Local government	S1313	282.0	0.7	0.3	0.2	0.2	0.3
5. Social security funds	S1314	97.2	0.2	0.0	0.2	0.5	0.8
General government (S13)							
6. Total revenue	TR	9,977.8	25.0	24.6	24.7	25.1	25.5
7. Total expenditure	TE	9,181.2	23.0	23.2	23.9	24.1	23.8
8. Net borrowing/lending	EDP.B9	796.6	2.0	1.4	0.8	1.0	1.7
9. Interest expenditure	EDP.D41 incl. FISIM	104.8	0.3	0.3	0.4	0.4	0.4
10. Primary balance		901.4	2.3	1.7	1.2	1.4	2.1
11. One-off and other temporary measures		46.0	0.1	-0.2	0.1	0.0	0.0
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		4,767.0	11.9	12.6	12.4	12.4	12.4
12a. Taxes on production and imports	D2	3,790.1	9.5	9.8	9.5	9.4	9.2
12b. Current taxes on income and wealth	D5	976.9	2.4	2.8	2.9	3.0	3.1
12c. Capital taxes	D91	0.0	0.0	0.0	0.0	0.0	0.0
13. Social contributions	D61	3,904.0	9.8	9.9	10.3	10.7	11.2
14. Property income	D4	25.9	0.1	0.0	0.0	0.0	0.0
15. Other (15 = 16-(12+13+14))		1,280.9	3.2	2.1	2.0	2.0	1.9
16 = 6. Total revenue	TR	9,977.8	25.0	24.6	24.7	25.1	25.5
p.m.: Tax burden (D2+D5+D61+D91-D995)		8,671.0	21.7	22.5	22.6	23.1	23.6
Selected components of expenditures							
17. Collective consumption	P32	4,258.5	10.7	10.5	10.6	10.4	10.3
18. Total social transfers	D62 + D63	3,261.2	8.2	8.3	8.9	9.3	9.4
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	3,261.2	8.2	8.3	8.9	9.3	9.4
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	104.8	0.3	0.3	0.4	0.4	0.4
20. Subsidies	D3	515.6	1.3	1.2	1.2	1.2	1.2
21. Gross fixed capital formation	P51	852.4	2.1	2.4	2.6	2.5	2.5
22. Other (22 = 23-(17+18+19+20+21))		188.7	0.5	0.4	0.2	0.2	0.2
23=7. Total expenditures	TE	9,181.2	23.0	23.2	23.9	24.1	23.8
p.m. compensation of employees	D1	2,217.2	5.6	5.5	5.4	5.4	5.4

The consolidated budget framework of the General government of the Federation of BiH includes: data from the Budget of the Federation of BiH, cantonal budgets and budgets of local self-government units, as well as financial plans of extrabudgetary funds, business plans of public enterprises financed from public revenues or enterprises for which the government issues guarantees for borrowing (Railways FBiH, FBiH Roads and FBiH Highways).

Source: Ministry of Finance of the Federation of Bosnia and Herzegovina

Table 2a: General government budgetary prospects – Republika Srpska

	ESA Code	2021	2021	2022	2023	2024	2025
		mill. KM	% of GDP				
Net lending (B9) by sub-sectors							
1. General government	S13	-153.4	-0.4	-0.9	-0.6	-0.2	0.0
2. Central government	S1311	-252.6	-0.6	-0.9	-0.8	-0.3	-0.1
3. State government	S1312	0.0	0.0	0.0	0.0	0.0	0.0
4. Local government	S1313	75.9	0.2	0.0	0.1	0.1	0.1
5. Social security funds	S1314	23.3	0.1	0.0	0.1	0.1	0.0
General government (S13)							
6. Total revenue	TR	4,919.7	12.3	12.9	13.2	13.2	13.1
7. Total expenditure	TE	5,073.1	12.7	13.9	13.8	13.3	13.0
8. Net borrowing/lending	EDP.B9	-153.4	-0.4	-0.9	-0.6	-0.2	0.0
9. Interest expenditure	EDP.D41 incl. FISIM	137.1	0.3	0.3	0.5	0.6	0.6
10. Primary balance		-16.3	0.0	-0.6	-0.1	0.4	0.7
11. One-off and other temporary measures		77.3	0.2	-0.2	0.0	0.0	0.0
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		2,659.8	6.7	7.2	7.3	7.3	7.2
12a. Taxes on production and imports	D2	2,187.7	5.5	5.7	5.8	5.7	5.6
12b. Current taxes on income and wealth	D5	468.0	1.2	1.5	1.5	1.5	1.5
12c. Capital taxes	D91	4.1	0.0	0.0	0.0	0.0	0.0
13. Social contributions	D61	1,820.7	4.6	4.6	4.7	4.7	4.7
14. Property income	D4	87.9	0.2	0.3	0.3	0.4	0.4
15. Other (15 = 16-(12+13+14))		351.3	0.9	0.9	0.9	0.8	0.8
16 = 6. Total revenue	TR	4,919.7	12.3	12.9	13.2	13.2	13.1
p.m.: Tax burden (D2+D5+D61+D91-D995)		4,480.5	11.2	11.8	12.0	12.0	11.9
Selected components of expenditures							
17. Collective consumption	P32	1,349.4	3.4	3.8	3.8	3.7	3.6
18. Total social transfers	D62 + D63	2,432.1	6.1	6.5	6.5	6.5	6.4
18a. Social transfers in kind	P31=D63	851.2	2.1	2.3	2.3	2.3	2.2
18b. Social transfers other than in kind	D62	1,580.9	4.0	4.2	4.2	4.2	4.1
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	137.1	0.3	0.3	0.5	0.6	0.6
20. Subsidies	D3	211.4	0.5	0.5	0.6	0.6	0.5
21. Gross fixed capital formation	P51	405.6	1.0	1.2	1.0	0.8	0.8
22. Other (22 = 23-(17+18+19+20+21))		537.5	1.3	1.5	1.4	1.2	1.1
23=7. Total expenditures	TE	5,073.1	12.7	13.9	13.8	13.3	13.0
p.m. compensation of employees	D1	1,122.7	2.8	3.0	3.2	3.0	2.8

Note: The consolidated budget framework for the General government sector of the Republika Srpska includes the consolidated budgets of the sub-sectors: central government, local self-government units and social security funds.

Source: Ministry of Finance of Republika Srpska

Table 2a: General government budgetary prospects – Brčko District

	ESA Code	2021	2021	2022	2023	2024	2025
		mill. KM	% of GDP				
Net lending (B9) by sub-sectors							
1. General government	S13	22.3	0.1	-0.1	0.0	0.0	0.0
2. Central government	S1311	22.3	0.1	-0.1	0.0	0.0	0.0
3. State government	S1312	0.0	0.0	0.0	0.0	0.0	0.0
4. Local government	S1313	0.0	0.0	0.0	0.0	0.0	0.0
5. Social security funds	S1314	0.0	0.0	0.0	0.0	0.0	0.0
General government (S13)							
6. Total revenue	TR	236.5	0.6	0.6	0.6	0.6	0.6
7. Total expenditure	TE	214.2	0.5	0.7	0.6	0.6	0.6
8. Net borrowing/lending	EDP.B9	22.3	0.1	-0.1	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		22.7	0.1	-0.1	0.0	0.0	0.0
11. One-off and other temporary measures		0.0	0.0	0.0	0.0	0.0	0.0
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		224.2	0.6	0.5	0.6	0.5	0.5
12a. Taxes on production and imports	D2	196.9	0.5	0.5	0.5	0.5	0.5
12b. Current taxes on income and wealth	D5	27.3	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))		12.3	0.0	0.0	0.0	0.0	0.0
16 = 6. Total revenue	TR	236.5	0.6	0.6	0.6	0.6	0.6
p.m.: Tax burden (D2+D5+D61+D91-D995)		224.2	0.6	0.5	0.6	0.5	0.5
Selected components of expenditures							
17. Collective consumption	P32	120.2	0.3	0.3	0.3	0.3	0.3
18. Total social transfers	D62 + D63	63.9	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
18b. Social transfers other than in kind	D62	63.9	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	20.6	0.1	0.1	0.0	0.0	0.0
21. Gross fixed capital formation	P51	1.8	0.0	0.1	0.1	0.1	0.1
22. Other (22 = 23-(17+18+19+20+21))		7.3	0.0	0.0	0.0	0.0	0.0
23=7. Total expenditures	TE	214.2	0.5	0.7	0.6	0.6	0.6
p.m. compensation of employees	D1	84.8	0.2	0.2	0.2	0.2	0.2

Source: Finance Directorate of Brčko District

Table 2b: General government budgetary prospects – Bosnia and Herzegovina

	ESA Code	2021	2022	2023	2024	2025
mill. KM						
Net lending (B9) by sub-sectors						
1. General government	S13	729.1	113.0	-8.7	335.2	838.5
2. Central government	S1311	250.7	-10.6	-275.1	-90.3	214.7
3. State government	S1312					
4. Local government	S1313	357.9	126.7	159.2	166.5	194.7
5. Social security funds	S1314	120.5	-3.1	107.2	259.0	429.1
General government (S13)						
6. Total revenue	TR	16,121.4	17,782.8	19,205.8	20,371.1	21,603.4
7. Total expenditure	TE	15,392.3	17,669.8	19,214.5	20,035.9	20,764.9
8. Net borrowing/lending	EDP.B9	729.1	113.0	-8.7	335.2	838.5
9. Interest expenditure	EDP.D41 incl. FISIM	243.2	271.2	412.0	489.4	503.5
10. Primary balance		972.3	384.2	403.3	824.6	1,342.0
11. One-off and other temporary measures		124.6	-197.2	8.2	-11.6	-6.9
Components of revenues						
12. Total taxes (12 = 12a+12b+12c)		8,431.0	9,781.2	10,530.1	11,015.6	11,509.1
12a. Taxes on production and imports	D2	6,954.7	7,878.1	8,440.8	8,747.8	9,031.6
12b. Current taxes on income and wealth	D5	1,472.2	1,898.6	2,084.6	2,263.0	2,472.6
12c. Capital taxes	D91	4.1	4.5	4.7	4.8	4.9
13. Social contributions	D61	5,724.7	6,385.9	6,985.6	7,609.5	8,293.5
14. Property income	D4	113.8	148.1	165.3	202.2	235.2
15. Other (15 = 16-(12+13+14))		1,851.9	1,467.6	1,524.8	1,543.8	1,565.6
16 = 6. Total revenue	TR	16,121.4	17,782.8	19,205.8	20,371.1	21,603.4
p.m.: Tax burden (D2+D5+D61+D91-D995)		14,155.7	16,167.1	17,515.7	18,625.1	19,802.6
Selected components of expenditures						
17. Collective consumption	P32	6,577.1	7,408.3	8,092.7	8,337.3	8,596.7
18. Total social transfers	D62 + D63	5,769.4	6,592.0	7,285.3	7,894.4	8,291.1
18a. Social transfers in kind	P31=D63	851.2	993.9	1,061.8	1,114.1	1,159.9
18b. Social transfers other than in kind	D62	4,918.2	5,598.1	6,223.5	6,780.3	7,131.2
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	243.2	271.2	412.0	489.4	503.5
20. Subsidies	D3	747.6	807.1	857.2	876.9	897.3
21. Gross fixed capital formation	P51	1,307.2	1,690.5	1,755.3	1,683.6	1,772.0
22. Other (22 = 23-(17+18+19+20+21))		747.8	900.7	812.0	754.3	704.3
23=7. Total expenditures	TE	15,392.3	17,669.8	19,214.5	20,035.9	20,764.9
p.m. compensation of employees	D1	4,119.9	4,592.9	5,143.7	5,265.4	5,413.0

Source: Ministry of Finance and Treasury of Bosnia and Herzegovina, Ministry of Finance of the Federation of Bosnia and Herzegovina, Ministry of Finance of Republika Srpska and Finance Directorate of Brčko District.

Table 2b: General government budgetary prospects – Institutions of Bosnia and Herzegovina

	ESA Code	2021	2022	2023	2024	2025
		mill. KM				
Net lending (B9) by sub-sectors						
1. General government	S13	63.6	-57.1	-84.8	-56.7	-61.7
2. Central government	S1311	63.6	-57.1	-84.8	-56.7	-61.7
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	987.4	1,011.5	1,229.1	1,248.6	1,240.8
7. Total expenditure	TE	923.8	1,068.6	1,313.9	1,305.3	1,302.5
8. Net borrowing/lending	EDP.B9	63.6	-57.1	-84.8	-56.7	-61.7
9. Interest expenditure	EDP.D41 incl. FISIM	0.9	0.9	0.8	0.5	0.5
10. Primary balance		64.5	-56.2	-84.0	-56.2	-61.2
11. One-off and other temporary measures		1.3	-12.2	0.7	-5.4	0.4
Components of revenues						
12. Total taxes (12 = 12a+12b+12c)		780.0	865.5	1,076.0	1,076.9	1,077.1
12a. Taxes on production and imports	D2	780.0	865.5	1,076.0	1,076.9	1,077.1
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))		207.4	146.0	153.1	171.7	163.7
16 = 6. Total revenue	TR	987.4	1,011.5	1,229.1	1,248.6	1,240.8
p.m.: Tax burden (D2+D5+D61+D91-D995)		780.0	865.5	1,076.0	1,076.9	1,077.1
Selected components of expenditures						
17. Collective consumption	P32	849.0	958.9	1,221.2	1,238.5	1,238.8
18. Total social transfers	D62 + D63	12.2	11.4	12.6	11.8	11.3
18a. Social transfers in kind	P31=D63					
18b. Social transfers other than in kind	D62	12.2	11.4	12.6	11.8	11.3
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	0.9	0.9	0.8	0.5	0.5
20. Subsidies	D3					
21. Gross fixed capital formation	P51	47.4	48.3	48.3	25.5	23.3
22. Other (22 = 23-(17+18+19+20+21))		14.3	49.1	31.0	29.0	28.6
23=7. Total expenditures	TE	923.8	1,068.6	1,313.9	1,305.3	1,302.5
p.m. compensation of employees	D1	695.2	762.5	1,020.7	1,029.1	1,033.6

Source: Ministry of Finance and Treasury of Bosnia and Herzegovina

Table 2b: General government budgetary prospects – Federation of Bosnia and Herzegovina

	ESA Code	2021	2022	2023	2024	2025
mill. KM						
Net lending (B9) by sub-sectors						
1. General government	S13	796.6	630.5	382.8	486.0	883.6
2. Central government	S1311	417.4	508.4	196.9	142.3	334.6
3. State government	S1312					
4. Local government	S1313	282.0	132.7	108.6	113.6	136.3
5. Social security funds	S1314	97.2	-10.6	77.3	230.1	412.7
General government (S13)						
6. Total revenue	TR	9,977.8	10,832.4	11,539.1	12,359.2	13,280.7
7. Total expenditure	TE	9,181.2	10,201.9	11,156.3	11,873.2	12,397.1
8. Net borrowing/lending	EDP.B9	796.6	630.5	382.8	486.0	883.6
9. Interest expenditure	EDP.D41 incl. FISIM	104.8	119.9	173.9	179.3	185.6
10. Primary balance		901.4	750.4	556.7	665.3	1,069.2
11. One-off and other temporary measures		46.0	-86.0	25.0		
Components of revenues						
12. Total taxes (12 = 12a+12b+12c)		4,767.0	5,528.9	5,787.0	6,096.0	6,430.9
12a. Taxes on production and imports	D2	3,790.1	4,301.8	4,441.3	4,623.9	4,795.1
12b. Current taxes on income and wealth	D5	976.9	1,227.1	1,345.7	1,472.1	1,635.8
12c. Capital taxes	D91					
13. Social contributions	D61	3,904.0	4,367.4	4,793.3	5,283.2	5,847.9
14. Property income	D4	25.9	18.2	18.5	18.8	19.0
15. Other (15 = 16-(12+13+14))		1,280.9	917.9	940.3	961.2	982.9
16 = 6. Total revenue	TR	9,977.8	10,832.4	11,539.1	12,359.2	13,280.7
p.m.: Tax burden (D2+D5+D61+D91-D995)		8,671.0	9,896.3	10,580.3	11,379.2	12,278.8
Selected components of expenditures						
17. Collective consumption	P32	4,258.5	4,635.20	4,946.80	5,142.10	5,346.10
18. Total social transfers	D62 + D63	3,261.2	3,668.0	4,148.2	4,605.2	4,867.4
18a. Social transfers in kind	P31=D63					
18b. Social transfers other than in kind	D62	3,261.2	3,668.0	4,148.2	4,605.2	4,867.4
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	104.8	119.9	173.9	179.3	185.6
20. Subsidies	D3	515.6	543.6	574.7	594.0	614.4
21. Gross fixed capital formation	P51	852.4	1048.4	1200.2	1245.5	1,283.0
22. Other (22 = 23-(17+18+19+20+21))		188.7	186.8	112.5	107.1	100.6
23=7. Total expenditures	TE	9,181.2	10,201.9	11,156.3	11,873.2	12,397.1
p.m. compensation of employees	D1	2,217.2	2,398.7	2,546.0	2,673.3	2,807.0

The consolidated budget framework of the General government of the Federation of BiH includes: data from the Budget of the Federation of BiH, cantonal budgets and budgets of local self-government units, as well as financial plans of extrabudgetary funds, business plans of public enterprises financed from public revenues or enterprises for which the government issues guarantees for borrowing (Railways FBiH, FBiH Roads and FBiH Highways).

Source: Ministry of Finance of the Federation of Bosnia and Herzegovina

Table 2b: General government budgetary prospects – Republika Srpska

	ESA Code	2021	2022	2023	2024	2025
mill. KM						
Net lending (B9) by sub-sectors						
1. General government	S13	-153.4	-405.0	-300.3	-87.7	22.8
2. Central government	S1311	-252.6	-406.5	-380.8	-169.5	-52.0
3. State government	S1312	0.0	0.0	0.0	0.0	0.0
4. Local government	S1313	75.9	-6.0	50.6	52.9	58.4
5. Social security funds	S1314	23.3	7.5	29.9	28.9	16.4
General government (S13)						
6. Total revenue	TR	4,919.7	4,919.7	5,690.0	6,165.9	6,484.0
7. Total expenditure	TE	5,073.1	5,073.1	6,095.0	6,466.2	6,571.7
8. Net borrowing/lending	EDP.B9	-153.4	-153.4	-405.0	-300.3	-87.7
9. Interest expenditure	EDP.D41 incl. FISIM	137.1	137.1	149.8	236.5	308.9
10. Primary balance		-16.3	-16.3	-255.2	-63.8	221.2
11. One-off and other temporary measures		77.3	77.3	-99.0	-17.5	-6.2
Components of revenues						
12. Total taxes (12 = 12a+12b+12c)		2,659.8	3,151.8	3,406.4	3,574.5	3,724.8
12a. Taxes on production and imports	D2	2,187.7	2,504.8	2,695.9	2,811.9	2,916.2
12b. Current taxes on income and wealth	D5	468.0	642.5	705.8	757.8	803.7
12c. Capital taxes	D91	4.1	4.5	4.7	4.8	4.9
13. Social contributions	D61	1,820.7	2,018.5	2,192.3	2,326.3	2,445.6
14. Property income	D4	87.9	129.9	146.8	183.4	216.2
15. Other (15 = 16-(12+13+14))		351.3	389.8	420.4	399.8	407.6
16 = 6. Total revenue	TR	4,919.7	5,690.0	6,165.9	6,484.0	6,794.2
p.m.: Tax burden (D2+D5+D61+D91-D995)		4,480.5	5,170.3	5,598.7	5,900.8	6,170.4
Selected components of expenditures						
17. Collective consumption	P32	1,349.4	1,678.7	1,781.0	1,810.0	1,865.1
18. Total social transfers	D62 + D63	2,432.1	2,839.7	3,033.8	3,183.1	3,314.0
18a. Social transfers in kind	P31=D63	851.2	993.9	1,061.8	1,114.1	1,159.9
18b. Social transfers other than in kind	D62	1,580.9	1,845.8	1,972.0	2,069.0	2,154.1
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	137.1	149.8	236.5	308.9	316.8
20. Subsidies	D3	211.4	235.4	282.5	282.9	282.9
21. Gross fixed capital formation	P51	405.6	536.1	475.0	381.4	428.9
22. Other (22 = 23-(17+18+19+20+21))		537.5	655.3	657.4	605.4	563.7
23=7. Total expenditures	TE	5,073.1	6,095.0	6,466.2	6,571.7	6,771.4
p.m. compensation of employees	D1	1,122.7	1,337.6	1,475.9	1,461.8	1,471.0

Note: The consolidated budget framework for the General government sector of the Republika Srpska includes the consolidated budgets of the sub-sectors: central government, local self-government units and social security funds.

Source: Ministry of Finance of Republika Srpska

Table 2b: General government budgetary prospects – Brčko District

	ESA Code	2021	2022	2023	2024	2025
		mill. KM				
Net lending (B9) by sub-sectors						
1. General government	S13	22.3	-55.4	-6.4	-6.4	-6.2
2. Central government	S1311	22.3	-55.4	-6.4	-6.4	-6.2
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	236.5	248.9	271.7	279.3	287.7
7. Total expenditure	TE	214.2	304.3	278.1	285.7	293.9
8. Net borrowing/lending	EDP.B9	22.3	-55.4	-6.4	-6.4	-6.2
9. Interest expenditure	EDP.D41 incl. FISIM	0.4	0.6	0.8	0.7	0.6
10. Primary balance		22.7	-54.8	-5.6	-5.7	-5.6
11. One-off and other temporary measures		0.0	0.0	0.0	0.0	0.0
Components of revenues						
12. Total taxes (12 = 12a+12b+12c)		224.2	235.0	260.7	268.2	276.3
12a. Taxes on production and imports	D2	196.9	206.0	227.6	235.1	243.2
12b. Current taxes on income and wealth	D5	27.3	29.0	33.1	33.1	33.1
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))		12.3	13.9	11.0	11.1	11.4
16 = 6. Total revenue	TR	236.5	248.9	271.7	279.3	287.7
p.m.: Tax burden (D2+D5+D61+D91- D995)		224.2	235.0	260.7	268.2	276.3
Selected components of expenditures						
17. Collective consumption	P32	120.2	135.5	143.7	146.7	146.7
18. Total social transfers	D62 + D63	63.9	72.9	90.7	94.3	98.4
18a. Social transfers in kind	P31=D63					
18b. Social transfers other than in kind	D62	63.9	72.9	90.7	94.3	98.4
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	0.4	0.6	0.8	0.7	0.6
20. Subsidies	D3	20.6	28.1	0.0	0.0	0.0
21. Gross fixed capital formation	P51	1.8	57.7	31.8	31.2	36.8
22. Other (22 = 23-(17+18+19+20+21))		7.3	9.5	11.1	12.8	11.4
23=7. Total expenditures	TE	214.2	304.3	278.1	285.7	293.9
p.m. compensation of employees	D1	84.8	94.1	101.1	101.2	101.4

Source: Finance Directorate of Brčko District

Table 2c): Discretionary measures adopted/announced according to the Programme

Measures		ESA kod (Expenditure / Revenue component)	Date of adoption	Budgetary impact (% of GDP - change from previous year)				
				2020	2021	2022	2023	2024
Temporary measures								
Subtotal								
Non- temporary measures								
Subtotal								
Total								

Table 3: General government expenditure by function**Bosnia and Herzegovina**

% of GDP	COFOG Code	2021	2022	2023	2024	2025
1. General public services	1	7.8	8.2	8.1	8.0	7.8
2. Defence	2	0.8	0.8	0.9	0.9	0.8
3. Public order and safety	3	2.9	3.0	3.2	3.1	3.0
4. Economic affairs	4	2.5	2.6	2.7	2.5	2.4
5. Environmental protection	5	0.3	0.3	0.3	0.3	0.3
6. Housing and community amenities	6	1.1	1.2	1.0	0.9	0.9
7. Health	7	6.3	6.5	6.6	6.5	6.4
8. Recreation. culture and religion	8	0.7	0.7	0.7	0.6	0.6
9. Education	9	3.7	3.8	3.8	3.7	3.6
10. Social protection	10	12.5	13.0	13.7	14.2	14.1
11. Total expenditure (item 7 = 23 in Table 2)	TE	38.6	40.2	41.1	40.7	39.9

in mill. KM	COFOG Code	2021	2022	2023	2024	2025
1. General public services	1	3,103.3	3,620.5	3,810.6	3,938.4	4,040.4
2. Defence	2	314.5	333.3	439.9	439.2	438.8
3. Public order and safety	3	1,173.7	1,337.0	1,498.3	1,516.6	1,549.4
4. Economic affairs	4	996.1	1,141.0	1,255.0	1,225.0	1,256.2
5. Environmental protection	5	129.4	145.0	154.0	157.9	163.3
6. Housing and community amenities	6	452.8	531.6	483.8	456.7	471.6
7. Health	7	2,498.2	2,842.1	3,064.6	3,181.7	3,305.0
8. Recreation. culture and religion	8	265.3	305.7	304.4	304.4	319.4
9. Education	9	1,470.0	1,675.1	1,795.4	1,825.5	1,871.3
10. Social protection	10	4,989.0	5,738.5	6,408.5	6,990.5	7,349.5
11. Total expenditure (item 7 = 23 in Table 2)	TE	15,392.3	17,669.8	19,214.5	20,035.9	20,764.9

Source: Ministry of Finance and Treasury of Bosnia and Herzegovina, Ministry of Finance of the Federation of Bosnia and Herzegovina, Ministry of Finance of Republika Srpska and Finance Directorate of Brčko District

Institutions of Bosnia and Herzegovina

% of GDP	COFOG Code	2021	2022	2023	2024	2025
1. General public services	1	0.7	0.9	0.9	0.8	0.8
2. Defence	2	0.7	0.7	0.9	0.8	0.8
3. Public order and safety	3	0.6	0.7	0.8	0.7	0.7
4. Economic affairs	4	0.1	0.1	0.1	0.1	0.1
5. Environmental protection	5	0.0	0.0	0.0	0.0	0.0
6. Housing and community amenities	6	0.0	0.0	0.0	0.0	0.0
7. Health	7	0.0	0.0	0.0	0.0	0.0
8. Recreation. culture and religion	8	0.0	0.0	0.0	0.0	0.0
9. Education	9	0.0	0.0	0.0	0.0	0.0
10. Social protection	10	0.0	0.0	0.0	0.0	0.0
11. Total expenditure (item 7 = 23 in Table 2)	TE	2.3	2.4	2.8	2.6	2.5

in mill. KM	COFOG Code	2021	2022	2023	2024	2025
1. General public services	1	284.4	381.5	422.9	415.8	409.6
2. Defence	2	290.4	306.7	411.4	409.6	408.1
3. Public order and safety	3	256.2	289.1	368.6	368.6	373.1
4. Economic affairs	4	53.2	55.9	67.1	66.7	67.1
5. Environmental protection	5	6.4	7.2	9.8	9.8	9.7
6. Housing and community amenities	6	0.0	0.0	0.0	0.0	0.0
7. Health	7	12.8	6.7	8.3	8.4	8.6
8. Recreation. culture and religion	8	7.6	8.3	10.0	10.1	10.0
9. Education	9	2.6	3.0	3.9	4.0	4.0
10. Social protection	10	10.2	10.2	11.9	12.3	12.3
11. Total expenditure (item 7 = 23 in Table 2)	TE	923.8	1,068.6	1,313.9	1,305.3	1,302.5

Source: Ministry of Finance and Treasury of Bosnia and Herzegovina

Federation of Bosnia and Herzegovina

% of GDP	COFOG Code	2021	2022	2023	2024	2025
1. General public services	1	5.0	5.0	5.0	4.9	4.8
2. Defence	2	0.1	0.1	0.1	0.1	0.1
3. Public order and safety	3	1.5	1.5	1.5	1.5	1.4
4. Economic affairs	4	1.2	1.2	1.2	1.2	1.2
5. Environmental protection	5	0.3	0.3	0.3	0.3	0.2
6. Housing and community amenities	6	0.4	0.4	0.4	0.4	0.4
7. Health	7	3.9	3.9	3.9	3.8	3.8
8. Recreation. culture and religion	8	0.3	0.3	0.3	0.3	0.3
9. Education	9	2.2	2.2	2.3	2.2	2.2
10. Social protection	10	8.2	8.3	8.9	9.3	9.4
11. Total expenditure (item 7 = 23 in Table 2)	TE	23.0	23.2	23.9	24.1	23.8

in mill. KM	COFOG Code	2021	2022	2023	2024	2025
1. General public services	1	1,978.1	2,183.8	2,343.4	2,430.1	2,517.4
2. Defence	2	24.1	26.6	28.5	29.6	30.7
3. Public order and safety	3	589.4	650.7	698.2	724.0	750.1
4. Economic affairs	4	490.1	541.1	580.6	602.0	623.7
5. Environmental protection	5	102.1	112.7	120.9	125.4	129.9
6. Housing and community amenities	6	168.2	185.7	199.2	206.6	214.1
7. Health	7	1,537.8	1,697.7	1,821.7	1,889.1	1,957.1
8. Recreation. culture and religion	8	133.4	147.3	158.0	163.9	169.8
9. Education	9	896.8	988.3	1,057.6	1,097.3	1,136.9
10. Social protection	10	3,261.2	3,668.0	4,148.2	4,605.2	4,867.4
11. Total expenditure (item 7 = 23 in Table 2)	TE	9,181.2	10,201.9	11,156.3	11,873.2	12,397.1

Source: Ministry of Finance of the Federation of Bosnia and Herzegovina

Republika Srpska

% of GDP	COFOG Code	2021	2022	2023	2024	2025
1. General public services	1	1.9	2.1	2.0	2.0	1.9
2. Defence	2	0.0	0.0	0.0	0.0	0.0
3. Public order and safety	3	0.8	0.8	0.9	0.8	0.8
4. Economic affairs	4	1.1	1.2	1.3	1.1	1.1
5. Environmental protection	5	0.1	0.1	0.0	0.0	0.0
6. Housing and community amenities	6	0.7	0.8	0.6	0.5	0.5
7. Health	7	2.3	2.5	2.5	2.5	2.4
8. Recreation. culture and religion	8	0.3	0.3	0.2	0.2	0.2
9. Education	9	1.3	1.4	1.5	1.4	1.3
10. Social protection	10	4.2	4.6	4.8	4.8	4.7
11. Total expenditure (item 7 = 23 in Table 2)	TE	12.7	13.9	13.8	13.3	13.0

in mill. KM	COFOG Code	2021	2022	2023	2024	2025
1. General public services	1	762.0	915.5	929.8	971.4	992.9
2. Defence	2	0.0	0.0	0.0	0.0	0.0
3. Public order and safety	3	310.5	373.0	405.5	399.4	401.7
4. Economic affairs	4	452.8	544.0	607.3	556.3	565.4
5. Environmental protection	5	20.9	25.1	23.3	22.7	23.7
6. Housing and community amenities	6	281.8	338.5	281.3	247.4	254.8
7. Health	7	918.8	1,103.9	1,170.2	1,217.0	1,266.6
8. Recreation. culture and religion	8	109.4	131.5	116.5	112.3	119.1
9. Education	9	528.9	635.5	683.9	672.2	677.4
10. Social protection	10	1,688.0	2,028.0	2,248.4	2,373.0	2,469.8
11. Total expenditure (item 7 = 23 in Table 2)	TE	5,073.1	6,095.0	6,466.2	6,571.7	6,771.4

Source: Ministry of Finance of Republika Srpska

Brčko District

% of GDP	COFOG Code	2021	2022	2023	2024	2025
1. General public services	1	0.2	0.3	0.2	0.2	0.2
2. Defence	2	0.0	0.0	0.0	0.0	0.0
3. Public order and safety	3	0.0	0.1	0.1	0.0	0.0
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	0.0	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	0.0	0.0	0.0
11. Total expenditure (item 7 = 23 in Table 2)	TE	0.5	0.7	0.6	0.6	0.6

in mill. KM	COFOG Code	2021	2022	2023	2024	2025
1. General public services	1	78.8	139.7	114.5	121.1	120.5
2. Defence	2	0.0	0.0	0.0	0.0	0.0
3. Public order and safety	3	17.6	24.2	26.0	24.6	24.5
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	2.8	7.4	3.3	2.7	2.7
7. Health	7	28.8	33.8	64.4	67.2	72.7
8. Recreation, culture and religion	8	14.9	18.6	19.9	18.1	20.5
9. Education	9	41.7	48.3	50.0	52.0	53.0
10. Social protection	10	29.6	32.3	0.0	0.0	0.0
11. Total expenditure (item 7 = 23 in Table 2)	TE	214.2	304.3	278.1	285.7	293.9

Source: Finance Directorate of Brčko District

Table 4: General government debt developments

% of GDP	ESA Code	2021	2022	2023	2024	2025
1. Gross debt		32.0	30.5	30.2	29.5	28.4
2. Change in gross debt ratio		-2.0	-1.5	-0.3	-0.7	-1.1
Contributions to change in gross debt						
3. Primary balance		-2.4	-0.9	-0.9	-1.7	-2.6
4. Interest expenditure	EDP D.41	0.6	0.6	0.9	1.0	1.0
5. Real growth effect		-2.3	-0.8	-0.5	-0.8	-0.8
6. Inflation effect		-1.4	-2.1	-1.3	-0.7	-0.7
7. Stock-flow adjustment		3.5	1.7	1.5	1.5	2.1
<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		2.0	2.1	3.1	3.5	3.5
Other relevant variables						
8. Liquid financial assets						
9. Net financial debt (9 = 1 - 8)						

Source: Ministry of Finance and Treasury of Bosnia and Herzegovina, Ministry of Finance of the Federation of Bosnia and Herzegovina, Ministry of Finance of Republika Srpska and Finance Directorate of Brčko District

Table 5: Cyclical developments

% of GDP	ESA Code	2021	2022	2023	2024	2025
1. Real GDP growth (%. yoy)	B1g	7.6	2.7	1.7	2.7	3.0
2. Net lending of general government	EDP. B.9	1.8	0.3	0.0	0.7	1.6
3. Interest expenditure	EDP. D.41	0.6	0.6	0.9	1.0	1.0
4. One-off and other temporary measures		0.3	-0.4	0.0	0.0	0.0
5. Potential GDP growth (% yoy)		5.7	6.6	7.0	6.9	6.6
Contributions:						
- labour						
- capital						
- total factor productivity						
6. Output gap		-1.9	-1.1	0.8	1.2	0.4
7. Cyclical budgetary component		-0.7	-0.4	0.3	0.4	0.1
8. Cyclically-adjusted balance (2-7)		2.5	0.6	-0.3	0.3	1.5
9. Cyclically-adjusted primary balance (8+3)		3.1	1.2	0.6	1.2	2.4
10. Structural balance (8-4)		2.2	1.1	-0.3	0.3	1.5

Source: Ministry of Finance and Treasury of Bosnia and Herzegovina

Table 6: Divergence from previous programme

	2021	2022	2023	2024	2025
1. GDP growth (%. yoy)					
Previous programme	3.1	3.4	3.5	3.7	:
Latest update	7.6	2.7	1.7	2.7	3.0
Difference (percentage points)	4.5	-0.7	-1.8	-1.0	:
2. General government net lending (% of GDP)					
Previous programme	-0.9	-0.2	1.1	1.4	:
Latest update	1.8	0.3	0.0	0.7	1.6
Difference	2.7	0.5	-1.1	-0.7	:
3. General government gross debt (% of GDP)					
Previous programme	34.8	35.2	33.9	32.2	:
Latest update	32.0	30.5	30.2	29.5	28.4
Difference	-2.8	-4.7	-3.7	-2.7	:

Source: DEP, Ministry of Finance and Treasury of Bosnia and Herzegovina, Ministry of Finance of the Federation of Bosnia and Herzegovina, Ministry of Finance of Republika Srpska and Finance Directorate of Brčko District

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: property income</i>	:	:	:	:	:	:	:
<i>of which: from pensions contributions (or social contributions, if appropriate)</i>	:	:	:	:	:	:	:
Pension reserve fund assets	:	:	:	:	:	:	:
<i>of which: consolidated public pension fund assets (assets other than government liabilities)</i>	:	:	:	:	:	:	:
Assumptions							
Labour productivity growth	:	:	:	:	:	:	:
Real GDP growth	:	:	:	:	:	:	:
Participation rate males (aged 20-64)	:	:	:	:	:	:	:
Participation rates females (aged 20-64)	:	:	:	:	:	:	:
Total participation rates (20-64)	:	:	:	:	:	:	:
Unemployment rate	:	:	:	:	:	:	:
Population aged 65+ over total population	:	:	:	:	:	:	:

Table 7a: Stock of General Government guarantees adopted/announced at (month-year) according to the Programme

Measures		Date of adoption	Maximum amount of contingent liabilities (% of GDP)	Estimated take-up (% of GDP)
			2022	2022
In response to COVID-19				
	Subtotal	% of GDP		
Others				
	Subtotal	% of GDP		
Total		% of GDP		

Table 8: Basic assumptions on the external economic environment underlying the programme framework

	Dimension	2021	2022	2023	2024	2025
1. Short-term interest rate	Annual average	-0.5	0.2	3.1	3	:
2. Long-term interest rate	Annual average	-0.4	1.2	2.3	2.4	:
3. USD/EUR exchange rate	Annual average	1.18	1.04	0.98	0.98	:
4. Nominal effective exchange rate	Annual average	:	:	:	:	:
5. Exchange rate vis-à-vis the EUR	Annual average	1.9558	1.9558	1.9558	1.9558	1.9558
6. Global GDP growth, excluding EU	Annual average	6	3.1	2.9	3.4	:
7. EU GDP growth	Annual average	5.4	3.3	0.3	1.6	:
8. Growth of relevant foreign markets	Annual average	21.7	15.8	5.7	7.9	8.4
9. World import volumes. excluding EU	Annual average	11	4.8	2.5	3.7	:
10. Oil prices (Brent. USD/barrel)	Annual average	70.7	101.8	85	78	:

Source for items 1,2,3:

<https://www.ecb.europa.eu/pub/projections>

Source for items 6, 7, 9 i 10:

<https://ec.europa.eu/info/business-economy-euro/economic-performance-and-forecasts/economic-forecasts>

Annex II

II. Green transition

Table 10a: Costs of structural reform measures: (5.3.2.1. Transition to a green and circular economy and the establishment of environmental economic instruments) (in EUR)

Year	Salary	Goods and services	Subsidies and transfers	Capital expenditure	Total
Year 2023			750.000		750.000
Year X+1					
Year X+2					

Table 10a: Cost of structural reform measure: (5.3.2.2. Mitigation of climate change -energy efficiency and development of the Information System) (in EUR)

Year	Salary	Goods and services	Subsidies and transfers	Capital expenditure	Total
Year 2023			500.000		500.000
Year X+1					
Year X+2					

Table 10b: Financing structural reform measures(5.3.2.1. Transition to a green and circular economy and the establishment of environmental economic instruments) (in EUR)

Year	The central budget	Local budgets	Other national sources of public finance Environmental Protection Fund	IPA Funds	Other grants	Project loans	It is yet to be determined	Total
Year X	750.000		250.000	9 mil		3 mil		
Year X+1	750.000			9 mil		3 mil		
Year X+2	750.000			9 mil		3 mil		

Table 10b: Financing structural reform measures (5.3.2.2. Climate change mitigation (energy efficiency) (in EUR)

Year	The central budget	Local budgets	Other national sources of public finance Environmental Protection Fund	IPA Funds	Other grants UNDP	Project loans	It is yet to be determined	Total
Year X			500.000		250.000			
Year X+1								
Year X+2								

III. Digital transformation**IV. Business environment and shrinking shadow economy****V. Research, development and innovation****VI. Economic integration reforms****VII. Energy market reforms****Table 10a: Costs of structural reform measures:** (5.3.7.1. Development of electricity and gas markets) (in EUR)**Table 10b: Financing structural reform measures:** (5.3.7.1 Electricity and gas market development) (in EUR) (Fill one per reform)

Year	Salary	Goods and services	Subsidies and transfers	Capital expenditure	Total
Year X	500.000	164.615.300,00	0	256.410,00	165.171.710,00
Year X+1	600.000	253.333.330,00	0	0	253.933.330,00
Year X+2	600.000	305.641.000,00	0	0	306.241.000,00

Year	The central budget	Local budgets	Other national sources of public finance	IPA Funds	Other grants	Project loans	It is yet to be determined	Total
Year X	756.410,00		164.615.300,00					165.371.710,00
Year X+1	600.000,00		253.333.330,00					253.933.330,00
Year X+2	600.000,00		305.641.000,00					306.241.000,00

VIII. Transport market reforms

Table 10a: Costs of structural reform measures: (5.3.8.1. Transport market reform) (in EUR)

Year	Pay	Goods and services	Subsidies and transfers	Capital expenditure	Total
2023.	0(2 currently employed in the ministry in terms of security)	0	0	0	0
2024.	40,000 (for 2 new employees if an agency is established)	0	0	0	40.000
2025.	80,000 (for 4 new employees if the agency is established)	250 (promotion of traffic safety, research, engagement of experts, preparation of technical and study documentation)	0	0	330.000

Table 10b: Financing structural reform measures(5.3.8.1. Reform of the transport market)(in EUR)

Year	The state's central budget	Local budgets	Other domestic sources of public finance	IPA funds	Other grants	Project loans	It just needs to be determined	Total
2023.	0	0	0	0	0	0	0	0
2024.	40.000	0	0	0	0	0	0	40.000
2025.	80.000	0	0	0	0	0	250.000	330.000

IX. Agriculture, industry and services

Table 10a: Costs of structural reform measures: (5.3.9.1. Improving the competitiveness of agriculture, forestry and water management Modification of the system of financial support - Basic (single) payment per hectare of arable land) (in EUR)

Year	Pay	Goods and services	Subsidies and transfers	Capital expenditure	Total
2023.	0	0	17.767.000 KM (payment per ha of arable land)	0	17,767,000 KM
2024.	0	0	18,712,500 KM payment per ha of arable land and 3,400,000 KM (additional payment for corn and wheat)	0	22,112,500 KM
2025.	0	0	21,291,500 KM payment per ha of arable land and 4,400,000 KM (additional payment for corn and wheat)	0	23,112,500 KM

Table 10b: Financing of structural reform measures (5.3.9.1. Improving the competitiveness of agriculture, forestry and water management Modification of the cash support system - Basic (single) payment per hectare of arable land)(in EUR)

Year	The state's central budget	Local budgets	Other domestic sources of public finance	IPA funds	Other grants	Project loans	It just needs to be determined	Total
2023.	17,767,000 KM	We don't have data	We don't have data	0	0	0	0	17,767,000 KM
2024.	22,112,500 KM	We don't have data	We don't have data	0	0	0	0	22,112,500 KM
2025.	23,112,500 KM	We don't have data	We don't have data	0	0	0	0	23,112,500 KM

Table 10a: Costs of structural reform measures: (5.3.9.2. Support to tourism development) (in EUR)

Year	Pay	Goods and services	Subsidies and transfers	Capital expenditure	Total
2023.	200.000	40.000	2.000.000		2.240.000
2024.		60.000	6.000.000		6.360.000
2025.		60.000	6.000.000		6.360.000

Table 10b: Financing structural reform measures (5.3.9.2. Support to tourism development) (in EUR)

Year	The state's central budget	Local budgets	Other domestic sources of public finance	IPA funds	Other grants	Project loans	It just needs to be determined	Total
2023.	2.000.000							2.000.000
2024.	6.000.000							6.000.000
2025.	6.000.000							6.000.000

X. Education and skills

Table 10a: Costs of structural reform measure: (5.3.10.1. Improve the link between education and the labour market) (in EUR)

Year	Pay	Goods and services	Subsidies and transfers	Capital expenditure	Total
2023.	0	0	265,87 ¹³⁷	0	265,87
2024.	0	0	286,32	0	286,32
2025.	0	0	265,87	0	265,87

Table 10b: Financing structural reform measures: (5.3.10.1 Improve education-labour market connectivity) (in EUR)

Year	Central level budget of the state (Federation of BiH)	Local budgets	Other domestic sources of public finance	IPA funds	Other grants	Project loans	It just needs to be determined	Total
2023.	265,87	0	0	0	0	0	0	265,87
2024.	286,32	0	0	0	0	0	0	286,32
2025.	265,87	0	0	0	0	0	0	265,87

XI. Employment and labour market

XII. Social protection and inclusion

XIII. Health care

¹³⁷ Exchange rate on 11. 11. 2022. is 1BAM = 0,511292 EUR

Table 11: Reporting on the implementation of PER structural reform measures 2022-2024

Managing public finances

5.1.3.1. Reduce the share of current spending expenditure with transparency, performance and control in the expenditure of public funds

5.1.3. Increase the efficiency of the public sector, in particular by improving the performance, transparency and accountability of state-owned enterprises

Green transition

	5.2.2.1. Transition towards a green and circular economy	The phase of reform (0-5)
Activities planned for 2022	1. Adoption of the Environmental Protection Strategy in the FBiH	4
	2. Renew existing and build new systems for separate collection, disposal, recycling and reuse of waste throughout the FBiH (build green islands, transshipment stations and recycling yards)	2
	3. Build a plant for mechanical biological treatment OF MBT, municipal waste incinerator and power plant	2
	4. Remove illegal landfills and remediate existing areas under inadequately disposed waste (hazardous and non-hazardous waste) (Remediated and removed wild landfills (at least one per year) Prepare a study of identification of locations contaminated with hazardous waste of the FBiH	3
	5. Improving the information system for waste management in the FBiH	4
	6. Revival of the Revolving Waste Recycling Fund established in the Fund. (Rf is intended primarily for the recycling economy in the form of an interest-free loan with subsidies for projects that give the best results, as an incentive to establish a circular economy	1
	7. Support to the construction and improvement of infrastructure in existing regional landfills for waste management (Expanded sanitary facilities for waste disposal solving leachate issues and construction of purifiers where necessary)	2
	8. Reaching a common agreement on green circular value chains in the Western Balkans through the Memorandum of Understanding "Support provided for identifying and building green and circular regional value chains to exploit untapped supportive economic potential related to the implementation of circular economy projects" (Western Balkans Common Regional Market Action Plan CRM AP 2021-2024)	1
Description of the implementation and	1. Adopted Environmental Protection Strategy 2030+ of the FBiH by the Government of the FBiH, proposal sent to the parliamentary procedure	
	2. Within the Regional Waste Management Center Smiljevići, the first recycling yard in Sarajevo Canton was opened, intended for sorting but also temporary storage of special types of waste	

explanation if the implementation is partial or	3.Feasibility study for mechanical and biological treatment plant MBT, municipal waste incinerator and power plant for Smiljevići
	4. Environmentally acceptable management of persistent organic pollutants in the industrial sector and
	5.Finalized Waste Management Information System, involving about 2000 users, 30 educations were held.
	6. A revolving fund for energy efficiency has been established in the Fund, but also for water protection and waste recycling. Unfortunately, after one year of allocation of funds from these funds, the financial plan did not provide funds,
	7.Regional landfill Mošćanica – project expansion of the surface and construction of accompanying infrastructure, main design done, project included in the Public Investment Program
	8.Regional Cooperation Council – RCC has not initiated activities

	5.2.2.2. Establishment of economic instruments in the field of environment and management of special categories of waste	The phase of reform (0-5)
Activities planned for 2022	1.Revival of energy efficiency revolving fund	1
	2.Adoption of the Law on environmental protection and energy efficiency fund of the Federation of BiH	3
	3.Amendment to the regulation on fees for air pollutants	0
	4.Amendment to the Regulation on fees for the registration of motor vehicles	0
	5.Amendment of the regulation on fees for plastic bags suspenders	0
Description of the implementation and explanation if the implementation is partial or non-conductive	1. The proposal has not been adopted by the Board of Directors of the Environmental Protection Fund	
	2. In 2017, the Government of the Federation of BiH established the Draft Law on the Environmental Protection and Energy Efficiency Fund of the Federation of BiH, which was submitted to the parliamentary procedure. It did not pass parliamentary procedure in 2017.	
	3.The new Draft Law on environmental protection and energy efficiency fund was reconsidered in July 2022 and was not adopted by the House of Peoples of the Parliament of the FBiH	
	3. Since the Law was not adopted, the planned decrees could not be adopted	

III Digital Transformation

4 Business environment and the reduction of the informal economy

V Research, development and innovation

Reforms of economic integration

VII Energy Market Reforms

	5.3.7.1. Development of electricity and gas markets 5.3.1.2. Improving energy efficiency and use of renewable energy sources
Activities planned in 2022	1. Amendment (or adoption of a new) Law on Electricity in the Federation of Bosnia and Herzegovina (The Federal Ministry of Energy, Mining and Industry prepares, the Government of the Federation of Bosnia and Herzegovina proposes, and the Parliament of the Federation of Bosnia and Herzegovina adopts) 2. Adoption of the Law on Gas in the Federation of Bosnia and Herzegovina (The Federal Ministry of Energy, Mining and Industry Prepares, the Government of the Federation of Bosnia and Herzegovina proposes, and the Parliament of the Federation of Bosnia and Herzegovina adopts) 3. Program on restructuring of the electricity sector in the Federation of Bosnia and Herzegovina (Federal Ministry of Energy, Mining and Industry prepares, the Government of the Federation of Bosnia and Herzegovina adopts, and the Parliament of the Federation of Bosnia and Herzegovina gives consent, and jp Elektroprivreda BiH d.d. Sarajevo and JP Elektroprivreda HZHB d.d. Mostar are responsible for the implementation of the Program). By Decision No. V. No. 933/2019 of 22.08.2019, the Government of the Federation of BiH adopted the Program on restructuring of the electricity sector in the Federation of Bosnia and Herzegovina and forwarded it to the Parliament of the Federation of Bosnia and Herzegovina for further procedure. 4. Establishment and start of operations of the Distribution System Operator in JP Elektroprivreda BiH d.d. Sarajevo and JP Elektroprivreda HZHB d.d. Mostar (in charge of JP Elektroprivreda BiH d.d. Sarajevo and JP Elektroprivreda HZHB d.d. Mostar) 5. Drafting the Law on Gas in the Federation of Bosnia and Herzegovina (prepared by the Federal Ministry of Energy, Mining and Industry) 6. Adoption of amendments to the Law on the Use of Renewable Energy Sources and Efficient Cogeneration in the Federation of Bosnia and Herzegovina (The Federal Ministry of Energy, Mining and Industry prepares, the Government of the Federation of Bosnia and Herzegovina proposes, and the Parliament of the Federation of Bosnia and Herzegovina adopts) and accordingly amendments to the applicable and /or adoption of new implementing acts pursuant to this Law (Federal Ministry of Energy, mining and industry, Regulatory Commission for Energy in the Federation of Bosnia and Herzegovina, Renewable Energy Operator and the Government of the Federation of Bosnia and Herzegovina, each within their respective competencies), which would define and introduce new schemes for encouraging the production of electricity from renewable energy sources and activities on the preparation of the Action Plan for Renewable Energy Sources of the Federation of Bosnia and Herzegovina for the period from 2021 to 2030 (implemented by the Federal Ministry of Energy, mining and industry)

	7. Participation in activities on the development and adoption of the Action Plan for Renewable 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 competent Entity Ministries, Brcko District and GIZ)
	8. Activities on amendments to the Law on Energy Efficiency in the Federation of Bosnia and Herzegovina regarding the definition of financial mechanisms for the implementation of energy efficiency measures (carried out by the Federal Ministry of Energy, Mining and Industry)
	9. Adoption of the Energy Efficiency Action Plan of the Federation of Bosnia and Herzegovina 2019-2021 (The Federal Ministry of Energy, Mining and Industry with other competent federal institutions is preparing, the Government of the Federation of Bosnia and Herzegovina adopts)
	10. Drafting and adopting the remaining bylaws/implementing acts based on the Law on Energy Efficiency in the Federation of Bosnia and Herzegovina (prepared by the Federal Ministry of Energy, Mining and Industry)
	11. Report on the implementation of the Action Plan for Renewable Energy Sources of the Federation of Bosnia and Herzegovina 2010-2020 for 2019 (Federal Ministry of Energy, Mining and Industry in cooperation with the Renewable Energy Operator, other competent ministries)
	12. Participation in activities on the development and adoption of the Energy Efficiency Action Plan of Bosnia and Herzegovina for the period 2020-2030 as part of the NECP BiH (Ministry of Foreign Trade and Economic Relations in cooperation with the competent Entity Ministries, Brcko District and GIZ)
	13. Preparation and development of the Program for the protection of energy-endangered energy customers (competent ministries and the Government of the Federation of Bosnia and Herzegovina)
Description of the implementation and explanation if it is a partial implementation or lack of implementation	1. Adopted Draft Law on Electricity in the Federation of Bosnia and Herzegovina, followed by the adoption of the Proposal of the Law on Electricity in the Federation of Bosnia and Herzegovina (The Federal Ministry of Energy, Mining and Industry Prepares, the Government of the Federation of Bosnia and Herzegovina proposes, and the Parliament of the Federation of Bosnia and Herzegovina adopts)
	2. Drafting of the Law on Gas in the Federation of Bosnia and Herzegovina will follow the adoption of the Law on Electricity and Natural Gas Regulator, Transmission and Electricity Market in Bosnia and Herzegovina
	3. The Government of the Federation of BiH has adopted the Program on restructuring the electricity sector in the Federation of Bosnia and Herzegovina by Decision No. V. No. 1449/2019 of 12 December 2019. At the 10th regular session held on January 29, 2020, the House of Representatives of the Parliament of the Federation of Bosnia and Herzegovina adopted approval to the Program on restructuring the electricity sector and forwarded it to the House of Peoples of the Parliament of the Federation of BiH.
	4. After the final adoption of the Program on restructuring of the electricity sector in the Federation of Bosnia and Herzegovina, the operationalization of the establishment and start of operation of The DSO in two power companies will be initiated.
	5. Drafting of the Law on Gas in the Federation of Bosnia and Herzegovina will follow the adoption of the Law on Electricity and Natural Gas Regulator, Transmission and Electricity Market in Bosnia and Herzegovina

	6. Adopted the Draft Law on the Use of Renewable Energy Sources and Efficient Cogeneration in the Federation of Bosnia and Herzegovina (The Federal Ministry of Energy, Mining and Industry Prepares, the Government of the Federation of Bosnia and Herzegovina proposes, and the Parliament of the Federation of Bosnia and Herzegovina adopts) and accordingly amendments to the current and / or adoption of new implementing acts pursuant to this Law (Federal Ministry of Energy, mining and industry, Regulatory Commission for Energy in the Federation of Bosnia and Herzegovina, Renewable Energy Operator and the Government of the Federation of Bosnia and Herzegovina, each within their respective competencies), which would define and introduce new schemes for encouraging the production of electricity from renewable energy sources and activities on the preparation of the Action Plan for Renewable Energy Sources of the Federation of Bosnia and Herzegovina for the period from 2021 to 2030 (implemented by the Federal Ministry of Energy, mining and industry)
	7. FMERI, together with other relevant stakeholders in the Federation of BiH, and in the technical assistance of the USAID–EPA project, identified the necessary interventions on the law on energy efficiency in the Federation of BiH that would define financial mechanisms for the implementation of energy efficiency measures. Further activities to amend and amend the Law are ongoing.
	8. In the past period, the following implementing acts under the Law on EE have been adopted -Rulebook on regular energy audit of heating and air conditioning systems ("Official Gazette of the Federation of BiH 02/19) -Rulebook on minimum requirements for energy characteristics of buildings ("Official Gazette of the Federation of BiH 81/19). And at the stage of manufacture are: -draft Rulebook on conducting energy audits of utilities of the Federation of Bosnia and Herzegovina -draft Rulebook on conducting energy audits in industry in the Federation of Bosnia and Herzegovina, -draft Regulations on contracting and implementation of energy service/energy effect contract (ESCO)
	9. Report complete.
	10. FMERI representatives actively participate in the work and these thematic groups.
	11. The development of a program for the protection of energy-endangered energy customers will begin after the creation of the social card by the Federal Ministry of Labor and Social Welfare. As part of the activities, the Government of the Federation of BiH has adopted a Decision on the implementation of measures to reduce the cost of electricity to households and stimulate energy efficiency.

Viii Transport Market Reforms

	5.2.8.1. Transport market reform	The phase of reform (0-5)
Activities planned for 2022	1. Analysis of the impact of transport on the environment in the FBiH	2

Description of the implementation and explanation if the implementation is partial or	1. During 2022, the activities of drafting a study entitled "Policy instruments for managing emissions from road vehicles in the Western Balkans" were launched. The aim of this study is to identify measures to improve the ecological fleet of road vehicles. Also, an analysis of institutional, regulatory, social and economic challenges and the possibilities of reforming emissions management from road vehicles in the region will be carried out. Representatives of FMPIK, state institutions of BiH, Republika Srpska and Brčko District, with the assistance of
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IX Agriculture, industry and services

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

	5.2.9.3. Support the development of entrepreneurship of the tourism sector and hospitality in the Federation of BiH	The phase of reform (0-5)
Activities planned for 2022	1. Law on Tourism in the Federation of BiH, Law on Sojourn Taxi in the Federation of BiH, Law on Hospitality in the Federation of BiH,	4
	2. Tourism Development Strategy in the Federation of BiH 2022-2027	4
	3. Sign a Memorandum of Cooperation with the Development Bank on the establishment of a model of financing businessmen / entrepreneurs from the tourism and hospitality	1
	4. Decision of the Government of the FBiH on the program of spending funds on financing projects from the tourism and hospitality sector.	5
	5. Adopt a plan for the development of health tourism in the field of rehabilitation, dentistry and aesthetic surgery in the FBiH with the application and strengthening of international	1
	6. Development of mutually complementary plans for emergency situations and crisis management strategies in tourism and adoption of protocols on cooperation in	0
Description of the implementation and explanation if the implementation is partial or non-conductive	1. The Law on Tourism in the Federation of BiH, -is in the Parliamentary Procedure the Law on Sojourn Taxi in the Federation of BiH – is in the Parliamentary Procedure	
	2. Adopt a plan for the development of health tourism in the field of rehabilitation, dentistry and aesthetic surgery in the FBiH with the application and strengthening of international standards of quality of medical services – continuation of activities in 2023 <u>Sign a Memorandum of Cooperation with the Development Bank on the establishment of a model of financing</u>	
	3. 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 countries of the Western Balkans in cooperation with the RCC (Action Plan for the Common Regional Market of the Western Balkans CRM AP 2021-2024)—will not be implemented by the tourism sector, we believe that this activity should be implemented at the level of the Federation of BiH.	

X Education and skills

	5.3.10.1. Improving the link between education and the labor market and strengthening access and quality of education	The phase of reform (0-5)
Activities planned for 2022	1. Supporting training, vocational training and adult training programmes with a focus on women for easier integration into the labour market	3
	2. Support to programs for developing functional knowledge and skills of preschool children and pupils of public primary and public high schools	3
	3. Support to public higher education institutions for projects related to labour market needs for study programmes of i and ii cycle of studies	3
Description of the implementation and explanation if the implementation is partial or non-conductive	1. The program was realized in 2022 through the Public Call for co-financing projects in the field of education and science in 2022 (The Transfer Fund Expenditure Program established by the FBiH Budget for 2022. The Federal Ministry of Education and Science was published in the "Official Gazette of the FBiH" no. 42/22). Funding has been granted to eight beneficiaries. The final stage is the signing of the contract and the implementation of the projects follows.	
	2. The Program is included in the Transfer Expenditure Program determined by the FBiH Budget for 2022 of the Federal Ministry of Education and Science (published in the "Official Gazette of the FBiH" No. 42/22). The Cantonal Ministries of Education have nominated the projects. The final stage is the signing of the contract and the implementation of the projects follows.	
	3. The program is realized in 2022 through the Public Call for co-financing projects in the field of education and science in 2022 (The transfer fund expenditure program established by the FBiH Budget for 2022. The Federal Ministry of Education and Science has been published in the "Official Gazette of the FBiH" no. 42/22). Letters sent to public higher education institutions with information on available funds and published criteria.	

XI Employment and labour market

XII Social Protection and Inclusion

XIII Health Care

Report on implementation of structural reform measures for 2022 from the Economic Reform Programme of the Republika Srpska for the period 2022-2024

Activities and description of implementation	Name and number of reform measures and activities planned in 2022	Reform implementation phase (0\2025)2
Reform measure no. 1. Improving the link between education and the labour market and strengthening access and quality of education		
Activities planned for 2022.	1. Creation of enrollment policy in accordance with the real needs of the labor market and development policies of the Republika Srpska, based on assessments of needs in the labor markets of local communities (IPC)	4
	2. Creating curricula for general secondary education and upbringing with a focus on learning outcomes and competencies that ensure effective continuation of education and lifelong learning (IPC)	3
	3. Developing a curriculum for the first grade for all majors in gymnasium (MPK)	2
Description of the implementation and explanation if it is a partial implementation or lack of implementation	1. In the creation of enrolment policy in secondary schools for the school year 2022/2023, in addition to secondary schools, local self-government units, the Chamber of Commerce of the Republika Srpska, the Union of Employers of the Republika Srpska, the Employment Institute of the Republika Srpska and other relevant partners were involved, and the same was conducted in accordance with the needs of the labor market and the needs for continuing education at higher education institutions.	
	2. Several rounds of consultations with the professional public have been conducted: members of the Expert Team, representatives of the Republic Pedagogical Institute, schools and other relevant institutions in order to reach an expert consensus on the basic goals and principles on which the new curriculum will be based, which should follow new scientific achievements and be realized in accordance with the relevant didactic-methodical approach in the work.	

¹ In accordance with the Guidelines of the European Commission for Economic Reform Programmes 2023-2025 of the Western Balkans and Turkey, the report on the implementation of structural reform measures is prepared as Table 11.

² 0 = no implementation; 1 = implementation in preparation; 2 = initial steps taken; 3 = implementation in progress with some initial results; 4 = implementation in the advanced stage; 5 = full implementation.

	3. During the activities related to the analysis of the existing curriculum, after which a methodology will be prepared for the development and development of a new curriculum for the first grade of gymnasium.	
Reform measure no. 2. Increasing the efficiency of the labor market and institutional strengthening of the Employment Service through the improvement of services to users		
Activities planned for 2022.	1. Preparation of the Employment Action Plan for 2022 (MRBIZ)	5
	2. Preparation of the Occupational Safety Action Plan for 2022 for the implementation of the Occupational Safety Strategy 2021-2024 (MRBIZ)	3
	3. Improving social dialogue through strengthening the role of economic-social council and the work of other tripartite bodies in the preparation and drafting of regulations and strategic documents in the field of work, employment and safety at work with the aim of creating a favorable environment for decent work and increasing the standard of living of workers (MRBIZ)	4
	4. Preparation of the Law on Amendments to the Labour Law and referral to the parliamentary procedure, which implies a clear and uniform definition of the concept of salary and elements for determining salary, precisely defining the concept of lowest wages (MRBIZ, in cooperation with social partners)	5
	5. Preparation of the Law on Amendments to the Law on Safety at Work referral to the parliamentary procedure (MRBIZ, in cooperation with social partners)	2
	6. Adoption of the employment programme in accordance with the Employment Action Plan for 2022 (MRBIZ)	5
	7. Enabling better interaction between employers and unemployed persons (MRBIZ in cooperation with social partners)	5
	8. Continuation of the implementation of the Program of social care of workers who lost their jobs in the process of privatization, bankruptcy and liquidation of the company (MRBIZ in cooperation with social partners)	4

	9. Continuation of activities on improving services to key users and enabling better interaction between employers and unemployed persons	5
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Description of the implementation and explanation if it is a partial implementation or lack of implementation	1. The Action Plan for 2022 was adopted ³ .
	2. The 2022 Action Plan ^{is} : 1) A project team has been formed to work on the Central Register of Occupational Injuries (CRPR); 2) Proposal of the Terms of Reference for the development of CRPR.
	3. Social partners have actively participated in the drafting of the Law on Amendments to the Labour ^{Law} ⁵ and the Rulebook on the Content of Written Payroll ⁶ . The Law on Amendments to the Labour Law in the part regulating salary provides for the possibility of social partners to regulate the salary in another way collectively a contract, which is not more disliked than the law prescribed.
	4. Law on Amendments to the Labour Code adopted.
	5. The Law on Amendments to the Law on Safety at Work is in the phase of negotiation with social partners.
	6. Program of employment and self-employment of target categories in the economy in 2022, Program of support to employment of young people with hjs in the status of trainees, Program of financing employment and self-employment of children of deceased combatants, demobilized fighters and war invalids vrs "Together to work" in 2022, Program of support to employment in the economy through payment of incentives in the amount of paid taxes and contributions for the new employment ^{of workers} ⁷ , as well as the Roma Employment Support Program in the Republika Srpska ⁸ have been implemented, while it is expected to announce a public call for the Training, Retraining and

³ The Action Plan for 2022 was adopted at the 152nd session of the Government of the Republika Srpska held on December 30, 2021 and published in the "Official Gazette of the Republika Srpska", No. 5/22, which also suffered two amendments published in the "Official Gazette of the Republika Srpska", No. 41/22 and 63/22.

⁴ The Action Plan of the Strategy for Safety at Work for 2022 was adopted at the 141st session of the Government of the Republika Srpska held on 14 October 2021 (Decision No. 04/1-012- 2-3075/21 published in the "Official Gazette of the Republika Srpska", No. 96/21).

⁵ The Law on Amendments to the Labour Law was published in the Official Gazette of the Republika Srpska, No. 119/21 and entered into force on January 6, 2022.

⁶ The Rulebook was adopted and published in the "Official Gazette of the Republika Srpska", No. 18/22, which suffered one amendment published to the "Official Gazette of the Republika Srpska", No. 65/22.

⁷ The programs were implemented by the Public Call to employers and unemployed persons for the use of funds under employment programs in 2022, announced by the Ministry of Labour and Veterans' and Disability Protection and the Public Institution of the Institute for Employment of the Republika Srpska on February 3, 2022.

⁸ Program implemented by the Public Call to employers and unemployed persons for the use of funds under the program of support to employment of Roma in the Republika Srpska in 2022, announced by the Ministry of Labor and Veterans' and Disability Protection and the Public Institution of the Institute for Employment of the Republika Srpska on May 12, 2022.

⁷ Information on the implementation of the Basis of the Program of Social Care of Workers for 2021, adopted at the 162nd session of the Government of the Republika Srpska, held on March 24, 2022, Ključki no. 04/1-012-2-994/22.

⁸ Decision no: 04/1-012-2-653/21 adopted at the 111th session of the Government of the Republika Srpska held on 4 March 2021; Decision No. 04/1-012-2-1764/21 adopted at the 125th Session of the Government of the Republika Srpska held on 10 June 2021; Decision No. 04/1-012-2-2670/21 adopted at the 136th Session of the Government of the Republika Srpska held on 9 September 2021; Decision No. 04/1-012-2-3430 adopted at the 146th Session of the Government of the Republika Srpska held on 18 November 2021; Decision No.:04/1-012-2-77/22 adopted at the 153rd session of the Government of republika Srpska held on 18 January 2022.

	retraining.	
	7. Public Institution Employment Institute continuously works on improving the interaction between employers and unemployed persons through annual Cooperation Plans with employers, advisory process for unemployed persons, mediation in employment, as well as implementation of activities "Labor Market Research".	
	8. The Government of the Republika Srpska adopted the Information on the implementation of the Basics of the Program of Social Care of Workers for 2021 ⁷ and in 2021 adopted five decisions on the approval of funds for social care of workers ⁸ .	
	9. Public Institution Employment Institute conducts activities aimed at improving services to key users (employers and unemployed persons) through annual Cooperation Plans with employers, advisory process for unemployed persons, employment mediation, as well as the implementation of activities "Labor Market Research", which aims to examine the needs of employers in order to create future employment policies. During 2021, the "Labour Exchange" application started working, which aims to improve the function of mediation in employment (online mediation), as well as the interaction between employers and unemployed persons.	
Reform measure no. 3. Establishment of a more efficient system of management of scientific research and innovation potential in the Republika Srpska		
Activities planned for 2022.	1. Encouraging cooperation of the scientific research and innovation community with the economy through the financing of projects that will find direct application in the economy (MNRVOID)	3
	2. Development of electronic platforms for connecting young scientific research staff in the country and the diaspora, educational institutions and economy (MNRVOID, MEIMS)	4
	3. Adoption of the Strategy of Smart Specialization of the Republika Srpska 2021\2027 (MNRVOID)	3
	4. Establishment of the Center for Science and Scientrometry, in cooperation with the National and University Library of the Republika Srpska (MNRVOID, NUBRS)	2

Description of the implementation and explanation if it is a partial implementation or lack of implementation	1. During 2021, the implementation of joint projects of the scientific research community and the economy "Sinergija" is planned through a competition, the publication of which is expected by the end of the year, in accordance with the available financial resources. The criteria for the implementation of these projects are defined in the Rulebook on co-financing scientific research projects, which was adopted in 2020, and the implementation of this activity is no longer in the pilot phase. During 2021, monitoring of the implementation of projects started in 2019, within the pilot phase of this activity, continued. During 2021, the competition for the best technological innovation in cooperation with the Republic of Serbia was implemented. The implementation of the program of support to innovation in the Republika Srpska is underway. In addition to the established cooperation of the Fund "Dr Milan Jelic" with the Fund "Dositej" from the Republic of Serbia, MNRVOID is in the final stage of the development of the "Alumni portal of scholarship holders of the Fund "Dr Milan Jelic". The goal of the portal is: promotion of the achieved success of our scholarship holders, continuous monitoring of the development of scientific and professional careers of our scholarship holders, and better connection of scholarship holders with adequate opportunities for professional and scientific training. The task of the portal alumni is to enable faster and more effective communication between scholarship holders, scholarship holders and business entities, as well as scholarship holders and the Fund. In order to fulfill the above goals and tasks of the alumni portal, and the vision and mission of the Fund "Dr Milan Jelic", the portal consists of two interconnected units, namely: • Scholarship holders – which contains profiles of our scholarship holders and their biographical information; • Friends of the Fund (prominent business entities, organizations and prominent personalities) – contains data on business entities and prominent personalities who have the opportunity to search biographies of scholarship holders have recognized the work of the Fund and scholarship holders. The activity of developing a database of scientists from the diaspora who are originally from the Republika Srpska, which is being implemented in cooperation with MEIMS with the aim of collecting data on scientists from the diaspora who are originally from the Republika Srpska, is also underway.
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	3. The first draft of the strategic document has not been completed, because in the meantime the working group is familiar with the detailed methodology of drafting the Strategy presented by the Joint Research Centre (EC), which stipulates that the entrepreneurial discovery process, which precedes the identification of the area of smart specialization, takes at least one year, with intensive research of needs in the field. In this regard, the working group has taken steps in finding budgetary and non-budgetary funds for these activities. Also, MNRVOID, as the main coordinator of the development of the Smart Specialization Strategy, included this process as one of the strategic goals when drafting the new Strategy of the Ministry for the period 2022-2028. The working group continues to work on the preparation of the document, after providing the funds needed for covering the cost of making.
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	4. Activities have started on the establishment of the Center for Science and Scientometry, in cooperation with the National and University Library of the Republika Srpska. Due to the situation caused by the coronavirus pandemic, i.e. limited financial resources in 2021, it is planned that the activities on the final establishment of the Center will be realized in 2022.
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Reform measure no. 4. Relieving labour taxation and reducing parafiscal burdens

Activities planned for 2022.	1. Implementation of legal solutions: • The Law on Amendments to the Income Tax Act (MF), • Law on Amendments to the Law on Communal Fees (MF), • the Law on Amendments to the Contributions Act (MF), • The Law on Amendments to the Fire Protection Act (MUP), • Law on Amendments to the Law on Agricultural Land (MSH)	5
	2. Adoption of legal and bylaws: • The Law on Simplified Engagement in Seasonal Jobs (MRBIZ), • The Law on Amendments to the Income Tax Act (MF), • Regulation on the tariff of republic administrative fees (MF)	3

	3. Preparation of the Analysis of the introduction of minimum contribution bases by industry branches	1
	4. Development of a methodology for determining the lowest salary in the Republika Srpska	2
	5. Drafting an analysis of the Law on Incentives in the Economy of the Republika Srpska, with special emphasis on the application and effects of incentives for increasing workers' salaries	5
Description of the implementation and explanation if it is a partial implementation or lack of implementation	1. In 2021, the Law on Amendments to the Income Tax Act was adopted, which entered into force in 2022. With these changes, the basic personal deduction has been increased from the previous 8,400 KM to 12,000 KM annually, which represents an increase from the previous 700 KM to 1,000 KM on a monthly basis, the base of personal income tax has been changed (Article 13 of the Code of Civil Procedure). The tax base of personal income tax represents the sum of gross personal income, reduced the tax rate on personal income from 10% to 8%, increased the rate of tax on copyright income, copyright related rights and industrial property rights, capital, capital gains and other income from 10% to 13%. The effects of this law are reflected in the following: There will be an increase in income tax revenues by 26 million KM. On the other hand, the loss of contributions due to	

	the reduction of the aggregate contribution rate is 80 million, so in this way there will be an increase in the net wages of workers in the Republika Srpska by 54 million KM. The effects of the increase in the rate for other types of income from 10% to 13% are an increase in income tax revenue by 8.5 million. The Law on Amendments to the Law on Communal^{Fees 9}, which entered into force on January 1, 2022, abolished the utility fee for displaying the business name of a legal entity or entrepreneur on business premises. In accordance with the aforementioned amendment, legal entities and entrepreneurs after January 1, 2022 are not obliged to pay a utility fee for displaying the business name of a legal entity or entrepreneur on business premises. The total effect of relieving business entities based on the adopted changes is about 17 million KM annually. By the Law on Amendments to the Law on^{Contributions 10}, which entered into force on January 1, 2022, the aggregate contribution rate was reduced from 32.8% to 31%. This is the result of a decrease in the rate of health insurance contributions from 12% to 10.2%.
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	The effect of this change is the loss of revenues of the Health Insurance Fund on an annual level in the amount of 80 million KM, but for that amount the transfer to the Health Insurance Fund has been increased, so the loss essentially represents a loss of the Budget of the Republika Srpska.
	2. In 2022, the Law on Amendments to the Law on Income Tax was adopted, by which the untaxed part of the hot meal, if prepared by the employer or catering services are used, is worth up to 0.75% of the average net salary in the Republika Srpska for the previous year according to the last data of the Statistical Office of the Republic of Serbia, per day per employee, which in 2022 amounts to 7.53 KM for each day that was employed at work. In accordance with article 24a, paragraph 1. In accordance with Article 11 of the Law on Amendments to the Law on Administrative Fees¹¹, the Ministry of Finance is obliged to draft a Proposal of the Decree on the Tariff of Republic Administrative Fees. Activities on drafting the Proposal for a Regulation on the Tariff of Republic Administrative Taxis are underway.
	3. Expressed need to carry out activities on the analysis of the introduction of minimum contribution bases by industry. Activities are underway in the coming period.
	4. Information on macroeconomic indicators relevant for determining the lowest salary in the Republika Srpska and considered at the economic and social council unit. The next step is to make methodology for determining the lowest salary in the Republika Srpska.

⁹ "Official Gazette of the Republika Srpska", No. 119/21.

¹⁰ "Official Gazette of the Republika Srpska", No. 119/21.

¹¹ "Official Gazette of the Republika Srpska", No. 123/20.

	5. After two years of application of the Law, an Analysis of the Application of the Law on Incentives in the Economy of the Republika Srpska was made, with special emphasis on incentives for increasing workers' salaries. Based on the analysis, it can be concluded that the allocated means of incentives achieved positive effects and justified the expected results. Namely, in the two-year period of application of the Law, the MPP allocated incentive funds in the total amount of 30.4 million KM, of which 22 million KM for an incentive to increase the salaries of workers and 8.4 million KM for incentives for direct investments. The emphasis of the analysis was placed on the incentive to increase the salary of workers, and for the first four accounting periods, from July 1, 2019 to June 30, 2021, the total was delivered and processed 2,034 claims for 32,000 workers whose wages have been raised. The most significant effects of the application of the law among the beneficiaries of incentives are: an increase in the salary of workers by 26% compared to the starting salary period (March 2019), by 54% of employees increased salary compared to the starting salary period (March 2019) and the increase in the number of employees by 9.48%. Based on the results of the analysis, projections made and constructive proposals submitted by stakeholders, certain recommendations have been made for improving existing ones Legal solutions, and the Law on Amendments to the Law on Incentives in the Economy of the Republika Srpska^{was adopted 12}.	
Reform measure no. 5. Strengthening support for the recovery of entrepreneurship after the COVID-19 pandemic		
Activities planned for 2022.	1. Continued implementation of financial support (MPP)	5
	2. Implementation of the Law on Social Entrepreneurship (adoption of bylaws, granting status to socially owned enterprises, supervision of the application of laws) (MPP)	5
	3. Analysis of the existing Law on Craft-Entrepreneurial Activity and initiative of the Crafts and Entrepreneurship Chamber of the Republika Srpska and the Association of Entrepreneurs (MPP)	4
Description of the implementation and explanation if it is a partial implementation or lack of implementation	1. In 2022, the MPP prepared a Decree on the procedure for granting incentives for small and medium-sized ^{enterprises 13} , which was adopted by the Government of the Republika Srpska. The Decree prescribes the purpose, conditions, criteria and procedure for allocating incentive funds for the development of small and medium-sized enterprises, obligations of beneficiaries of funds, control and manner of reporting on the expenditure of allocated funds. The incentive is awarded for the following purposes: digital transformation, technical innovations (equipment), organization and participation in fairs, and preservation of old and artistic crafts and domestic crafts. The MPP has issued a public call for these purposes. 267 entities applied for the public call. The conditions for exercising the right to incentives were met by 186 entities. It's been prepared	

	information for the Government of the Republika Srpska on the basis of which it is proposed to make a decision on the approval of funds
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¹² "Official Gazette of the Republika Srpska", No. 52/19, 78/20, 37/22 and 56/22.

¹³ "Official Gazette of the Republika Srpska", No. 66/22.

	with rankinglists and the corresponding amount of money for eligible entities, in accordance with available funds. Incentives will be approved up to the amount of available funds in the Budget of the Republic of Serbia Serbian. After the adoption of the information, it is envisaged to adopt a decision on granting funds and closing the contract with beneficiaries in accordance with the Regulation. 2. In 2021, <i>the Law on Social Entrepreneurship of the Republika Srpska</i> was adopted, which for the first time regulates this area in the legal system. The law provides for the adoption of two bylaws that were adopted in 2022, namely: <i>The Rulebook on the content and form of the application for acquiring the status of a social enterprise</i>¹⁴ and <i>the Rulebook on the content and manner of keeping the register of social enterprises</i>¹⁵. Based on the aforementioned Law and Regulations, the first decision on granting the status of a social enterprise for the subject "Humanitas" d.o.o. Banja Luka was made, and the procedure is also the consideration of the second application for granting the status. 3. In 2022, the analysis of the situation in the field of craft and entrepreneurial activity has started. Requests and initiatives of the Chamber have been collected, and a request is being prepared that will be sent to all local self-government units, as registration bodies for this area, in order to collect data on problems in the implementation and application of this law in the field.								
Reform measure no. 6. Improving a safe environment for business									
Activities planned for 2022.	<table> <tr> <td data-bbox="562 770 1798 890">1. Participation in the drafting of the Strategy for the Fight against Organized Crime in BiH (2021-2024), on the basis of which the Action Plan of the Ministry of the Interior of the Republika Srpska for the fight against organized crime (MUP) will be drafted.</td><td data-bbox="1798 770 2089 890">4</td></tr> <tr> <td data-bbox="562 890 1798 1098">2. Participation in the development of the Strategy for prevention and fight against terrorism in BiH (2021-2026), on the basis of which the Action Plan of the Government of the Republika Srpska for prevention and fight against terrorism will be developed (Ministry of Interior with the Coordination Body of the Government Republika Srpska)</td><td data-bbox="1798 890 2089 1098">4</td></tr> <tr> <td data-bbox="562 1098 1798 1230">3. Participation in the drafting of the Anti-Corruption Strategy in the Republika Srpska and the corresponding Action Plan (current documents are for the period 2018\2022) (holder activities of the MUP)</td><td data-bbox="1798 1098 2089 1230">0</td></tr> <tr> <td data-bbox="562 1230 1798 1356">4. Strengthening the institutional and legal framework in the fight against corruption, organised crime, money laundering and prevention of terrorist financing and cybercrime (MUP)</td><td data-bbox="1798 1230 2089 1356">4</td></tr> </table>	1. Participation in the drafting of the Strategy for the Fight against Organized Crime in BiH (2021-2024), on the basis of which the Action Plan of the Ministry of the Interior of the Republika Srpska for the fight against organized crime (MUP) will be drafted.	4	2. Participation in the development of the Strategy for prevention and fight against terrorism in BiH (2021-2026), on the basis of which the Action Plan of the Government of the Republika Srpska for prevention and fight against terrorism will be developed (Ministry of Interior with the Coordination Body of the Government Republika Srpska)	4	3. Participation in the drafting of the Anti-Corruption Strategy in the Republika Srpska and the corresponding Action Plan (current documents are for the period 2018\2022) (holder activities of the MUP)	0	4. Strengthening the institutional and legal framework in the fight against corruption, organised crime, money laundering and prevention of terrorist financing and cybercrime (MUP)	4
1. Participation in the drafting of the Strategy for the Fight against Organized Crime in BiH (2021-2024), on the basis of which the Action Plan of the Ministry of the Interior of the Republika Srpska for the fight against organized crime (MUP) will be drafted.	4								
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3. Participation in the drafting of the Anti-Corruption Strategy in the Republika Srpska and the corresponding Action Plan (current documents are for the period 2018\2022) (holder activities of the MUP)	0								
4. Strengthening the institutional and legal framework in the fight against corruption, organised crime, money laundering and prevention of terrorist financing and cybercrime (MUP)	4								

¹⁴ "Official Gazette of the Republika Srpska", No. 56/22.

¹⁵ "Official Gazette of the Republika Srpska", No. 56/22.

	5. Strengthening the institutional and legal framework in the fight against other forms of serious crime (Ministry of Interior and other ministries and institutions of the Republika Srpska, in accordance with the competences)	3
Description of the implementation and explanation if it is a partial implementation or lack of implementation	1. The RS Ministry of Interior has given its consent to the Proposal of the Strategy for combating organized crime in Bosnia and Herzegovina 2023-2026. Ministries, agencies and others who participated in the drafting of the Strategy are obliged to develop action plans for the implementation of the Strategy, after the Strategy is adopted by the Council of Ministers of BiH.	
	2. The Strategy was adopted on November 9, 2022 at the 57th session of the Council of Ministers of BiH. From the Strategy derives the obligation of the Entities and the Brcko District to adopt Action Plans on the Prevention and Fight against Terrorism in accordance with the Strategy. In accordance with previous practice, the Government of the Republika Srpska will form a Working Group for drafting an action plan, and a Coordination Body of the Government for supervision of the implementation of the action plan.	
	3. The process of drafting the Anti-Corruption Strategy in the Republika Srpska and the corresponding Action Plan have not been initiated.	
	4. Strategy for combating organized crime in BiH 2023-2026 (in the adoption phase; explained under 1); The Strategy of BiH for the Prevention and Fight against Terrorism (2021-2026) has been adopted, and after the Government of Republika Srpska forms the Working Group, it will develop an action plan (explained under 2); The Strategy for combating cybercrime in the Republika Srpska for the period 2020-2024 is implemented through three action plans, the implementation of which is annually reported to the Government of the Republika Srpska. By decision no. 04/1-012-2-2562/22 of 21 July 2022, the Government appointed a Working Group for the development of the Action Plan for the Fight against Cybercrime in the Republika Srpska 2023–2024.	
	5. With the implementation of the Protocol on cooperation of the Ministry of interior of the Republika Srpska, and related to the competences of the Office of ARO (<i>Asset Recovery Offices</i>), employees of the ARO Office were granted access to the electronic records of RUGIPP RS (e-cadastre, e-flats and e-land registry), and in the final phase is the provision of access to the server of the PU RS (via IPSec VPN encrypted connection) – appointed employees of the ARO Office.	
Reform measure no. 7. Restructuring Railways of The Republika Srpska		

Activities planned for 2022.	1. Complete the ownership restructuring of the company through the conversion of debt into shares, and the purchase of shares of minority shareholders. The restructuring of the RS railways is carried out on	3
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	based on the Law on Bankruptcy ¹⁶ , in accordance with the Plan on Financial and Organizational Restructuring, adopted by the Government of the Republika Srpska and submitted to the District Commercial Court in Doboj for proceedings (ownership restructuring is carried out by Securities Commission of the Republika Srpska, with the active participation of MSV, MF and ŽRS)	
	2. Complete the activities related to organizational restructuring, which is carried out with the help of the consultant with whom the contract was signed, and whose obligation is to propose a model of functional and economically viable organization Zeljeznica RS (ZRS, with the consent of Government of the Republika Srpska)	4
	3. Implement the procedure of procurement and implementation of a new information system for managing business processes and managing assets in an organizationally new I'm going to do it (shh	1
	4. Complete activities related to the development of business plans and contracts for financing infrastructure and passenger transport; Signing a contract with the Government of the Republika Srpska for infrastructure maintenance and support to the operator through co-financing of passenger traffic; this activity will be carried out with the help of a consultant for planning and contracting (ZRS and an authorized representative on behalf of the Government of the Republika Srpska)	4
	5. Register holding will be taken over by THE RS with subsidiaries for infrastructure and operations, i.e. three subsidiaries – infrastructure, freight transport and passenger transport (RS Railways, MSV)	1
Description of the implementation and explanation if it is a partial	1. The process of valuing capital is underway, which will serve to determine the prices of shares at which small shareholders would be paid. Until the price of shares is determined, no progress is possible.	

implementation or lack of implementation	2. The consultant proposed models of organization to the Government of the Republika Srpska, and the Government made a decision on the future model of organizing the RS. Completion is expected when a new company, ŽRS holding, is registered.
	3. Financing IS is planned by sb loan funds for ZRS, preparation of tenders within the procurement of IS (in procedure) is in the process of preparation of tenders.
	4. Contracts prepared by the consultant are submitted for negotiations in MSV and MF. After the negotiations, they will sign.

16 "Official Gazette of the Republika Srpska", No. 16/16.

	5. It is not possible to realize it until the Government of the Republika Srpska is the owner of 100% of the company.	
Reform measure no. 8. Optimization of administrative procedures at the republican level		
Activities planned for 2022.	1. Implement a harmonized simplification plan (republic institutions that issue formalities)	5
Description of the implementation and explanation if it is a partial implementation or lack of implementation	1. After the adoption of the Information on the implementation of the project of optimization of administrative procedures and formalities at the republic level and the Action Plan in December 2021, the implementation of the agreed plan for simplification of 50 formalities by the republic institutions issuing formalities is planned during 2022. One of the key simplifications is the acquisition of ex officio documents using web services. In order to enable this, the Rulebook on amendments to the Rulebook on the conditions, manner and procedure of providing services of the Agency for Intermediary, IT and Financial Services and the Rulebook on amendments to the Rulebook on the content and manner of keeping the central register of entrepreneurs¹⁷ were adopted, which created the legal basis for reviewing and downloading currently valid data (current review) from the register of business entities. Also, a technical adjustment of the Single Information System for the registration of business entities was made and an insight into current data on registered business entities (both companies and entrepreneurs) was provided. In addition, a technical adjustment of the tax administration system of the Republika Srpska is underway, in order to enable the competent authorities to obtain data on settled tax liabilities through web services, i.e. the right to use information on whether the taxpayer has settled due tax obligations. In order to gain access to the web service, all competent authorities issuing formalities are obliged to conclude an agreement with the Tax Administration of the Republika Srpska and amend their regulations that stipulate the obligation to submit a document – tax certificate on settled tax liabilities in the procedure of issuing formalities, and will check this condition by examining the official records of the Tax Administration, using web services. In this way, preconditions are created to simplify all administrative procedures in which the party is required to submit a decision on registration or the current statement from the register, as well as certificates of settled tax obligations, because the competent authorities will be able to verify ex officio whether the business entity is registered, and whether the business entity has settled tax liabilities and will not require the delivery of the registration decision and the current statement from the register, nor the conviction of settled tax obligations.	

¹⁷ "Official Gazette of the Republika Srpska, No. 70/22.

Reform measure no. 9. Reducing the share of expenditure on current consumption in public administration		
Activities planned for 2022.	1. Adoption of the Law on Civil Servants	2
	2. Analysis of each individual position of employees in the republic administrative bodies, given in the register, to which the provisions of the Law on Civil Servants apply (MULS and other ministries and institutions of the Republika Srpska, in accordance with with powers).	0
Description of the implementation and explanation if it is a partial implementation or lack of implementation	1. The Government of the Republika Srpska, by decision no. 04/1-012-2-1233/21 of 15 April 2021, appointed an interdepartmental working group for the preparation of the preliminary draft law on civil servants. On this occasion, within the project "Strengthening human resource management in BiH", the working group participated in two blocks of workshops, organized by SIGMA. After the workshops, the working group prepared a number of proposals for solutions, which are currently in the phase of harmonization.	
	2. Conditions have not been created due to the non-enactment of the Law on Civil Servants.	
Reform measure no. 10. Management of local development and improvement of services in the field of local self-government		
Activities planned for 2022.	1. Adoption of the Strategy for the Development of Local Self-Government in the Republika Srpska for the period 2022\2028 and the action plan for 2022\2024 (MULS, other ministries and institutions of the Republika Srpska, Union of Municipalities and Cities, Committee for Local Self-Government of the Republika Srpska)	4
	2. Adoption of the Training Strategy for Officials and Elected Officials in Local Self-Government Units in the Republika Srpska 2022\2026 and action plan for 2022\2024 (MULS, other ministries and institutions of the Republika Srpska, Federation of Municipalities and Cities, Committee for Local Self-Government of the Republika Srpska)	3

	Adoption of bylaws regulating the system of local self-government (MULS, other ministries and institutions of the Republika Srpska, Union of Municipalities and Cities), as follows: • Regulation on principles for internal organization and systematization of workplaces in the city or municipal administration, • Regulation on categories, titles and conditions for performing the duties of officials in local self-government units, • Regulation on the procedure and criteria for the evaluation of officials in local self-government units, • Rulebook on uniform procedures for filling vacancies in the city or municipal administration, • Rulebook on disciplinary and material liability of employees in the city or municipal administration, • Regulation amending the Regulation on settlement slots that make up the territory of a local self-government unit	0
	4. Adoption of new criteria for assessing the level of development of local units Self-Government (MULS, other ministries and institutions of the Republika Srpska, Union of Municipalities and Cities, Committee for Local Self-Government of the Republika Srpska)	4
Description of the implementation and explanation if it is a partial implementation or lack of implementation	1. The Government of the Republika Srpska, at its 156th session held on February 10, 2022, adopted the Decision on drafting the Strategy for the Development of Local Self-Government in the Republika Srpska for the period 2022-2028. The Minister of Administration and Local Self-Government, in accordance with the Government's Decision, appointed a working group that held two meetings and prepared a draft strategic platform. It is expected that the proposal of the new strategic document will be submitted for consideration and adoption to the Government of Republika Srpska in November, following the conducted public discussions.	
	2. In order to develop a new strategic document, a comprehensive analysis of training needs is currently being carried out, and focus groups are being prepared with municipal or city officials. A working version of the document has been established, which will be sent for consideration and adoption to the Government of the Republika Srpska together with the Development Strategy, after conducting public discussions.	

	3. The Work Programme of the National Assembly of the Republika Srpska for 2022 establishes the adoption of the Law on Amendments to the Law on Local Self-Government, the Law on Amendments to the Law on Servants and Employees in Local Self-Government Bodies and the new Law on the Status of Officials of Local Self-Government Units. The working group appointed by the decision of the Minister of Administration and Local Self-Government established working versions of the aforementioned laws. Since they were not considered or adopted, the assumptions, i.e. the legal basis for the adoption of bylaws regulating the system of local self-government, were not provided. 4. In order to implement this measure, the Ministry and the Federation of Municipalities and Cities of the Republika Srpska have obtained data from the competent institutions in order to develop a new methodology and define new criteria for assessing the level of development. In this regard, after several meetings, the testing of the new criteria is in the final stages and it is expected that the Decision on the new criteria will be sent for adoption, once it is presented to the key partners.	
Reform measure no. 11. The transition of industry towards a green and circular economy		
Activities planned for 2022.	1. Financial support to the implementation of projects in the industry that have an impact on environmental protection, related to the reconstruction / innovation of existing technological processes, more efficient use of raw materials and energy in the production process, development of products with reduced adverse impact on the environment, introduction of standards for environmental management, reduction of waste generation, recycling and the like (MPP and MPUGE)	1
	2. Financial support to energy efficiency and use of renewable energy sources in industry (FZZZSEE)	3
	3. Promotion of production and use of products with reduced impact on the environment, and raising awareness of the importance of environmental protection (MPUGE and MPP)	2
Description of the implementation and explanation if it is a partial implementation or lack of implementation	1. There was no allocation of incentive funds for the implementation of projects in the industry that have an impact on environmental protection from the Budget of the Republika Srpska for 2022. However, incentives for investment investments of companies from the manufacturing industry from grant 415200 – <i>Support to the development of the economy and improvement of business efficiency and the introduction of new technologies</i> were given partly for the realization of investmentinvestments that have an impact on environmental protection.	

	2. FZZŽSEE provides financial support for the implementation of energy efficiency projects and the use of renewable energy sources, including in the industry sector. Also, support to projects of companies that have an impact on environmental protection is given through the project "EU4BusinessRecovery", a component of "Green Recovery".	
	3. Through the project "Support to the Industrial Energy Efficiency Network in the Republika Srpska", the Network of Industrial Energy Efficiency of the Republika Srpska was established, professional education for representatives of institutions and companies was held and an info day was organized. The Chamber of Commerce organised webinars related to the application of environmental standards. FZZŽSEE co-finance smaller projects to promote and raise awareness related to energy efficiency and the use of renewable energy sources.	
Reform measure no. 12. Establishment of economic instruments for improving the management system of special categories of waste		
Activities planned for 2022.	1. Establishment of a system of management of special categories of waste for which the environmental burden fee is paid (MPUGE, Fund for Environmental Protection and Energy Efficiency of the Republika Srpska – FZZŽSEE and business entities)	3
	2. Establishment of an information system, within which waste management databases (FZZŽSEE) will be kept and updated	2
Description of the implementation and explanation if it is a partial implementation or lack of implementation	1. The collection of fees for special categories of waste runs from 1 January 2022.	
	2. The preparation of the information system within which the waste database will be maintained and updated is underway.	
Reform measure no. 13. Electronic Administration of the Republika Srpska – the road towards a digital society		
Activities planned for 2022.	1. Preparation and adoption of legal acts (Law on e-Government and Law on Information Security), which will improve the field of eGovernment and Information Security in the Republika Srpska (MNRVOID)	3
	2. Application and maintenance of information systems for management of e-government development projects and supervision in the field of information security (MNRVOID, MEIMS)	3

	3. Improving the capacity of MNRVOID and e-government of the Republika Srpska for managing the process of digital transformation of public administration, digital identities and information security of the Republika Srpska (MNRVOID)	4
	4. Activities of conceptual design and development of key ICT infrastructure of e-government (single interoperable information system, electronic payment platform, platform for qualified electronic mailbox delivery, republic cloud, e-government portal and others) (MNRVOID)	2
	5. Application and maintenance of information systems for providing e-services to citizens and businesses (e-baby, smart city, online registration of business entities and more) – MNRVOID	5
	6. Application and maintenance of information systems for managing e- development projects Administration and Supervision in the Field of Information Security (MNRVOID)	4
	7. Improving the capacities of MNRVOID and e-government of the Republika Srpska for management of the process of digital transformation of public administration, digital identities and information security of the Republika Srpska (MNRVOID)	3
	8. Analysis of opportunities and introduction of incentive measures for business entities in the field of ICT in the Republika Srpska (MNRVOID)	4
Description of the implementation and explanation if it is a partial implementation or lack of implementation	1. Prepared preliminary drafts of regulations.	
	2. Finalized development of IS for project management development of e-government. It is not necessary to maintain this and other information systems.	
	3. Conducted training "Digital Academy" for civil servants and advanced training for information security operators.	

	4. MNRVOID in cooperation with international organizations (UNDP, World Bank, RESPA) undertook activities on the analysis of existing infrastructure capacities and necessary functionalities of the future key ICT infrastructure of e-government (unique interoperable information system, electronic payment platform, platform for qualified electronic mailbox delivery, republic cloud, e-government portal and others). Comparative analyses of the development of key ICT infrastructure that is necessary for further development of e-government of the Republika Srpska (development of interoperable information system for data exchange; development of e-signature and e-stamps; development of a platform for qualified delivery of "e-mailbox"; development of platform for e-payments; as well as a preliminary draft of the vision of further development of the infrastructure of the national Data Center and the Republic Cloud), in cooperation with the Regional School of Public Administration financed by the The European Commission. As a continuation of these activities, the implementation of the project functional analysis of administrative services with the World Bank is underway, which should show the current state of development of e-government of the Republika Srpska, as well as to identify and analyze key prerequisites for further development of e-government.
	5. The development of information systems for providing services to citizens and business entities, the implementation of which was started in the previous period, was successfully completed during 2021 (e-baby, smart city, online registration of business entities, e-building permit and others). The full massification of certain services is conditioned by the development of key IK infrastructure in order to enable the mass provision of these The situation has been slowed down by the negative effects of the pandemic.
	6. The final phase of the implementation of the ICT project management platform, which MNRVOID implements in cooperation with UNDP, is underway. It is planned to train ICT personnel in all ministries, republic administrations, administrative organizations, in order to familiarize everyone with the functionalities of this information system. The plan is that all ICT projects (planning phase, implementation phase and maintenance phase) are regularly entered into the information system/register of ICT projects. The Government of the Republika Srpska adopted the conclusion by which it obliged all administrative bodies to continuously improve the scope of IK infrastructure supervision in order to improve the protection of the same against computer security risks, and successfully completed the implementation of SIEM solutions for automated information security supervision.

	7. A qualified CA MNRVOID was established and the Government adopted a Decree by which CA MNRVOID was designated as the holder of certification tasks in and for the administrative bodies of the Republika Srpska, and CA MNRVOID issued a certain amount of qualified electronic certificates to administrative bodies and natural persons for the purpose of realization of projects in progress. In the coming period, it is necessary to carry out the procurement of smart cards with the aim of enabling a mass service of issuing a qualified electronic signature and seal, and to establish a further development plan ca MNRVOID. In the field of digital identity management, MNRVOID actively participates in the work of the Working Group on Interoperability and Trust Services of the Western Balkans Regional Cooperation Council (RCC). In the field of information security of the Republika Srpska, the most significant advances have been made at the field of establishment of automated (electronic) monitoring of information security of ICT infrastructure in the Data Center of the Government of the Republika Srpska by the MNRVOID. For this purpose, an Information Security Operations Center at MNRVOID has been established in order to provide 24-hour surveillance. The process of establishing automated monitoring of information security was accompanied by the development of the legal framework, and eight regulations and internal procedures for various actions were adopted, as well as an intensive training program for employees. The MNRVOID and the Ministry of Interior concluded the Agreement on mutual exchange of data and notifications on computer-security incidents, events and anomalies, mutual reporting and information. MNRVOID, in cooperation with UNDP and the Faculty of Electrical Engineering of the University of Banja Luka, conducted a training program for employees in the Department of Information Security. 8. Preliminary draft incentive measures have been drafted, but the negative effects of the pandemic require additional time for harmonization of the matter with other organs and stakeholders, and reduce the possibility of allocation of additional funds for the successful application of future normative acts. In cooperation with the MPP, an incentive scheme for the digitization of small and medium-sized enterprises has been established. The incentives are intended to support the implementation of digital transformation projects of business entities in the field of manufacturing industry. In 2021, 260,000 KM was allocated for these purposes, and in the current year it is expected that a higher amount will be allocated. In addition, in cooperation with the MPP, a Government Decree was adopted regulating the procedure for awarding incentives for direct investments of special importance, thus providing a legal basis for encouraging a more significant development of the ICT industry of the Republika Srpska. In order to encourage the development of the ICT industry and digitalization of the economy, MNRVOID initiated a wide dialogue with associations and associations of business entities, business entities, entrepreneurs and freelancers in the field of ICT in 2022, with the aim of mapping the potential and necessary measures for a more dynamic development of the ICT industry of the Republika Srpska in the coming period, with the inclusion of all relevant
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partner.

Reform measure no. 14. Reform of the Inspectorate of the Republika Srpska

Activities planned for 2022.

1. Analysis of the establishment of a new organizational structure of the Inspectorate of the Republika Srpska (MULS and the Inspectorate of the Republika Srpska)

4

2. Proposals for improvement of the inspection system of the Republika Srpska through synchronized inspection system at all levels of government in the Republika Srpska (MULS and Inspectorate of Republika Srpska)

3

Description of the implementation and explanation if it is a partial implementation or lack of implementation	1. MULS participated in activities within the first phase of the inspectorate reform related to the drafting of the text of the Law on Inspections of the Republika Srpska, and for the activities planned for 2022, related to the analysis of the establishment of the new organizational structure of the Inspectorate, as well as for proposals for improvement of the inspection system of the Republika Srpska through a synchronized inspection system at all levels of government in the Republika Srpska, the Republic Administration for Inspection Affairs is carried out.		
	With the adoption of the new Rulebook on internal organization and systematization of jobs in the Republic Administration for Inspection Affairs ¹⁸ , a new organizational structure of the Inspectorate was established (in the manner provided by the Law on Inspections of the Republika Srpska), a part of the labor inspectors who performed inspection supervision at the level of local self-government units was taken over, and activities are underway on the adoption of a by-law that will enable the connection of all inspectors who Inspection supervision is carried out at the level of local self-government units in the Inspection Information System (IMS). In May 2022.		
	In 2001, the IMS upgrade was completed, which was well tested, creating the preconditions for connectivity.		
	2. Activities are underway on the adoption of a by-law that will enable the connection of all inspectors who perform inspection supervision at the level of local self-government units		
	the information system (IMS). In May 2022, the IMS upgrade was completed, which was well tested, thus creating the preconditions for connectivity.		
Reform measure no. 15. Reduction of the grey area in the display of turnover by implementing a new system of fiscal cash registers			
Activities planned for 2022.	1. Implementation of the Fiscalization Act (MF)		3
	2. Adoption of bylaws for the application of the new Fiscalization Act: Regulation on activities for which there is no obligation to record turnover through electronic fiscal device (Government of the REPUBLIC OF SERBIA),		3

¹⁸ "Official Gazette of the Republic of Serbia", no. 94/20, 74/21 and 72/22.

	• Regulations on fiscal account (MF), • Regulation on the approval of fiscal system operators (MF), • Regulation on the approval and use of elements of electronic fiscal devices, as well as the register of elements of electronic fiscal devices (MF), • Regulation on data submission and generation of business premises and places of sale (MF) label, • Rulebook on the execution of the measure prohibiting the performance of activities (MF), • Fiscalization Dynamics (MF) Regulations	
	3. Procurement of fiscalization management system in PURS (PURS, MF)	2
	4. Defining and implementing the method of financing costs of initial fiscalization with taxpayers (MF)	1
Description of the implementation and explanation if it is a partial implementation or lack of implementation	1. At the 20th Regular Session held on February 10, 2022, the National Assembly of the Republika Srpska adopted the Law on Fiscalization¹⁹. Since not all the bylaws referred to in Article 27 have yet been adopted, The law on fiscalization, the conditions for the full application of the same were not met. In this regard, Article 26, paragraph 2. The fiscalization law stipulates that the former fiscalization payers, who were obliged to register each individual turnover of goods and services through the existing fiscal cash registers, are obliged to continue recording each individual turnover of goods and services through the fiscal cash register until the moment of establishing a fiscal connection with purs, according to the provisions of the Fiscalization Act, in accordance with the law that was valid until the entry into force of this Law.	
	2. After the entry into force of the Fiscalization^{Act 20}, the Ministry of Finance adopted the Rulebook on data submission and generation of business premises and place of traffic²¹, Rulebook on Approval, use and register of electronic fiscal device^{elements 22} and The Rulebook on Fiscal Account²³.	
	3. Activities in progress, will be continued in 2023.	
	4. Defining and implementing the method of financing the costs of initial fiscalization with taxpayers in preparation.	

¹⁹ "Official Gazette of the Republika Srpska", No. 15/22.

²⁰ "Official Gazette of the Republika Srpska", No. 15/22.

²¹ "Official Gazette of the Republika Srpska", No. 48/22.

²² "Official Gazette of the Republika Srpska", No. 48/22.

²³ "Official Gazette of the Republika Srpska", No. 48/22.

Reform measure no. 16. Regulation of the real estate brokerage area		
Activities planned for 2022.	1. Updating the register of persons engaged in real estate transactions (MTT)	5
	2. Monitoring the effects of the adopted law on the reduction of the gray economy, growth and development of this activity and protection of real estate participants (MTT)	5
Description of the implementation and explanation if it is partial implementation or lack of implementation	-	
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Reform measure no. 17. Strengthening quality infrastructure and developing a legal and planning framework in the sector of free movement of goods under the EU model		
Activities planned for 2022.	1. Realization of strategic goals and measures in the field of quality infrastructure of products and services of the Republika Srpska (MEIMS, MPUGE, MPP, MER, MUP, MPŠV, MZSZ, RzSM, MTT)	3
	2. Adoption of the Regulation on the procedure for reporting regulations in preparation, standards and bodies for conformity assessment in the Republika Srpska (MPP and Coordination Body for Quality Infrastructure in the Republika Srpska)	1
	3. Managing, analyzing and improving the list of applicable regulations of the Republika Srpska that define technical and other requirements for products and services (MEIMS/RZSM)	5
	4. Provision of adequate software and establishment of an operational and comprehensive Register of Regulations of the Republika Srpska, information point of regulations for businessmen, investors and administrative bodies and notification points of regulations of the Republika Srpska in preparation (MEIMS / RZSM)	1
	5. Implementation of the plan for harmonization of non-harmonized regulations of the Republika Srpska with the requirements of Art. 34, 35 and 36. Treaty on the Functioning of the European Union (MEIMS)	2

Description of the implementation and explanation if it is a partial implementation or lack of implementation	1. "<i>Strategy of quality infrastructure of products and services of the Republika Srpska for the period 2019-2023</i>" And the accompanying "<i>Action Plan for the Takeover into the Legal System of the Republika Srpska eu regulations in the field of free movement of goods</i>" defined within nine separate areas of Chapter 1 of EU law: six general and 32 special strategic goals and a total of 197 activities under the jurisdiction of 12 institutions in the Republika Srpska. At the beginning of 2022, MEIMS collected data on the implementation of planned activities for the period January 1 - December 31, 2021. At its 171st session of 26 May 2022, the Government of the Republika Srpska considered the Information on the implementation of the Action Plan and planned goals, measures and activities and adopted The Conclusion No. 04/1-012-2-1824/22 of May 26, 2022. A total of 111 activities are planned for 2021 within the competence of nine republic administrative bodies, but during 2021, 169 activities were conducted. Of these activities, 53 or 31% were fully realized, the realization was in progress for 28 activities or 17%, while 88 activities or 52% were not realized. It is planned to adopt 28 regulations (partially harmonized with <i>the acquis</i> Chapter 1), and the adoption of five regulations or 18% in the area of New Approach – 3 regulations, in the area of The Old Approach – 2 regulations, and in the field of Procedural measures no regulations have been adopted. Given that <i>the Acquis</i> of Chapter 1 is constantly being updated and changed, this has significantly influenced the implementation of planned measures and activities and for 22 planned regulations (76% of planned) the competent institutions have postponed the deadlines for the next period. In order to implement one of the measures of the Strategy and recommendations of the European Commission at the beginning of 2022, the implementation of the Project of drafting an action plan for harmonization of regulations of the Republika Srpska with the requirements of Articles 34–36 began. Treaty on the Functioning of the European Union. An analysis of currently 1,250 applicable regulations of the Republika Srpska relating to the production, distribution, trade and use of products (<i>harmonized</i> and <i>non-harmonized area</i>) and other regulations falling within Chapter 1 of EU law were carried out. At its 167th session of May 28, 2022, the Government of the Republika Srpska adopted the "Action Plan for Harmonization of Republika Srpska Regulations with the Requirements of Articles 34–36. Article 3 of the Treaty on the Functioning of the European Union(s) (Conclusion: 04/1-012-2-1470/22 of 28 April 2022). The Action Plan defines a list of 249 applicable regulations that have measures that are not in accordance with Articles 34–36. Treaty on the Functioning of the European Union (272 regulations in the harmonized and non-harmonised area and two non-technical regulations) and measures and time limits have been laid down to comply with the requirements of Articles 34–36. Treaty on the Functioning of the European Union until the end.
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	2. At the proposal of the Coordination Body for Quality Infrastructure of the Republika Srpska, the MPP is, by the conclusion of the Government of the Republika Srpska, No. 04/1-012-2-49/17 of 12 January 2017, in charge of the preparation of the Law on Amendments to the Law on Technical Regulations of the Republika Srpska, which would be the legal basis for the adoption of the Regulation on the Procedure for Reporting Regulations in Preparation, Standards and Bodies for Conformity Assessment in the Republika Srpska. According to the Work Program of the National Assembly of the Republika Srpska for 2022, the adoption of this law is planned, but during 2022 it has not been implemented. MEIMS conducted an analysis of new EU regulations in this area, the experience of EU countries and the environment and prepared a new working version of the regulation, in accordance with the requirements of the <i>acquis</i> in this area, which will go into the procedure of defining proposals and adoption by the Government of the Republika Srpska when the law (as a legal basis) is adopted. 3. MEIMS regularly monitors and updates the Database of the current legal framework of the Republika Srpska in the area of Poglavlja 1. Free movement of goods (on a monthly basis), and during 2022, the table of data records on applicable regulations has been improved. Updated <i>List of applicable regulations of the Republika Srpska that define technical and other requirements for products and services</i> and regulations are publicly available on the website of the Ministry: http://www.vladars.net/sr-SP-Cyrl/Vlada/Ministarstva/meoi/vazecipropisi/Pages/default.aspx. In the database of regulations, at the end of August 31, 2022, there were a total of 1,225 valid regulations, which are publicly available on the website of the Republic Institute for Standardization and Metrology (http://rzsm.org/tehprop). Also, in order to facilitate the application of the current technical regulations in practice, the website of the Republic Institute is publicly available and updated "<i>List of JUS standards with mandatory application that are no longer mandatory for application in the Republika Srpska</i>" and "<i>List of JUS standards with mandatory application for which the corresponding BAS standards have been adopted</i>".
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	4. The initial version of <i>the Register of Applicable Regulations of the Republika Srpska</i> for the needs of businessmen, investors and administrative bodies was established on the website of the Republic Institute for Standardization and Metrology (http://rzsm.org/tehprop). MEIMS regularly monitors and updates the Database of the current legal framework of the Republika Srpska in the area of Chapter 1. Free movement of goods (on a monthly basis) and on its website publishes an updated List of applicable regulations of the Republika Srpska that define technical and other requirements for products and services, which is also submitted to the Republic Institute for Standardization and Metrology. The establishment of a comprehensive and operational Registry requires appropriate software and access to the Registry to all administrative bodies that make regulations from Chapter 1. The provision of software for the management of the Registry (Database) of the Regulations of the Republika Srpska and for the functioning of the Notification Point of the Regulations of the Republika Srpska in preparation, has not yet been implemented, because the contacted donors have not yet expressed interest in it, and the funds have not been specifically allocated by the Budget of the Republika Srpska. The project of providing this software was delegated for financing under the Public Administration Reform, but during 2022 there were no activities related to it.	
	5. At its 167th session of May 28, 2022, the Government of the Republika Srpska adopted the "Action Plan for Harmonization of Republika Srpska Regulations with the Requirements of Articles 34–36. Treaty on the Functioning of the European Union" with the period of implementation until the end of 2027 ²⁴ . The Action Plan defines a list of 249 applicable regulations that have measures that are not in accordance with Articles 34–36. The Treaty on the Functioning of the European Union (272 harmonised and non-harmonised regulations and two non-technical regulations) and laid down measures and deadlines for their alignment with the requirements of Articles 34–36. Treaty on the Functioning of the European Union (TFEU). For 2022, it is planned to comply with the requirements of Articles 34–36 TFEU a total of 9 regulations under the jurisdiction of two republic administrative bodies. Three regulations (33%) from the jurisdiction of two republican administration bodies were implemented.	
Reform measure no. 18. Electricity market reform		
Activities planned for 2022.	Adoption of bylaws in accordance with the new Law on Renewable Energy Sources: • Program on the use of renewable energy sources (Government of rs), • Regulation on biofuels and other renewable fuels in transport (Government of rs), • Instructionon on keeping a register of projects from renewable sources (MER)	3

	2. Implementation of the Law on Electricity (MER, Regulatory Commission for Energy of the Republika Srpska, operators holders of permits for electricity activities)	3
	3. Continuation of restructuring and reorganization of MH "Elektroprivreda Republike Srpske" a.d. Trebinje through the reorganization of electricity producers operating within the MH "Elektroprivreda Republike Srpske" (MH "Elektroprivreda Republike Srpske" Parent company and dependent production companies within the holding company)	3
	4. Continuation of activities on the reorganization of electricity distribution activity with the aim of achieving full independence of the Distribution System Operator as a network fully regulated activity in relation to the market activity of supply (MH "Elektroprivreda Republike Srpske" Parent company and dependent electricity distribution companies within the holding)	4

²⁴ Conclusion number: 04/1-012-2-1470/22 of 28 April 2022.

	5. Implementation, in addition to legal, and functional separation of these activities and establishment of adequate mechanisms of supervision and control of activities with the aim of separating and preventing discrimination of market participants and distortion of competition (MH "Elektroprivreda Republike Srpske" Parent company and dependent electricity distribution companies within the holding, Regulatory Commission for Energy of the Republika Srpska as an independent body)	3
Description of the implementation and explanation if it is a partial implementation or lack of implementation	1. The development of the Program on the use of renewable sources is in the final stage, and its adoption is expected by the end of the year. Drafting the Regulation on biofuels and other renewable sources requires an interdepartmental approach and no drafting activities have been initiated yet. The preparation of the Instruction on keeping the Project Register and the Digital Registry is in the final stage, and its adoption is planned by the end of the year. 2. The Law has been implemented to a significant extent (entirely by THE MER and the Regulatory Commission), but the activities of reorganization and separation of activities (measures 3, 4 and 5) have not been fully implemented within the legal period of one year from the entry into force of the Act (Article 140). 3. No Reorganization and Separation Program has been drafted (Article 140 of the Code of Civil Procedure). Law on Electricity), the drafting of which is obliged to MH "Elektroprivreda Republike Srpske" Parent company. 4. In causal relationship with the previous measure. 5. In causal relationship with the previous measure.	
Reform measure no. 19. Improving the competitiveness of agriculture, forestry and water management		
Activities planned for 2022.	1. Adoption of a new Law on Incentives and a new Law on Agriculture, with the aim of creating a new legislative framework in the field of agriculture and rural development, which in the coming period should contribute to harmonization with the EU acquis and result in an increase in competitiveness, productivity and the scope of formal employment in the sector (MSW)	4
	2. Improvement of information systems for more efficient use of resources and funds (MPŠV)	4

	3. Implementation of new strategic measures to improve competitiveness, productivity and sustainable development (MPŠV)	4
	4. Development of the Forestry Development Strategy of the Republika Srpska for the period 2022\2032 (MPŠV)	4
	5. Application of the new information system in the Public Institution "Forests of the Republika Srpska" a.d. Sokolac (JPŠ)	4
	6. Strengthening the relationship between forestry and wood processing through the application of the Decision on the criteria for the distribution of forest wood assortments and other measures of the Government of the Republika Srpska, with the aim of increasing the added value to raw material (increasing the degree of finalization), as well as the growth of exports (MPŠ, PeŠ)	4
	7. Improvement of foreign trade and protection of domestic agricultural production – the activity is carried out continuously because it implies a constant effort to improve the conditions for production, export, quality and standardization in the field of agriculture, and the activity is aimed at improving the capacity of institutions for quality control of goods from imports and goods exported, export capacities of entities in the territory of the Republika Srpska, as well as the capacity of institutions to monitor the volume of domestic production and satisfaction of market needs (MSHS)	4

	Establishment of the IPARD procedure and operating structure, as a prerequisite for opening the possibility of using EU pre-accession funds for rural development (MPŠV, Ministry of Foreign Trade and Economic Relations): • Creating conditions for the establishment of the IPARD operating structure in BiH (Managing Body and IPARD Payment Agency), • Creating agrarian policy measures aligned with IPARD procedures – 2022, Continuation of activities on the construction of the IPARD operating structure and harmonization of agrarian policy measures implemented by the Republika Srpska with the rules and procedures of pre-accession funds for agriculture and rural development, as well as the improvement of capacities in the sector	3
	9. Establishment of the Republic Water Information System (MPŠV)	3
	10. Establishment of a system of identification of land parcels – inventory of earth resources (MPŠV) – continuation of activities	4
	11. Conducting the process of identifying animals through the improvement of the control system Movement of animals (MPŠV)	4
	12. Establishment of a system for monitoring the results of agricultural holdings and on the basis of these data analysis of the feasibility of encouraging certain cultures (MSHS)	4
	13. Binding of domestic agricultural production and domestic food industry (MPŠV)	4
	14. Starting a new investment cycle in the field of construction of irrigation systems for agricultural areas financed from a new loan debt to the World Bank, and adoption of a strategic document to combat drought (MPŠV)	4

Description of the implementation and explanation if it is a partial implementation or lack of implementation	1. The Law on Agriculture and the Law on Incentives have been prepared as a preliminary draft document and are in the process of passing through expert discussion and refinement organized within scientific and professional institutions in the field of agriculture, as well as the TAIEX program with representatives of the Croatian Paying Agency for Agriculture.
	2. The ETFARM program developed by the Ministry with representatives of the University of Banja Luka (Faculty of Sciences), as well as the company Mtel, shows excellent results for controlling the payment of incentive funds for measures per hectare of used areas. The plan is to further upgrade the ETFARM program with new algorithms.
	3. With the adoption of the new strategic framework, new measures for improving competitiveness, productivity and sustainable development have been implemented, such as: support to self-employment of rural women, support to self-employment of young agronomists, intervention measures to support overcoming market disturbances, increasing the level of allocation for measures to support organic production, etc.
	4. The Strategy is contained in the Draft and its adoption is foreseen in 2023. The working group needed additional time to align the Strategy with the new legal framework on strategic planning.
	5. Application of the new information system in the Public Institution "Forests of the Republika Srpska" a.d. Sokolac is in the second phase of implementation in terms of testing the application of IT solutions for recording production parameters.
	6. The measure is implemented continuously and despite the difficult market conditions of forestry entities, it has resulted in an increase in exports of wood assortments and wood products in 2022.
	7. Budget allocations (Agrarian Budget and Compensation Fund) have been increased in order to protect domestic production from the consequences caused by the coronavirus pandemic, as well as the consequences of market disruptions, energy crisis, etc. All funds invested for the implementation of agrarian policy measures have a direct and indirect impact on the protection of domestic production.
	8. Two meetings of the Working Group for the establishment of the Governing Body in the IPARD structure were held, and a proposal was created by the representatives of the working group in front of the Republika Srpska, which was submitted to the Standing Working Group for Rural Development SWG, which will, with the support of the European Commission, organize a new cycle of consultations and harmonization of the IPARD operating structure.
	9. Realized initial activities on the creation of the project task.

	10. Established Earth Information System of the Republika Srpska with records of land surfaces under concession. The earth's information system of all parcels in the Republika Srpska is lacking.	
	11. The application of the Veterinary Information System, phase 2 has started.	
	12. Fadm system or system of monitoring accounting data on agricultural holdings is complemented continuously on a sample of 110 holdings, and in the next phase it is planned to develop software for processing results.	
	13. It is realized continuously from the funds of the agrarian budget through support to the purchase of domestic agricultural products by buyers, cooperatives, food industry, and in the coming period it will be further improved by investments in the construction of value chains.	
	14. Negotiations under a loan agreement with the World Bank have been completed. The decision on acceptance of duties by the National Assembly of the Republika Srpska is awaiting consideration and adoption. The anti-drought programme has been prepared and will be adopted by the end of the year.	
Reform measure no. 20. Support to the manufacturing industry		
Activities planned for 2022.	1. Activities on finding strategic partners, privatization of companies with majority and 100% state capital, restructuring of companies with majority and 100% state capital; in companies where privatization and restructuring would not give positive effects, initiation of bankruptcy and liquidation proceedings (the measure has a long-term character) – MPP	3
	2. Harmonization of technical regulations with EU (MPP) legislation	4

	3. Identifying economic activities whose business and survival on the market is threatened due to the negative impacts of the pandemic, establishing criteria and granting support for the recovery of business entities in the field of manufacturing industry from the economic crisis caused by the COVID-19 pandemic (MPP)	5
	4. Establishing criteria for granting support and issuing a public call and allocating financial resources to support the implementation of investment projects (SMEs)	5
	5. Mapping the needs and capabilities of business entities for the development of their own product, i.e. establishing contact with potential producers of domestic product, identifying key limitations in decision-making on the development of their own product (MPP)	3
	6. Analyzing available databases on materials and products imported into the Republika Srpska, with the aim of presenting the possibility of launching a cost-effective production of products that are missing from the domestic market (MPP)	4
	7. Granting support for the recovery of business entities in the field of manufacturing industry from the economic crisis caused by the covid-19 pandemic (MPP)	5
	8. Amendments to the Technical Regulations Act (MPP)	2
Description of the implementation and explanation if it is a partial implementation or lack of implementation	1. MPP conducted continuous activities on finding strategic partners for the privatization of companies with majority and 100% state capital and resolving their status.	
	2. Amendments to EU legislation under the competence of the MPP shall be continuously monitored. In 2022, the Ordinance on amendments to the Regulation on the safety of machines and the Ordinance on amendments to the Ordinance on the restriction of the use of certain harmful substances in electrical and electronic equipment were adopted.	
	3. There were no demands from companies from the manufacturing industry whose business and survival on the market is directly threatened due to the negative impacts of the COVID-19 pandemic.	

	4. In accordance with the Law on Incentives in the Economy of the Republika Srpska in 2022, the Decree on amendments to the Regulation on the procedure for granting incentives for direct investments was adopted, which improved the procedure for awarding incentives for direct investments. In March 2022, a public call was issued. 312 business entities from the manufacturing industry applied to the Public Call. A check of general conditions was carried out, as well as analysis and evaluation of submitted investment projects of economic entities. The aforementioned analysis noted that the total value of investments for the procurement of modern technology and equipment, of business entities that meet the formal requirements of the Public Call, amounts to about 78 million KM. For 238 business entities, which have fulfilled the general and special conditions prescribed by the Law on Incentives in the Economy of the Republika Srpska and the Decree on the Procedure for Granting Incentives for Direct Investments, were approved 13,500,000 KM. The Ministry issued decisions on the allocation of incentives and concluded contracts with business entities. After the delivery of the means of security and verification of the fulfillment of the conditions for the payment of incentives, the payment of approved incentives is continuously made. 5. MPP carries out continuous activities with the business community in order to address identified business constraints. However, in the previous period, due to the negative business conditions caused by the coronavirus pandemic and global disruptions caused by the crisis in Ukraine, economic entities were unable to express long-term development plans, and therefore the activities on mapping the needs and capabilities of business entities for the development of their own products were postponed to the next period. 6. On the MPP website, a tabular overview of products imported and exported from the Republika Srpska is available and it is updated at the annual level. Also, on the website of the Chamber of Commerce of the Republika Srpska there is a platform with a business register of business entities and a stock exchange of goods and services where business entities can publish their supply or demand for goods, products or services to other economic entities. 7. There have been no demands from companies from the manufacturing industry whose business and survival on the market is directly threatened due to the negative impacts of the COVID-19 pandemic. 8. The Draft Law on Amendments to the Law on Technical Regulations has been prepared.
Reform measure no. 21. Digital transformation of the industry	

Activities planned for 2022.	1. Promote the implementation of digitalization in industry (MPP, MNRVOID and Chamber of Commerce of Republika Srpska – PK RS)	3
Description of the implementation and explanation if it is a partial implementation or lack of implementation	2. Education and consulting of companies on the application of digital solutions in industry (PK RS, MPP, MNRVOID)	5
	3. Foster digitalisation in industrial enterprises (MPP)	4
	1. THROUGH VARIOUS EVENTS, PK RS raised awareness among companies about the process and importance of digital transformation, the possibilities and advantages of digitalization of business processes.	
	2. In 2022, the Center for Digital Transformation of the Chamber of Commerce of the Republika Srpska organized 13 educational events (seminars, trainings, info days, etc.), attended by about 450 participants from more than 200 companies. In addition to the above activities, the Center regularly organizes meetings with companies and informs representatives of SMEs about available support programs in the field of digital transformation. It also provides support in the preparation of project proposals, provides other advisory services in the field of digital transformation.	
	3. In 2022, the MPP prepared a Decree on the procedure for granting incentives for small and medium-sized enterprises ²⁵ , which was adopted by the Government of the Republika Srpska. The Regulation prescribes the purpose, conditions, criteria and procedure for the allocation of incentive funds for the development of small and medium-sized enterprises, the obligations of the beneficiaries of funds, control and the manner of reporting on the expenditure of allocated funds. The incentive is also awarded for digital transformation projects of small and medium-sized enterprises (for the procurement of software with accompanying hardware and the development of digital platforms). MPP has launched a public call to which 102 small and medium-sized enterprises have applied with projects aimed at digital transformation of their business. The activities of checking the submitted documentation are in progress, after which the evaluation of the submitted projects will be approached.	
Reform measure no. 22. Reducing the impact of the consequences of the COVID 19 pandemic on tourism and increasing the number of foreign tourists		
Activities planned for 2022.	1. Implementation of the strategic act for 2022 (MTT, TORS, PK, tourist organization of cities / municipalities, UUP)	4

	2. Monitoring the implementation of investment projects in the field of tourism (MTT)	5
	3. Implementation of the strategic act with measures (MTT, TORS, PK, tourist organization of cities / municipalities, UUP)	4

²⁵ "Official Gazette of the Republika Srpska", No. 66/22.

	4. Amendment of applicable regulations in the field of restaurateur (MTT)	1
	5. Creating campaigns to promote domestic and receptive tourism (MTT, TORS, Tourist Organization of Cities/Municipalities)	5
	6. Line cooperation of competent ministries in terms of joint activities on tourism development and reduction of the consequences of the COVID-19 pandemic (MTT, MF, and MPP)	5
	7. Cooperation with businessmen from the tourism and restaurateur sector (PK, UUP, Association of Employers of Tourism and Restaurateurs – HOREKA RS)	5
	8. Incentive of domestic tourism and domestic consumption through the introduction of standards, and the implementation of international projects and the use of donor funds (MTT, USAID, GIZ, UNDP, etc.)	5
	9. Creating stimulating policy for investors and investment investments (MTT, MF, MPP, PK, UUP, HOREKA RS)	4
	10. Education and training of personnel in tourism and caterers (MTT, PK, UUP, HOREKA RS)	5
	11. Incentive of receptive tourism through entering the international market (MTT)	4
	12. Remediation of the consequences of the COVID 19 pandemic in accordance with the recommendations of the World Tourism Organization and other international organizations (MTT)	5
Description of the implementation and explanation if it is a partial implementation or lack of implementation	1. In 2021, the Tourism Development Strategy of the Republika Srpska 2021-2027 was adopted, and during 2022 the activities envisaged in the Strategy were implemented, such as the broadcasting of tourist vouchers, the adoption of international standards for the development of sustainable tourism, the modernization process, categorization of categorical facilities for accommodation, and other activities. The measure of issuing tourist vouchers in 2022 has influenced the increase in tourist traffic, and the consequences of the coronavirus and the consequences of other negative developments on the market (fuel prices, inflation, etc.) have decreased, which have influenced the increase in travel costs. With this stimulating measure, there has been an increase in the number of overnight stays and tourist arrivals, and traffic in tourism is about 2% higher than in 2019 (the year before the corona).	

	2. In 2022, activities were realized to create conditions for the development of tourist infrastructure and superstructure on Jahorina by building new capacities at the "Ski Resort Jahorina". Activities are underway on the construction of a completely new ski resort "Igrište", in the municipality of Vlasenica. The monitoring of activities is carried out continuously, and this measure has been implemented.
	3. In order to implement strategic measures, the activities envisaged in the Action Plan for 2022 have been implemented. Thus, in 2022, in the amount of BAM 1,042,500.00, projects related to infrastructure (adaptation and construction of accommodation capacities, procurement of equipment, etc.) and projects of promotion in tourism were co-financed. Namely, in 2022, MTT announced a Public Competition for financing projects in the field of tourism and restaurateurs, in accordance with the Regulation on conditions and criteria for the allocation of earmarked funds for tourism^{development 26}. 253 applications were submitted to the public competition, of which 108 projects were financed in the total amount of 801,500.00 KM. The public competition was thematic in nature, and projects of infrastructure construction and superstructure and equipping were financed, which is foreseen in the Action Plan. Also, during the year, 55 applications for financing projects in the field of tourism and caterers related to promotion and education were financed, in the total amount of 241,000.00 KM. 4. Regulations in the field of restaurateur and residence tax in 2022 were considered and analyzed in order to amend them in the coming period. The measure is partially implemented. 5. Tourism promotion campaigns were created, and in 2022, in cooperation with the USAID TOURISM project and uup, a conference entitled "Tourism – development opportunity of the Republika Srpska" was held. The aim of the conference is the creation of incentive policies for the development of tourism, raising awareness of the importance of tourism for the economy, and promoting tourism of the Republika Srpska. Campaigns called "The Star of Tourism" and "The Most Beautiful Villages in BiH" were also implemented, in which MTT took part.

6. In order to reduce the consequences of the pandemic, successful line cooperation has been achieved between mf, mtt and compensation fund of republika srpska. For this purpose, tourist vouchers were issued in 2022. Namely, during the tourist voucher project, i.e. in the period from July 1, 2022 to October 30, 2022, MTT issued 18,909 tourist vouchers worth 100.00 KM each to the citizens of The Republika Srpska for accommodation in catering facilities. 50 caterer facilities that provide accommodation services and 12 tourist agencies participated in the project of tourist vouchers, and the citizens of the Republika Srpska in the arrangements in which they used tourist vouchers during the project realized almost 68,500 overnight stays, which greatly affected the reduction of the consequences of the pandemic.

Also, cooperation was achieved with the UUP RS and PK RS, and participation was taken in the creation of stimulating measures and policies for the development of tourism. In order to point out the necessity of raising the competitiveness of the tourist offer of the Republika Srpska in November 2022, mtt has produced a scientific study: "Macroeconomic contributions of tourism of the Republika Srpska".

²⁶ "Official Gazette of the Republika Srpska", No. 1/18, 49/20, 114/21 and 82/22.

	7. During 2022, cooperation with PK RS, UUP RS, Association of Employers of Tourism and Restaurateurs – HOREKA RS, on the development of acical plans and stimulus policies for tourism development was continuously carried out. In November 2022, the Tourism Reform Agenda was developed, and meetings were held with businessmen from the tourism and restaurateur sector. This agenda presents proposals for amending regulations, and was made for the purpose of creating a favorable business environment. Also, with representatives of the economy, meetings were held on the topic of human resources and education of the workforce, in order to propose measures that would affect the reduction of labor outflow, which is one of the problems faced by this branch of the economy. In coordination with pk RS in the period from 20 August to 10 September 2022 in the cities of: Banja Luka, Prijedor, Gradiška, Dobo, Bijeljina, East Sarajevo and Trebinje, public debates on the Draft Law on Tourism were held. 8. In order to encourage domestic and receptive tourism, international standards for sustainable tourism (<i>GSTC</i>) <i>have been introduced (Global Sustainable Tourism Council – Criteria)</i>. The criteria have been implemented in regulatory frameworks, and a project related to the development of sustainable tourism destinations has been implemented, implemented by GIZ with the financial assistance of the European Union. The Municipality of Mrkonjic Grad and the City of Trebinje received awards for the development of sustainable tourism in destinations by the GSTC (<i>GSTC</i>) . Namely, this world recognition came to Trebinje for the establishment of the "Herzegovinian House" (trade in domestic products) and in Mrkonjić Grad, which is in the phase of creating a tourist offer in "Dinardica", a destination of sustainable tourism. The decision was announced by the jury of the conference: "Global Days of Green Destinations", organized by the Foundation "Green Destinations", based in Leiden in the Kingdom of the Netherlands. With this decision Trebinje and Mrkonjić Grad found their place among the 100 best, where the region of Istria in Croatia, Ljubljana in Slovenia, Bodrun in Turkey, bratislava region in Slovakia, Kyoto in Japan, and places in Brazil, Portugal, Australia are located. In addition, in 2022, the implementation of international projects (USAID, GIZ, UNDP, etc.) was realized. The implementation of the project "Building relations for intercultural dialogue in Bosnia and Herzegovina – BRIDGE", funded by UNDP, as well as the project "EU4BUSINESS", funded by the European Union, aimed at encouraging development in export-oriented sectors, tourism and agriculture, is underway. There is also an ongoing implementation project "EU4TRADE", whose goal is the realization of the CEFTA agreement, i.e. agreements on trade in services that include tourist services.
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	9. In order to create a stimulating policy, MTT has established cooperation with the USAID Tourism Project, which signed a joint plan of support to small and medium-sized enterprises in the tourism sector in 2022 with banks throughout the Republika Srpska. The aim of this plan is to strengthen the modalities of cooperation between financial institutions and the tourism sector. In order to create investment policy, MTT has created investment project forms that have been sent to all city/municipal addresses in order to enable these entities to submit investment projects to the ministry that they consider mature for financing, in the field of tourism. In addition to the ministry's website, it will be found in the financial directory of the USAID platform and will be presented to potential investors.
	10. In order to improve the standard in the scientific field in tourism, through the USAID TOURISM project, the Faculty of Economics Pale in November 2022 received the Ted Qual (UNWTO) quality label for the program "Tourism and Hospitality", thus becoming the first institution in BiH, and the fifth in Southeast Europe, which has this standard for tourism education. The certificate is awarded by the World Tourism Organization (UNWTO). The aim of this activity is to improve the study program and the environment in which it is carried out, improving cooperation with the economy and strengthening the role of students. Also, through the USAID TOURISM project, and in cooperation with PK RS, UUP RS, HOREKA RS, in 2022 began the realization of the project entitled: "Road to Professionalism". The aim of this project is to educate the workforce in hotels and restaurants (waiters, chefs, receptionists). The realization of the project "Kuhinjica" has started, which implies the education of chefs, i.e. the establishment of a cooking school, whose task is to educate top bosses. The goal of the project is also to create an education center and reduce the outflow of labor. In Addition, in October 2022, MTT organized an expert seminar according to the Exam Program for acquiring the title of tourist guide for the Republika Srpska. 43 candidates applied for this year's Public Call for tourist guide exams. As part of the education, the registered candidates received training in the field of constitutional regulation and tourism legislation, the legal framework of consumer protection, historical, geographical and cultural sights about the Republika Srpska, and the importance and organization of guide services in tourism. In 2022 Training for jobs in agriculture and rural tourism is also supported.
	11. In 2022, the Tourist Organization of the Republika Srpska presented its tourist offer at international fairs in Budapest, London, Thessaloniki, Ljubljana, Novi Sad, etc. Participation was taken in the aim of representing the Republika Srpska on the international market and encouraging the development of receptive tourism.

	12. According to the current forecasts of the World Tourism Organization (UNWTO), recovery and return to the pre-pandemic values of international tourist arrivals is expected in 2023 and 2024. Forecasts for tourist countries that are relatively less dependent on air transport, such as Republika Srpska and BiH, say that it is to be expected to approach pre-pandemic values even in a shorter period. Also, UNWTO proposed to member countries the implementation of protection measures (wearing masks, respect for distance, etc.) and financial measures. According to data from the Bureau of Statistics, Republika Srpska has returned to the pre-pandemic period, i.e. data show that tourist traffic has increased by about 2% compared to 2019. The above says that the UNWTO recommendations, which related to protection measures and financial measures, were implemented by the MTT and the Government of the Republika Srpska, and that UNWTO's predictions regarding the return to the pre-pandemic period were confirmed.	
Reform measure no. 23. Improvement of the social protection system		
Activities planned for 2022.	1. Harmonization and implementation of procedures for the establishment of the Institute (MZZSZ, Working Group for drafting studies on the assessment of justification of the establishment of the Public Institution of Social Protection of the Institute for Social Protection of the Republika Srpska)	5
	2. Analysis of the state of social protection in the Republika Srpska (MZZSZ)	4
	3. Upgrading the existing database with the application and connecting to other electronic data sources (MZZSZ)	2
	4. Development of the Social Protection Strategy of the Republika Srpska (MZZSZ)	4
Description of the implementation and explanation if it is a partial implementation or lack of implementation	1. On September 1, 2022, the Government of the Republika Srpska adopted the Decision on the establishment of a public institution Institute for Social Protection of the Republika Srpska ²⁷ . This decision was preceded by the preparation of a Study on the assessment of the justification of the establishment of a public institution of social protection of the Institute for Social Protection of the Republika Srpska. The Government of the Republika Srpska was introduced to the Information on the assessment of the justification of the establishment of a public institution of social protection The Institute for Social Protection of the Republika Srpska and accepted it with the Closing Number: 04/1-012-2-1054/22 of March 30, 2022. The Government has tasked the MSZ to take all necessary actions regarding the establishment of the Public Institution of Social Protection the Institute for Social Protection of the Republika Srpska. After the entry into force of the Decision on the establishment of the Institute, management and management bodies will be appointed that will further implement the procedure of establishment	

	a functional office. In the Budget of the Republika Srpska for 2022, at the position 487900 – Transfer to the Institute for Social Protection, funds in the amount of 600,000.00 KM are planned.
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²⁷ "Official Gazette of the Republika Srpska", No. 89/22.

	2. The Government of the Republika Srpska adopted the Decision on drafting the social protection strategy of the Republika Srpska 2023-2029 ²⁸ . The aforementioned decision stipulates that the holder of the work is to develop the strategy of the MZSZ, i.e. the working body appointed by the Minister. The Minister appointed a Working Group for drafting the Proposal of the Social Protection Strategy of the Republika Srpska for the period 2023-2029 with tasks: drafting a strategic platform; prioritisation and measures; identification of key strategic projects; determining the internal and mutual coherence of strategic documents; development of a framework financial plan for the implementation of the Strategy; defining the manner of implementation, monitoring, reporting and evaluation of the Strategy and conducting the consultation process. As part of the development of the strategic platform, the Working Group is conducting an analysis of the situation, which will be completed as planned by the end of this year.	
	3. Within this measure, the Analysis of the state of the electronic social register was made as an activity of the E-Administration project by USAID. As no memorandum of cooperation was signed with USAID, this measure was partially implemented due to lack of funds.	
	4. The Government of the Republika Srpska adopted a Decision on drafting the Social Protection Strategy of the Republika Srpska 2023-2029 ²⁹ . Activities on the development of the Strategy are carried out in accordance with the Operational Plan and timeframe. The first phase involves the formation of a working group for the development of the Strategy, preparation of the methodology and initial consultation. Within this phase, a Working Group was formed for the realization of the established goals and tasks, analysis of interested parties and notification of them was carried out, an analysis of the existing legal framework regulating the social protection system was carried out, an overview of acts of higher order (international and domestic current strategies, policies and documents of importance for the Strategy). The second phase involves the development of a strategic platform/situational analysis. Within the second phase, activities were carried out: defining the focus of analysis and data that will include strategic platform / situational analysis, elaboration of job descriptions and expected tasks by members of the Working Group. Within this phase, activities are underway: preparation of the Methodological Framework for the preparation of situational analysis (including, if necessary, a questionnaire, an overview and trends in budget allocations for The NW), data collection and development of situational analysis.	
Reform measure no. 24. Health care system reform		
Activities planned for 2022.	1. Realization of the COVID 19 Project, with the aim of improving work in the health sector for the response to the pandemic	4

²⁸ "Official Gazette of the Republika Srpska", No. 41/22.

²⁹ "Official Gazette of the Republika Srpska", No. 41/22.

	2. In cooperation with the Ministry of Finance, defining financing models and a plan for settling outstanding obligations in the health care system	3
	3. Development and implementation of the Program of settlement of obligations based on contributions of the Pension and Disability Insurance Fund of the Republika Srpska employees in public health institutions (2021\2026)	4
	4. Adoption of a new legal framework regulating the health system (Law on Compulsory Health Insurance, Law on Health Care, Law on Health Documentation and Records in the Field of Health and Law on Activities in Health Care)	4
	5. Drafting an act on the nomenclature of health services at the primary, secondary and tertiary level of health care	3
	6. Preparation of the plan of the network of health institutions	3
	7. Preparation of instructions for the development of a plan of human resources in the Public Enterprise For a period of five years	5
	8. Optimization of the number of employees in public health institutions and alignment with the bylaws of the Health Care Act	3
	9. Undertaking activities to improve the system of monitoring the results of operations of public health institutions	4
	10. Implementation of continuous activities on the education of workers on safety and protection health at work, healthy lifestyle and work and other topics that can increase the level of health of the population	4

	11. Switching to treasury business: • Preparation of selected public health institutions for the transition to treasury operations in 2022 and the introduction of them into the treasury system in cooperation with the Ministry of Finance and competent municipalities, • Preparation of selected public health institutions for the transition to treasury operations in 2023 and their introduction into the treasury system in cooperation with the Ministry of Finance and competent municipalities, • Preparation of the remaining public health institutions of the primary level of health care for the transition to treasury operations in 2024 and the introduction of them into the treasury system in cooperation with the Ministry of Finance and the competent municipalities	3
	12. Implementation of investment projects in the field of health care: • Construction and equipping of new hospitals in Dobož and Trebinje, • Construction and equipping of a new facility for stationary trafficJZU University Clinical Center of the Republika Srpska, • Construction and equipping of a new facility for providing health care to patients with malignant diseases JZU University Clinical Center of the Republika Srpska, • Reconstruction and equipping of hospitals Foča and Zvornik, • Reconstruction and equipping of the economic block of the JZU University Clinical Center of the Republika Srpska, • Rehabilitation of facilitiesMaterniteaiClinicforinfectiousdiseasesJZU University Clinical Center of The Republika Srpska	4
Description of the implementation and explanation if it is a partial	1. Completed implementation of subcomponent 1.2 – Social protection and assistance, and extended period for the realization of the remaining part of the Project until March 31, 2023.	

implementation or lack of implementation	2. At the beginning of 2022, another 16 public health institutions (15 primary levels of health care and the Institute of Forensic Psychiatry) switched to the Treasury system of operations.
	3. During 2022, obligations towards the Pension and Health Insurance Fund for employees who have met the conditions are regularly settled for retirement, which are determined in accordance with the Program.
	4. Adopted law on health care and law on health documentation and records in the field of health, and draft law on compulsory health insurance and drafted preliminary draft law on activities in health care.
	5. The adopted new Law on Health Care defines the way of drafting the nomenclature of health service.
	6. Formed a commission for the development of the Plan of the network of health institutions and adopted a new Law on Health Care, which regulates the area of adoption of the zu network plan at the level of local communities and the Republika Srpska.
	7. Developed and published Instructions for the development of a plan of human resources in the JZU.
	8. Adopted a new Law on Health Care and adopted the Instruction for the development of a plan of human resources in the JZU.
	9. Within the scope of its competences, the MZSZ conducted an analysis of the operations of public health institutions and the FZO on December 31, 2021, and continuously monitors the financial demonstrators of the business of the JZO and the FZO. The Government accepted the Information on the state of obligations of the Public Health Insurance Fund and the Ministry of Science and Sports with the status of 31 December 2021 by the Government of Zaključki No. 04/1-012-2-1271/22 of April 14, 2021.

	10. Activities are continuously carried out on the education of workers about safety at work, and healthy lifestyle and protection of the health of the population.
	11. At the beginning of 2022, 15 more public health institutions of primary level of health care were included in the Treasury system, through the local treasury of the competent local community (founder), and one secondary-level public health institution (Institute for Forensic Psychiatry Sokolac), which was included directly into the Treasury system of the Republika Srpska. In 2022, no special funds are planned in the budget of the Republika Srpska for the settlement of transferable tax liabilities to the JZU.
	12. The realization of most of the planned investment projects in the field of health care took place in accordance with the planned dynamics, with certain problems and prolongation caused by the COVID-19 pandemic and the global trade crisis. At the end of 2022, the procedure of selecting contractors for the Project of reconstruction and equipping technical - economic block jzu University Clinical Center of The Republika Srpska was completed, and at the beginning of 2023 the project is expected to start. During 2022, the procedure of selecting a contractor for the realization of the Project of construction and equipping of a new hospital in Trebinje was started, where an appeal was filed during the public procurement, and the appeal procedure is in the procedure.