

**ECONOMIC REFORM PROGRAM (ERP)
OF BOSNIA AND HERZEGOVINA
2025 - 2027**

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1. OVERALL POLICY FRAMEWORK AND OBJECTIVES

The Economic Reform Programme of Bosnia and Herzegovina 2025-2027 (hereinafter: ERP BiH) is one of the most important documents in the economic dialogue with the EU, i.e. the fulfillment of the economic criteria in the section of the “fundamentals” for EU membership. According to the EC Report from 2024, BiH is in the early stages of preparations for establishing a functioning market economy as one of the economic criteria for EU membership. On 21 March 2024, the European Council decided to open negotiations on the accession of BiH to the European Union, and the implementation of the ERP BiH will have additional significance in monitoring progress in this process.

The macroeconomic and fiscal frameworks of the ERP BiH are aligned with the work programmes of all levels of government and the strategic objectives they contain. In synergy with the ERP, the reform measures from the Draft Reform Agenda Proposal¹ within the Western Balkans Growth Plan will also contribute to the achievement of these objectives. The ERP BiH contains an assessment of the impact of structural reforms from the Draft Reform Agenda Proposal on the projected economic growth, i.e. the macroeconomic framework and fiscal indicators in the period 2025-2027. When developing the ERP BiH, other valid strategic documents adopted by the Council of Ministers of BiH, the Government of Republika Srpska, the Government of the Federation of Bosnia and Herzegovina and the Government of the Brčko District of Bosnia and Herzegovina were also taken into account, as well as the obligations from the Stabilization and Association Agreement between Bosnia and Herzegovina and the European Union, as well as the European Commission Guidelines and Recommendations from the Joint Conclusions from May 2024.

As the ERP BiH is a document presenting economic policy measures in BiH for the next three-year period, in its development, and in accordance with the EC Guidelines, a consultation process was conducted with stakeholders at all levels of government.

The negative economic consequences of developments in the world economy in recent years (such as the global pandemic and the conflict in Ukraine) are manifested through trade, financial, and price shocks that have not bypassed BiH, and the external environment represents a very important structural determinant of all economic developments in the country. Based on external and internal dynamics, economic policy measures and structural reforms included in the Reform Agenda proposal, the ERP BiH contains a projection of the average economic growth rate of BiH in the period 2025-2027 of around 3% annually (2025: 2.8%, 2026: 3.1% and 2027: 3.3%)². Growth will be based on domestic demand through increased private consumption and investment.

Private consumption and investment, as the main drivers of growth, will lead to increased revenues. Fiscal policy in the upcoming medium-term period from 2025-2027 will be moderately restrictive and stabilizing, with cautious fiscal planning due to major global uncertainties. As such, fiscal policy will also contribute to preserving the country's macroeconomic stability, slowing inflation and reducing the foreign trade deficit. In the entire period 2025-2027, slower growth in public expenditures than growth in public revenues is expected, i.e. gradual transition of the budget to a slight surplus of 0.1% of GDP in 2026, after a deficit of 0.7% in 2025. A surplus of 0.7% of GDP is expected in 2027. It is important to note that the Fiscal Council in BiH has not adopted the Global Framework for Fiscal Balance and Policies in BiH for 2025-2027. Therefore, there is still no legal basis for the preparation of the Budget of the BiH Institutions for the period 2025-2027 and the Draft Law on the Budget of the BiH Institutions and International Obligations of BiH for 2025, and the data for the BiH institutions are taken from the Budget of BiH for 2024-2026.

¹ The Reform Agenda document in Bosnia and Herzegovina has not been adopted. For this reason, the entire document PER BiH is a proposal for a draft Reform Agenda for BiH.

² DEP Projections, September 2024.

2. IMPLEMENTATION OF THE POLICY GUIDANCE

This chapter presents activities regarding the implementation of the recommendations, that is policy guidelines, for Bosnia and Herzegovina, contained in the Joint Conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey, which were adopted at the meeting of the Economic and Financial Affairs Council (ECOFIN) of the European Union, held in May 2024 in Brussels, within the framework of the "Economic and Financial Dialogue between the European Union and the Western Balkans and Turkey." A summary of activities under each of the policy guidelines for BiH is provided below.

1.1 Adopt the Global Fiscal Framework in a timely manner to provide effective guidelines for budget preparation of all budgetary entities (i.e. BiH institutions, Federation entity, RS entity and Brčko District)

Although certain steps have been taken in this direction, the Fiscal Council in BiH has not adopted the Global Framework for Fiscal Balance and Policies in BiH for 2025-2027. Accordingly, there is still no legal basis for the preparation of Framework Budget Documents (DOB) of BiH institutions for the period 2025-2027 and the Draft Law on the Budget on BiH Institutions and International Obligations of BiH for 2025, thus data for BiH Institutions were taken from the DOB of BiH for period 2024-2026.

The Government of the Republika Srpska has taken measures to adopt the framework budget, the Budget for 2025³ and the Economic Reform Program of the Republika Srpska, while the adoption of the Global Framework of Fiscal Balance and Policies is within the competence of the Fiscal Council of BiH.

At its 79th session, held on 1 August 2024, the Government of the Republika Srpska adopted the Framework Budget Document of the Republika Srpska for the period 2025-2027, as a medium-term planning document that includes analyses and projections for the general government sector of the Republika Srpska. The document was prepared in accordance with the Law on the Budget System of the Republika Srpska and the standards of fiscal statistics, and represents the basis for the preparation and drafting of the annual budget of the Republika Srpska.

The expected impact is that the document sets the strategic framework and resource ceilings within which the annual budget is prepared, with the aim of ensuring a better connection between the priority policies of the Government of the Republika Srpska and the way it allocates public resources.

1.2 Increase the share of government capital overlays in GDP by adopting measures that improve public investment management and enable accelerated implementation of those investment projects that have been subject to a clear positive cost-effectiveness estimate.

During 2024, measures were taken to increase the share of capital expenditures in GDP through more efficient management of public investments. Improving the public investment system is planned in individual and comprehensive PFM strategies of BiH. All users should base the selection of capital investments whose share in GDP should be increased on long-term planning based on a detailed analysis of resources and needs, and all project implementers should monitor the effects of spending public funds and their contribution to achieving development goals. The improvement of the public investment management system in FBiH institutions was achieved by the entry into force of amendments to the Regulation on the method and criteria for the preparation, creation and monitoring of the implementation of public investment programs in 2023, which also contributed to the reduction of "ad hoc" decision-making on the selection of capital projects for financing from the budget. The improvement of the public investment management process in Republika Srpska continues by implementing activities to improve the alignment of prioritization of public investment projects with sector strategies, linking project planning with the budget preparation process, which will be contributed by the development of a new

³ The National Assembly of the Republika Srpska, at its Fourteenth Regular Session held on December 11, 2024, adopted the Budget of the Republika Srpska for 2025 and the Economic Reform Program of the Republika Srpska for the period 2025-2027.

comprehensive software solution for recording and monitoring public investment projects, amendments to the current Regulation on the Rules for the Selection, Evaluation and Prioritization of Public Investment Projects in Republika Srpska, and training for public sector representatives for the preparation of PPP projects, as well as training for employees in public sector for project management, according to available opportunities. In the coming period, it is necessary to continue training at the BiH level, that is, further strengthen administrative capacities in the public sector for preparation and management of projects that were the subject of a clear positive cost-effectiveness assessment and that have a clear developmental role.

Although the estimated execution of capital expenditures and overlays at the BiH level in 2024 was below planned, their share in the estimated GDP in 2024 was around 4.2% of GDP, which represents an increase compared to the previous year, and is in accordance with the EU guideline.

1.3 In order to strengthen the efficiency of tax collection, improve the effective exchange of data on taxpayers between tax authorities in the country, and especially clarify the constitutional competence for the establishment of a central (for the entire country) register of bank accounts for natural persons, in accordance with the EU acquis.

Progress was achieved through creation of legal prerequisites for improving the record keeping of accounts for natural persons and exchange of data within BiH. Cooperation and exchange of information between tax administrations in BiH takes place in accordance with the Memorandum on Institutional Cooperation, Exchange and Transfer of Data on Taxpayers signed in 2016. The data exchanged helps to detect non-compliance with tax regulations by taxpayers for which individual administrations are responsible. This further contributes to the reduction of the shadow economy, i.e., the increase in tax revenues.

In accordance with entity competencies, both entities have established, by law, registries of bank accounts for business entities and natural persons, in accordance with the EU acquis. The register of business accounts maintained in Republika Srpska by the Agency for Intermediary, IT and Financial Services in Banja Luka (APIF) was established in 2012, and later modernized, with the aim of improving payment transactions and strengthening financial discipline by strengthening the procedure for the forced collection of claims on monetary assets and protecting creditors. In Republika Srpska, the registry of accounts for natural persons was established in 2019 by the Law on Amendments to the Law on Internal Payment Transactions.⁴ This law transposes the EU acquis regarding the establishment of such a registry and ensuring the protection of personal data.⁵ With the aim of eliminating observed problems in practice and shortcomings in recording accounts for natural persons, in 2022 the Law on Internal Payment Transactions⁶ was strengthened in the segment of supplementing the data that should be contained in the register of accounts for natural persons. This created the legal prerequisites for establishing and maintaining registers of safe deposit boxes of natural persons and business entities, as an electronic database on these banking services, which was entrusted to APIF as well.

In the Federation of BiH, a registry of accounts for natural persons has been established (the legal framework has been provided). Two registers, based on an agreement between the competent authorities and in accordance with the law, can exchange data, thus ensuring a functionally unified register for the entire BiH.

2.1 Include in the upcoming PER 2025-2027: (i) a first estimate of fiscal risks and contingencies associated with publicly owned enterprises and (ii) concrete policy measures to manage such risks and contain the emergence of new contingencies.

⁴ "Official Gazette of Republika Srpska", number 58/19.

⁵ Directive (EU) 2018/843, Directive (EU) 2015/849, Directive (EU) 2015/2366 and Regulation (EU) 2016/679.

⁶ "Official Gazette of Republika Srpska", number 38/22.

In the previous period, a fiscal risk monitoring function was established within the entity ministries of finance, the further development of which will include continued training and strengthening of capacities for evaluating fiscal risks and contingent liabilities arising from the operations of publicly owned enterprises.

Towards a response to this guideline by the EC, in October 2024, The Ministry of Finance of Republika Srpska prepared a Report on Fiscal Risks from Public Enterprises in Republika Srpska in 2023, which was adopted by the Government of Republika Srpska in November 2024. The aforementioned report is prepared annually and provides insight into the financial position of public enterprises and the fiscal risks they may cause. The first Report on Fiscal Risks from Public Enterprises in Republika Srpska was prepared in September 2023. U the Federation of Bosnia and Herzegovina, within the framework of implementation of the Law on Financial Consolidation and Restructuring of Health Institutions, activities have begun to implement financial consolidation and restructuring of individual health institutions.

2.2 In order to improve the quality of data aggregation and reporting, strengthen the analytical capacities of all institutions responsible for fiscal accounting and planning, and improve the procedures for the preparation of PER to ensure timely delivery and compliance with requirements.

Within the framework of the IPA 2018 Support Projects for Economic Reform Program, whose three main beneficiaries are the Directorate for Economic Planning of the Council of Ministers of Bosnia and Herzegovina, the Federal Institute for Development Programming of the FBiH and the Ministry of Finance of RS, training activities, strengthening analytical capacities and mentoring support for representatives of relevant institutions involved in the preparation of the ERP continued, with the aim of improving the capacities for the preparation of the ERP and the process of preparing the EEP. In Republika Srpska activities continued on building analytical capacities for the preparation of PER. In this context, the following workshops were held: (i) Improving fiscal reporting in accordance with ESA 2010, (ii) Basic principles of medium-term projections, (iii) GDP forecasts with a focus on the production angle; (iv) Cyclical, adjusted and structural balance.

Within the project "Support to the Preparation of Reporting on Public Debt IPA 2020" in BiH, the capacity building of relevant institutions at all levels of government for the preparation of fiscal reports, especially on public debt, in accordance with EU standards, continued. Some of the project components relate to: a) strengthening the human resource capacity of institutions at all levels of government in the area of public debt reporting in accordance with the ESA methodology and standards through training; b) improving reporting on general government public debt and projections for the Economic Reform Program for each level of government and c) improving the application of the GFS and ESA methodologies and the implementation of standards through training.

In 2024, technical assistance of International Monetary Fund (IMF) was implemented in the entity of Republika Srpska to improve the collection of property taxes by addressing necessary changes and improvements in income taxation, as well as by creating a microsimulation model for calculating the effects on revenues in the event of changes in regulations related to income tax and social security contributions. Additionally, the Ministry of Finance of Republika Srpska has previously published new regulations regulating the accounting and financial reporting system of budget users, in order to harmonize accounting policies with the requirements of new and amended IPSAS, and harmonize the analytical chart of accounts with GFS 2014 and ESA 2010 classifications.

2.3 Continue to strengthen the country's capacities in the areas of macroeconomic statistics, regional accounts, labour force surveys and government finance statistics, especially by agreeing on the sectorization of national accounts, and increase efforts to improve the coverage and timeliness of all statistics

Labour Force Survey (LFS). In the third quarter of 2024, BiH (all three statistical institutions in BiH) achieved a reduction in the deadline for submitting data to Eurostat from 10 to 8 weeks. The Agency for Statistics of BiH, in cooperation with Eurostat, collected monthly unemployment data in the requested format and sent it to Eurostat. In August 2024, Eurostat published monthly unemployment rates for BiH for the period from January 2021 until the last month in 2024 for which we have registered unemployment data, available on the Eurostat website. The objectives regarding sending microdata to Eurostat, as well as the Quality Report, have been met through previous projects. The last quality report for 2023 was submitted in a completely new format required by Eurostat.

During 2025, through the cooperation of all three statistical institutions in BiH, with the coordinating role of the Agency for Statistics of BiH, missing questions will be added to the LFS questionnaire so that in 2025 the questionnaire will be fully in accordance with EU requirements and regulations.

National accounts. The Federal Office of Statistics (FOS) and the Republika Srpska Institute of Statistics are continuously working to improve the production of timely and detailed data on national accounts. The statistical offices deliver data to the Agency for Statistics of BiH (BHAS) in a timely manner in order to meet the deadlines for data transmission to Eurostat. The Federal Office of Statistics (FOS), in cooperation with the Agency for Statistics of BiH and Republika Srpska Institute of Statistics, is continuously working to improve the production of timely and detailed data on national accounts. The FOS submits data to BHAS in a timely manner in order to meet the deadlines for data transmission to Eurostat. All EU countries, including Bosnia and Herzegovina as a candidate for full EU membership, are required to change the reference year for the preparation of time series with chain-linked values in 2024. Accordingly, statistical institutions in BiH have recalculated the quarterly GDP data series to the new reference year 2021. Moreover, a series of data on annual GDP in chain-linked values in 2021 prices was calculated.

Departments for National Accounts Statistics of the entity institutes participate in the IPA 2022 MBP under the SP 1.3 National Accounts Methodology component, since they were not included in the last few IPA projects, so the first mission for the aforementioned component was held in November 2024, in which all three statistical institutions participated.

Sectoral classification of institutional units. The FOS has established a sectoral classification of institutional units (S11-S15) in cooperation with the Agency for Statistics of BiH and the Republic Institute of Statistics of Republika Srpska, with the subsectors within sector S13 not yet agreed upon. The FOS continuously carries out activities on the sectorization of resident units into institutional sectors according to criteria defined by international methodologies and standards: ESA 2010 and the Manual on Government Deficit and Debt – MGDD, as well as in accordance with the Decision on Establishing the Statistical Classification of Institutional Sectors (Official Gazette of BiH, No. 19/17). The FOS has lists of active business entities with all assigned sector codes (S11-S15) for the years 2015-2023. All data were submitted to the Agency for Statistics of BiH in accordance with the agreed deadline and in the agreed format. On the BHAS website, lists of resident units classified into institutional sectors (S11-S15) are available. By the end of 2024, the FOS also plans to publish a list of resident units (business entities) classified according to the Sectoral Classification of Institutional Units (S11-S15) with the condition as of 31 December 2023.

Within the framework of component SP 1.3 National Accounts Methodology, statistical institutions in BiH will work on updating the document "Description of Sources and Methods in National Accounts" with the new reference year. Moreover, an experimental calculation is planned of FISIM (indirectly measured financial intermediation services) with the data available to the entities. As a result of the Project, an updated document on the Description of Sources and Methods in National Accounts with a new reference year is expected, which will be more comprehensive and follow the guidelines of the ESA 2010 Inventory Guide and PT Guide. Moreover, there is a possibility of methodological improvements in terms of calculation and allocation of FISIM. The challenge in the coming period is the insufficient number of employees in the Department for National Accounts Statistics of the FOS, which represents

the biggest obstacle. Considering the scope and complexity of the work in the Department, it is necessary to hire new staff.

The measures taken by the CBBH in this section relate to the fact that the CBBH, within the framework of IPA projects, has begun implementing the ESA 2010 methodology in the area of government finance statistics. As a result of the implementation of ESA 2010, the CBBH began regular data submission to Eurostat from 2019 for a selected set of GFS tables and part of EDP statistics. During 2024 (April and October), the CBBH sent data to Eurostat in accordance with the data release calendar.

Moreover, during 2024, the CBBH, as the project leader, in cooperation with BHAS, has successfully implemented the transition to the SDDS reporting system according to the IMF, and BiH is the 49th country in the world that has transitioned to the SDDS reporting standard. In this way, the CBBH improved the transparency and quality of reporting and produced internationally comparable data that further increased the level of reliability of the data regularly compiled.

During 2024, the implementation of two projects began: IPA 2019 and IPA 2022 in the balance of payments statistics, which will last for two years.

All of the above results in more reliable and up-to-date government finance statistics that will assist in government policymaking. Moreover, steps have been taken to align with EU standards in the area of government finance statistics. The IPA 2019 project in the area of foreign direct investment is expected to further improve FDI statistics, while the IPA 2022 project for monthly balance of payments is expected to identify all necessary prerequisites for the start of compilation of BoP statistics at the monthly level.

3.1 Continue the thorough estimate of price developments with the support of statistical offices through the improvement of price statistics, including the timely publication of CPI weights, and the development and publication of core inflation series.

Consumer Price Index. The Federal Office of Statistics (FOS) has provided the BiH Agency for Statistics (BHAS) with databases with all relevant data used to calculate the Consumer Price Index for the period 2015-2023, needed for the preparation of new databases for calculating the Consumer Price Index and the harmonized index for the BiH level, in accordance with European regulations. The FOS continuously expresses its willingness to participate in activities related to further harmonization of the Consumer Price Index and development of the HICP in accordance with the applicable EUROSTAT regulations and other prescribed methodologies.

At the invitation of BHAS, the representatives of FOS participated in a one-day mission within the component SP2.1 - Development of CPI/HICP for the level of BiH (IPA 2022 MBP). BHAS representatives presented the current status of the new application, its main functionalities, and next steps.

The FOS reminded the importance of the CPI for the FBiH level, given that this Index is incorporated into legal regulations and is used for harmonizing revenues of various social categories, harmonizing salaries and earnings in accordance with collective agreements, as well as for price adjustment of clauses in long-term sales contracts. Due to all of the above, it is necessary to test the new application on the FBiH CPI data in 2025 in order to enable the production of a higher quality CPI for the FBiH, and thus BiH.

The implementation of a new software solution, i.e. an application for calculating CPI/HICP on available databases, will enable the harmonization of the Consumer Price Index and the development of HICP in accordance with the current EUROSTAT regulations and other prescribed methodologies.

In terms of challenges, the staffing situation in the Department of Price Statistics is unfavourable and urgent recruitment of new staff is necessary, especially considering the fact that the Department does not have a head and that one out of three employees is retiring in the middle of next year.

3.2 Continue to safeguard the integrity of the currency board arrangement and the independence of the Central Bank.

The CBBH has continuously performed all tasks defined by the Law on the Central Bank of BiH, preserved the integrity of the currency board and monetary stability, and ensured independence and professional operations. The independence of the CBBH and the preservation of the currency arrangement are of crucial importance for its functioning and monetary stability of the country. Currency stability, achieved thanks to the currency board, along with monetary stability, contributes to financial stability in the country.

By decision of the Presidency of BiH, members of the Governing Board of the CBBH were appointed for a term of six years, starting from 3 January 2024. The newly appointed Governing Board of the CBBH, at its first session held on 3 January 2024, elected the Governor of the CBBH, also for a six-year term. The credibility of the monetary authority has been confirmed with a strong commitment to the European perspective, through a coordinated approach and cooperation with other institutional actors in BiH, as well as regional and international institutional cooperation. During 2024, a series of activities were undertaken aimed at further strengthening the role and tasks of the CBBH, some of which are: (i) improved banking coordination with an established system of regular monthly meetings with entity banking agencies and the Deposit Insurance Agency. Cooperation within the framework of banking coordination has been expanded to topics such as ESG, financial education and inclusion, and the issue of cyber security in the financial system. Within the framework of banking coordination, an inter-institutional team was established to consider cyber risk and cyber security issues with the aim of more efficient cooperation and risk prevention in the financial system in Bosnia and Herzegovina. (ii) In October 2024, a session of the Standing Committee on Financial Stability (SOFS) was held, organized by the CBBH. It was concluded that the banking sector is stable, well-capitalized and liquid, with good business indicators, and that there are no elements that threaten financial and monetary stability in the country. At the same time, it was agreed to continue the work in terms of information exchange and analysis in order to preserve financial stability and further improve the financial sector. (iii) The CBBH has taken on the coordination role for fulfilling the criteria for integration into the SEPA geographical area by preparing the application for SEPA membership through cooperation with other institutions within the SEPA Coordination Board. The CBBH has initiated activities to prepare the infrastructure to ensure interoperability of the CBBH system with the EU system. SEPA is a significant priority of the EU Growth Plan for the Western Balkans and a significant step towards the integration of BiH into the Single Economic Space of the EU. (iv) The Governing Board of the CBBH adopted the Strategic Plan for the period 2025-2027, which lists as priority activities the processes of European integration, the modernization of payment systems, including integration into SEPA and instant payments in the country, and the development of statistics in accordance with EU requirements, etc. (v) The CBBH's activity within the framework of the ESG principles was also defined as a priority, the Governing Board adopted the Policy for Managing Climate Change Challenges, and in 2024, the CBBH became a full member of the global networks Sustainable Banking Finance Network (SBFN) and Network for Green Finance. (NGFS). (vi) The CBBH continues to monitor total, core and inflation in service activities, analytically reporting on it in its main analytical publications. Core inflation and inflation in services are estimates by the CBBH, based on published data from BHAS. The CBBH produces medium-term projections and flash estimates for overall inflation, twice a year, in accordance with the reporting obligation to the European Commission. Flash estimates (nowcasts) are produced quarterly, for overall, core, and service inflation. (vii) The CBBH has intensified activities relevant to the European integration process. In December 2024, a Memorandum of Understanding was signed with the Directorate for Economic Planning of BiH for the purpose of more efficient data exchange and more intensive involvement of the CBBH in the ERP development process, within its jurisdiction, and with the aim of stronger support for the country's EU integration process.

The CBBH remains consistent with its investment policy in accordance with legally defined goals and objectives, which implies that official foreign exchange reserves are managed in a safe and profitable

manner. The CBBH prepares a regular monthly Report on Currency Board Arrangement, which, for the purpose of transparency, is published on the website www.cbbh.ba. The Report provides financial information on maintaining the stability of the domestic currency and the official foreign exchange reserves of the Central Bank. As of 31 October 2024, the net foreign exchange reserves of the Central Bank, calculated as the difference between official foreign exchange reserves and liabilities to non-residents, amounted to 17,037,064 thousand BAM, which is an increase compared to the same period as of 31 October 2023 when they amounted to 15,764,828 thousand BAM. As of 31 October 2024, the financial position of the Central Bank's net foreign assets amounted to 1,275,705 thousand BAM and the stability of the domestic currency was fully ensured in accordance with the Law on the Central Bank.

During 2024, the currency board coverage ratio increased significantly, reaching a level of over 108%. This has strengthened the absorption capacity of the Central Bank's balance sheet for potential shocks in international financial markets, which is a direct contribution to the stability of the domestic currency.

In general, monetary stability confirmed with increasing confidence in the domestic currency. A strong and stable Central Bank that contributes to the process of BiH's integration into the EU with strong institutional capacities.

3.3 Improve risk-based supervision in accordance with best international and European practices, phase out temporary measures that potentially affect market mechanisms in determining interest rates, initiate the establishment of a single resolution fund and improve data collection to enable a comprehensive risk estimate of the financial sector.

In 2024, activities were carried out to improve the regulatory supervision of the financial sector through a risk-based approach, in accordance with best international and European practices. In the previous period, the competent institutions have carried out key strategic activities to align the regulatory framework with relevant EU regulations and directives, as well as to implement a supervisory approach based on best international practices that are also applied in the EU.

The Banking Agency of the Federation of BiH and the Banking Agency of Republika Srpska (ABRS) are continuously improving and strengthening bank supervision, strengthening capacities for efficient supervision, as well as bank restructuring. The agencies exchange information and participate in regular and thematic international colleges of bank supervisors whose registered offices of banking groups are in EU countries, and exchange necessary information with each other. Moreover, they participate in the capacity building program by USAID FINRA, etc.

The most important activities of regular supervision of the ABRS are: on-site risk-based supervision, special supervision such as the annual implementation of Supervisory Review and Evaluation Process (SERP) of banks in accordance with ECB methodologies, evaluations of established ICAAPs and ILAAPs in banks, review and assessment of recovery plans, indirect supervision related to determining the minimum requirement for own funds and eligible liabilities (MREL) and defining the transitional period for achieving such requirement, updating restructuring plans, etc. Regarding the effects of "temporary measures that potentially affect market mechanisms", the temporary measures adopted by the ABRS do not, in any way, affect the market mechanisms for determining interest rates, but rather mitigate the risks arising from the growth of interest rates on the adequate coverage of loans with reserves for the increased risk of inability to service the debt by the borrower. The deadline for which the temporary measures are in force is related to geopolitical instability, resulting in uncertainty in the further movement of reference interest rates that may have an impact on the banking sector of Republika Srpska.

When it comes to "improving data collection to enable a comprehensive estimate of financial sector risks", the ABRS does not face any problems in terms of collecting data for a comprehensive estimate of financial sector risks. In accordance with the existing regulatory framework, banks regularly submit data to the ABRS on a weekly, monthly, quarterly and annual basis. Moreover, the ABRS exchanges data with the Central Bank of Bosnia and Herzegovina (CBBH) on a quarterly basis for the purpose of

enabling the implementation of *top-down* solvency and liquidity stress testing conducted by the CBBH, the results of which the CBBH reports to the Agency on a quarterly basis. The ABRS continuously carries out other activities to improve the regulatory framework, namely the implementation of EU regulations related to the protective layers of capital from Pillar 2 and Pillar 3, as well as the preparation and implementation of other macroprudential measures aimed at banks and debtors.

3. MACROECONOMIC FRAMEWORK

Macroeconomic indicators for the period 2023-2027

Indicator	Official data	Projections				
	2023	2024	2025	2026	2027	
Nominal GDP in BAM million	50.932	53.519	56.266	59.264	62.367	
Nominal growth in %	11,7	5,1	5,1	5,3	5,2	
GDP deflator (previous year = 100)	109,6	102,7	102,2	102,1	101,9	
Real GDP in BAM million (previous year = 100)	46.458	52.137	55.038	58.017	61.202	
Real growth in %	1,9	2,4	2,8	3,1	3,3	
Consumer price index inflation in %	6,1	2	1,9	1,8	1,7	
Consumption in BAM million	43.658	45.749	47.483	49.306	51.193	
Real growth in %	1,3	2,5	1,7	1,8	1,9	
Government spending in BAM million	9.548	10.044	10.396	10.760	11.115	
Real growth in %	2,1	2,6	1,5	1,7	1,4	
Private consumption in BAM million	34.111	35.705	37.087	38.547	40.078	
Real growth in %	1,1	2,4	1,8	1,9	2,0	
Investments (gross) in fixed assets in BAM million	11.519	12.314	13.038	13.905	14.815	
Real growth in %	12,1	5,1	4,0	5,2	5,1	
Government investments in BAM million	1.487	1.681	1.798	1.969	2.127	
Real growth in %	7,6	9,7	3,9	7,2	5,8	
Private investments in BAM million	10.031	10.633	11.239	11.936	12.688	
Real growth in %	12,8	4,4	4,0	4,8	4,9	
Imports in BAM million	27.798	28.761	30.052	31.739	33.637	
Nominal growth in %	-1,6	3,5	4,5	5,6	6,0	
Real growth in %	-1,3	2,5	3,0	4,0	3,8	
Exports in BAM million	21.931	22.270	23.676	25.499	27.631	
Nominal growth in %	-0,5	1,5	6,3	7,7	8,4	
Real growth in %	-1,2	-0,3	4,3	5,3	5,8	
National gross savings as a percentage of GDP	23,8	23,6	24,3	25,0	25,8	
Current account balance in BAM million	-1.376	-1.651	-1.511	-1.372	-1.120	
Growth in %	-30,4	20,0	-8,5	-9,2	-18,4	
Current account balance as a percentage of GDP	-2,7	-3,1	-2,7	-2,3	-1,8	

As previously agreed between the representatives of Bosnia and Herzegovina and the European Commission, the basic scenario that was used for the development of the DOB BiH in September 2024 was also applied in the preparation of this Program. This approach has been used to ensure consistency and compatibility of the macroeconomic and fiscal frameworks. On the other hand, an alternative scenario for ERP purposes was formed in November 2024 on the basis of available data.

3.1. Recent economic trends

Economic trends in 2023 and 2024

According to the currently available official BHAS statistics (BHAS statistics of national accounts) for 2023, the growth trend of economic activity from the previous year in Bosnia and Herzegovina continued. This is to say that, despite numerous internal and external challenges, such as weakening economic growth in the external environment, increased inflationary pressures and rise in interest rates, Bosnia and Herzegovina recorded real GDP growth of 1.9% in 2023 compared to the previous year.⁷ If we look more closely at the structure of GDP growth in 2023, it can be concluded that domestic demand through an increase in final consumption and investment was a key pillar of economic growth in the country. Specifically, according to official BHAS data, in 2023 there was an increase in final consumption of 1.3% in Bosnia and Herzegovina (private consumption 1.1%, public spending 2.1%), so that the total contribution to economic growth amounted to 1.1 p.p. In addition to the increase in consumption, according to the BHAS national accounts statistics for 2023, total investments in Bosnia and Herzegovina increased by 2.1% compared to the previous year, with a contribution to total GDP growth of 0.6 p.p. A higher level of investment activity compared to the previous year was recorded in both the private and public sectors in Bosnia and Herzegovina.⁸

On the other hand, the weakening of economic growth with major trade partners such as the EU (estimated GDP growth in the EU in 2023 at 0.5%), i.e. export demand, has significantly slowed down the foreign trade in Bosnia and Herzegovina. Namely, after a period of high growth in foreign trade with the world, when Bosnia and Herzegovina recorded double-digit growth rates, in 2023 there was a stagnation of total foreign trade. This is to say that, due to the weakening of export demand for BH, exports from Bosnia and Herzegovina decreased by about 1.2% compared to the previous year. This is mostly due to a decrease in goods exports of about 3.4%, while on the other hand, there was an increase in exports of services of about 5%, which partially mitigated the decline in total exports from Bosnia and Herzegovina in 2023. On the other hand, this decline in exports as well as slightly lower growth of private (compared to 2021 and 2022) resulted in a slight decrease in total imports in 2023 by about 1.3%. These trends in exports and imports in 2023 prevented a significant contribution of the external sector to economic growth at only 0.2 p.p., which is a much more modest contribution compared to previous years.

Currently available statistical data for 2024 indicate that the growth trend of economic activity in Bosnia and Herzegovina continued. Namely, according to the available preliminary BHAS statistical data for Q1 2024 (GDP, expenditure approach, quarterly data), real GDP growth of 2.7% was registered in Bosnia and Herzegovina compared to the same period of the previous year. If we look more closely at the structure of GDP growth of 2.7% in Q1 2024, it can be concluded that domestic demand (consumption and investments) continues to be the main driver of economic growth in Bosnia and Herzegovina. Namely, according to the currently available BHAS data, it is estimated that the growth of final consumption during the observed period amounted to 2.6%, so that its contribution to GDP growth amounted to about 2.3 p.p. In addition to the increase in total final consumption (private 2.7% and public

⁷ Agency for Statistics of Bosnia and Herzegovina, Press release, "Gross domestic product, expense-based approach - annual data for 2023", dd 06.10.2024.

⁸ On this occasion, it is worth noting that in 2023, according to BHAS data, there was a significant decrease in inventories (39.5%), which made it much more difficult to accurately analyse the contribution of investments to the structure of GDP in Bosnia and Herzegovina.

2.1%), in Q1 2024 there was a noticeable double-digit growth in total investments, which significantly contributed to economic growth in Q1 2024. However, when interpreting this growth of investments and contributions to economic growth, it should be noted that this category also includes inventories, which significantly complicates the analysis of the contribution of investments in the structure of economic growth in Bosnia and Herzegovina. On the other hand, given that in 2024 there was an additional slowdown in economic growth with the main trade partners (EU and countries of the region), this was reflected in the export demand for products from Bosnia and Herzegovina, as well as in the total foreign trade with the world, which was reduced by about 6%. This decrease in foreign trade in goods is a consequence of a decrease in exports of almost 15%, while imports increased by 1.3% compared to the same period of the previous year.⁹ This trend of exports and imports resulted in an increase in the trade deficit, so that the overall contribution of the trade balance to economic growth was negative. Assessment of economic trends in Bosnia and Herzegovina for 2024 is based on currently available domestic and international statistical data and calculations of available econometric models. According to DEP's estimate, this trend of growth in economic activity in the country should continue with an expected real GDP growth rate of 2.4% at the end of 2024.¹⁰ It is estimated that despite the unfavorable external environment (stagnation of economic growth in the EU), domestic demand (final consumption and investment) should represent the main stronghold in preserving economic growth until the end of the year. Namely, the expected growth in the number of employees, a certain increase in salaries and pensions, and the growth of cash inflows from abroad, along with credit growth within the retail sector, should, according to DEP estimates, result in an increase in total final consumption in Bosnia and Herzegovina of 2.5% (private consumption 2.4% and public consumption 2.6%) with a positive contribution to economic growth of 2.1 p.p. In addition to final consumption, a positive contribution to growth is also expected in private and public investments. DEP's estimate is that at the end of 2024, total investment growth of 6.7% can be expected in Bosnia and Herzegovina, with an expected contribution to economic growth of 1.7 p.p. On the other hand, the low level of economic activity in the external environment, especially the low rate of economic growth in some EU countries (Germany, Italy, Austria), which are also the main trade partners of Bosnia and Herzegovina, have a negative impact on the results of foreign trade with the world. Thus, by the end of 2024, a slightly lower level of total foreign trade with the world can be expected. According to DEP's estimate, the evident weakening of export demand could result in stagnation in total exports in 2024 with a registered rate of -0.3%. On the other hand, the expected growth of domestic demand (final consumption and investments) should result in an increase in imports to Bosnia and Herzegovina of 2.5% compared to the previous year. Such trends in exports and imports during the year are very likely to lead to an increase in the foreign trade balance of about 10%, so that at the end of 2024 we can expect its negative contribution to the total growth of 1.5 p.p.

Industrial production in BiH

International and domestic statistics for 2023 indicate that there was a significant slowdown in economic activity compared to the previous year. This is to say that, according to Eurostat data for 2023, economic growth of only 0.5% was recorded in EU countries compared to the same period of the previous year, while the decline in the physical volume of industrial production was about 2%.¹¹ A similar trend in economic activity seems to be noticeable in Bosnia and Herzegovina. Namely, according to the currently available preliminary BHAS data for 2023, Bosnia and Herzegovina recorded a decrease in the physical volume of industrial production of 3.8% compared to the previous year.¹² This trend of industrial production in Bosnia and Herzegovina in a way indicates that economic trends in the country are determined by economic trends in EU countries. On the other hand, it also indicates a slowdown in

⁹ In this part of the report, we used data from the BHAS national accounts statistics for Q1 2024 https://bhas.gov.ba/data/Publikacije/Saopštenja/2024/NAC_04_2024_Q1_1_HR.pdf, wherein export and import indicators include goods and services.

¹⁰ DEP projections, September 2024

¹¹ Eurostat, Euroindicators, "Industrial Production", 21/2024, 14 February 2024.

¹² Agency for Statistics of Bosnia and Herzegovina, Press release, "Volume index of industrial production in Bosnia and Herzegovina, December 2023", 25.01.2024.

economic trends compared to previous years. If we look in more detail at the structure of the physical volume of production in Bosnia and Herzegovina in 2023, it is evident that the decline in production was registered within the manufacturing industry by 5% and in the mining sector by 7%, while a slight increase in production was achieved in the electricity production sector by 1.9%. Based on these indicators, it can be concluded that trends within the manufacturing industry, which accounts for about 3/4 of the total industrial production in Bosnia and Herzegovina, were key to the decline in the physical volume of production. The decline in production within the manufacturing industry in Bosnia and Herzegovina is a consequence of the weakening of export demand and thus also the volume of production within export-oriented sectors, which is also confirmed by indicators of a decline in goods exports in 2023. The currently available statistical data for 2024 on the trends of industrial production both in the country and in the external environment are not encouraging. More specifically, economic activity in EU countries in the first half of 2024 is quite stagnant, as shown by the data on the increase in GDP in P1 in 2024 of only 0.7%, while the physical volume of industry decreased by 3.3%. Similar trends are present in Bosnia and Herzegovina, given that in Q1 2024, GDP increased by 2.7%, while the physical volume of industrial production decreased by 5.7% in P1. On sector level, the decline in the physical volume of production was recorded in all three sectors (mining, manufacturing, electricity generation). If we take into account the data so far, both in the country and in the external environment, DEP's assumption is that negative trends in industrial production will continue until the end of the year.

Labor market – 2023 and 2024

In 2023, the average number of employed persons in Bosnia and Herzegovina increased by 1.3% yoy and stood at 849.5 ths. Looking at the number of persons employed in Bosnia and Herzegovina by segments of activity, the most significant growth in 2023 was in the segment of wholesale and retail trade, information and communication, accommodation services, and food preparation and catering, as well as education. The number of registered unemployed persons in Bosnia and Herzegovina continued to decline in 2023. The average number of unemployed persons in the observed year was 348.9 ths, which is 3.9% less than in 2022. According to the survey, the unemployment rate in Bosnia and Herzegovina in 2023 decreased compared to the previous year and amounts to 13.2%. The average net salary in 2023 was nominally higher by 12.5% compared to 2022 and amounted to BAM 1,263 with a real growth of 6.1% due to inflation.

In the period I-VII 2024, there is an evident slowdown in the growth of the number of employed persons in Bosnia and Herzegovina. The average number of employed persons in the observed period was about 852.6¹³ ths and increased by 0.5% against the same period last year. The slower growth of the number of employees in the observed period was influenced by the decrease in the number of employed persons in certain segments of activity, especially in the segment of industrial production. Thus, the number of employed persons in the manufacturing segment in the observed period decreased by 3.1% yoy, and in the activity of mining and quarrying by 4.8% yoy (a negative contribution to the growth of the number of total employees by 0.7 p.p.). Looking at the activities that recorded an increase in the number of employees in the observed period, the most prominent activities are ¹⁴wholesale and retail trade, repair of motor vehicles and motorcycles (2.2% yoy or 0.4 p.p.) and health and social welfare activities (2.2% yoy or 0.2 p.p.). All other activities had a smaller contribution to the growth of the total number of persons employed. The unemployment rate in Bosnia and Herzegovina, according to the Labor Force

¹³ Provisional data (data up to March 2024 are final, and after that data are provisional). Source: BHAS.

¹⁴ The total retail trade turnover in BiH, observed in current prices, in July 2024 increased by 8.4% compared to the same month of the previous year. Observed at constant prices, the total retail trade turnover increased by 4.2% compared to the same month of the previous year. Source: BHAS, Business statistics, Retail trade turnover annexes, July 2024.

Survey in Q2, was 13.3% and is lower than in the previous quarter. The average net salary in Bosnia and Herzegovina in the period I-VII 2024 increased by 9.5% yoy (real growth was 7.4%) and amounted to BAM 1,364 with the growth of the lowest salaries in both BiH entities at the beginning of the year. Taking into account economic growth as well as current trends on the labor market, a more modest growth in the number of employed persons in Bosnia and Herzegovina in 2024 can be expected to be around 0.5% yoy. The average net salary in Bosnia and Herzegovina in 2024 could increase by about 9.3%.

Prices - 2023 and 2024

In the period I-XII 2023, inflation in Bosnia and Herzegovina amounted to 6.1% yoy. It is important to note that the largest price increase was in Q1, and from Q2 price growth slowed down significantly by the end of the year. This inflation trend has been influenced by the stabilisation of energy prices on the global market. Due to lower prices of oil and oil derivatives in the transport segment, prices were lower by 4% yoy. In addition to this segment, only in the clothing and footwear segment prices were lower by 6% in the observed period. Prices in the food and non-alcoholic beverages segment (the largest share in the CPI index) increased by 10.6% yoy. In the segment of housing, water supply, electricity, gas and other energy products, prices increased by 7.4% yoy.

In the period I-VIII 2024, inflation of 1.9% yoy was registered in Bosnia and Herzegovina. Observed by segments of the consumer price index, the most significant price growth was in the segments of food and non-alcoholic beverages, as the dominant segment (1.4% yoy) and other goods and services (5.9% yoy). In addition, in the segment of alcoholic beverages and tobacco, prices increased by 4.3% yoy, with cigarette prices being increased by some manufacturers during the observed period. From 1 January 2024, the Decision on the determination of the specific and minimum excise duty¹⁵ on cigarettes and tobacco for 2024 came into force. In housing, water supply, electricity, gas and other energy products, prices did not rise significantly (0.5% yoy), so their contribution to the growth of overall inflation is small. The gradual increase in crude oil prices had an impact on the trend of prices in the transport segment, which increased by 1.2% yoy (especially from Q2). Given the price trends so far, it can be assumed that the level of inflation in 2024 will be lower compared to the previous year. In its latest¹⁶ projections for the eurozone, the ECB forecasts inflation of 2.5% yoy, with crude oil prices at \$83.2/barrel, down 0.6% yoy. The price of gas would be lower by 15.8% yoy. The IMF (WEO, July 2024) has similar inflation forecasts, according to which inflation in the eurozone could be 2.4%. Accordingly, it can be concluded that inflation in Bosnia and Herzegovina could be around 2% yoy by the end of the year. However, it is important to take into account the risks to the realisation of projections that could significantly affect inflation.

¹⁵ The Governing Board of the Indirect Taxation Authority has adopted the Decision on determining the specific and minimum excise duty on cigarettes and the amount of excise duty on smoking tobacco for 2024. The minimum excise duty for a pack of cigarettes of 20 pieces is BAM 3.46 (in 2023 it was BAM 3.35), and the specific excise duty is BAM 1.65 for a pack of cigarettes of 20 pieces (it remained the same compared to 2023). The excise duty on smoking tobacco is determined in the amount of 80% of the minimum excise duty on cigarettes determined in Article 3, paragraph (3) of this Decision is BAM 138.4 per kilogram (in 2023 it amounted to BAM 134 per kilogram). Source: Decision on Determining the Specific and Minimum Excise Duty on Cigarettes and the Amount of Excise Duty on Smoking Tobacco for 2024.

¹⁶ ECB projections dd September 2024.

Banking sector

Trends related to bank loans and deposits in 2023 and 2024

At the end of 2023, total approved loans reached BAM 23.5 billion, which is an increase of 6.6% compared to 2022. The largest contribution to the growth of total loans was made by loans approved to the retail customers (3.7 p.p.) with a growth rate of 7.4% yoy and amounted to BAM 11.8 billion, followed by loans to non-financial institutions (2.7 p.p.) with a value of BAM 10.4 billion. and a growth rate of 6.2% yoy. Loans to the general government decreased by 1.1% yoy and amounted to BAM 1.1 billion. Total deposits at the end of 2023 reached BAM 31.1 billion. with a growth rate of 6.5% yoy. The largest contribution to the growth of total deposits was made by retail deposits (5.1 p.p.), with a growth rate of 10.2% yoy and amounted to BAM 16.1 billion, and then deposits of non-financial institutions with a value of about BAM 9 billion and a growth rate of 10.1% yoy. The growth of deposits was partially slowed down due to the decrease in general government deposits by 6.7% yoy and amounted to BAM 4.3 billion.

In Bosnia and Herzegovina, since the beginning of 2024, there has been an increase in total approved loans, which at the end of July 2024 amounted to BAM 25 billion (9.7% yoy). The largest contribution to the growth of total loans was made by retail loans (4.5 p.p.) with a growth rate of 9% yoy, followed by loans to non-financial companies (4.2 p.p.) with a growth rate of 9.5% y/y. Loans to general government amounted to EUR BAM 1.2 billion, which is an increase of 15.6% compared to the same month last year, with a modest contribution to the growth of total loans of 0.7 p.p. Total deposits in July 2024 amounted to about BAM 32.5 billion, which is an increase of 7.8% yoy. The largest contribution to the growth of total deposits was made by retail deposits with 9% yoy and the amount of BAM 16.7 billion and deposits of non-financial institutions with a growth rate of 11.9% yoy and the amount of BAM 9.6 billion. On the other hand, general government deposits recorded a decline of 2.8% yoy and amount to BAM 4.3 billion. Total deposits and loans are expected to maintain similar growth rates until the end of the year.

External sector

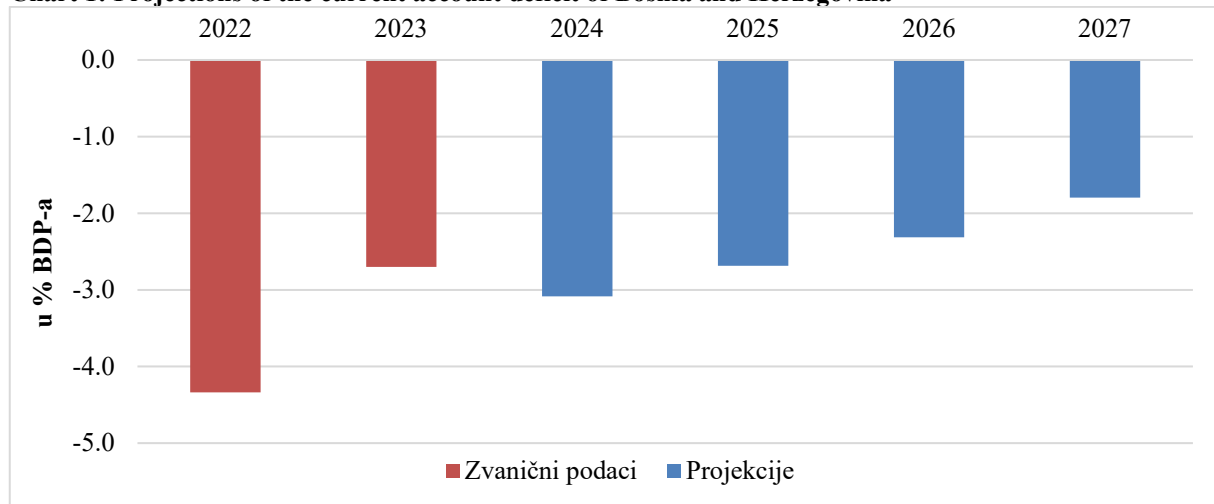
Balance of payments of Bosnia and Herzegovina in 2023 and 2024

According to official data from the balance of payments of Bosnia and Herzegovina for Q1 2024¹⁷ and DEP projections for the other three quarters of 2024, the current account deficit within the balance of payments of Bosnia and Herzegovina would amount to about BAM 1.65 billion, which would represent an increase of about 20% yoy. This increase in the deficit is largely caused by a slowdown in the export of goods as well as reduced economic activities of the main foreign trade partners.

In Q1 2024, the current account deficit amounted to about BAM 900 million, which represents an increase in the deficit of 165% compared to the same period of the previous year. This increase in the current account deficit is mostly determined by the deficit of foreign trade in goods and services (which increased by 56.3% yoy, i.e. by BAM 730 million), i.e. an increase in nominal imports by 5.1% yoy and a decline in nominal exports by 7.8%¹⁸ yoy. Current net cash inflows from abroad in Q1 2024 recorded a growth of 16.2%, As a result of an increase in current inflows by 11.8% (mostly an increase in inflows to households from abroad) with a simultaneous increase in cash outflows abroad by 5.5%.

¹⁷ At the time of making these projections, data were available only for Q1 2024

¹⁸ Data source: CBBH

Chart 1: Projections of the current account deficit of Bosnia and Herzegovina

Source: CBBH and DEP projections

*Zvanični podaci – official data; Projekcije – projections; u % BDP-a – in % of GDP.

Based on DEP projections, a nominal increase in the foreign trade deficit of 10.6% could be expected in 2024 (with an increase in imports of 3.5% and exports of 1.5%).

Foreign trade trends in 2024

Over the last few years, Bosnia and Herzegovina has recorded relatively good results when it comes to foreign trade in goods with the world. The stabilisation of economic conditions with the main foreign trade partners, the post-pandemic economic recovery and the growth of export and import prices have enabled a continuous growth in foreign trade in goods, which is confirmed by double-digit growth rates of foreign trade indicators. However, currently available statistical data for 2023 and 2024 indicate that there has been a significant slowdown in foreign trade in Bosnia and Herzegovina. This is to say that the slowdown in economic growth with the main trade partners (EU GDP growth of 0.5%) resulted in weakening of export demand for BIH products on international markets. On the other hand, slightly slower economic growth in the country and a lower level of domestic demand (consumption and investments) resulted in weakening of imports compared to the previous year. Data from national accounts statistics in 2023 indicate that in 2023 there was a stagnation of total foreign trade with the world, with total exports and imports reduced by 1.2% and 1.3% in real terms, respectively.

Currently available data on foreign trade trends indicate that negative trends therein have continued. More specifically, according to data from the BHAS national accounts statistics for Q1 2024, due to the weakening of export demand, there was a drop in exports of about 15%. On the other hand, the growth of total imports of 1.3% is quite expected due to the increase in economic growth in the country, which was based on the increase in exports and imports. DEP's assessment (which is based on available domestic and international statistical data and applied available macroeconomic models) is that by the end of 2024 there should be a slight stabilisation of foreign trade in goods. Namely, according to DEP projections, in 2024 total exports are expected to stagnate with a registered rate of -0.3% (export of goods -2.5%, export of services 5.1%) in real terms. On the other hand, the expected growth of total imports in 2024 is 2.5% (import of goods 2.6%, export of services 1.5%). Such trends in exports and imports will undoubtedly lead to an increase in the trade balance of Bosnia and Herzegovina by 12.8%, so that in 2024 a negative contribution of the trade balance to economic growth of 1.5 p.p. is expected.

Foreign direct investments in 2023 and 2024

The continuation of inflationary trends, as well as the war in Ukraine and the Middle East, was inevitably reflected in the decline in foreign investment (hereinafter: FDIs) in 2023. According to OECD data (FDI

in figures, inflow),¹⁹ total investments by countries in the world in 2023 (compared to 2022) went down by 16%. At the same time, investments towards OECD countries were lower by 8% yoy and towards G-20 countries by 40% yoy. An encouraging fact is that, according to the preliminary data for Q1 2024 (compared to the Q1 2023), investments towards OECD countries recorded an increase of 2%, while in the same period investments towards China decreased by 57%.

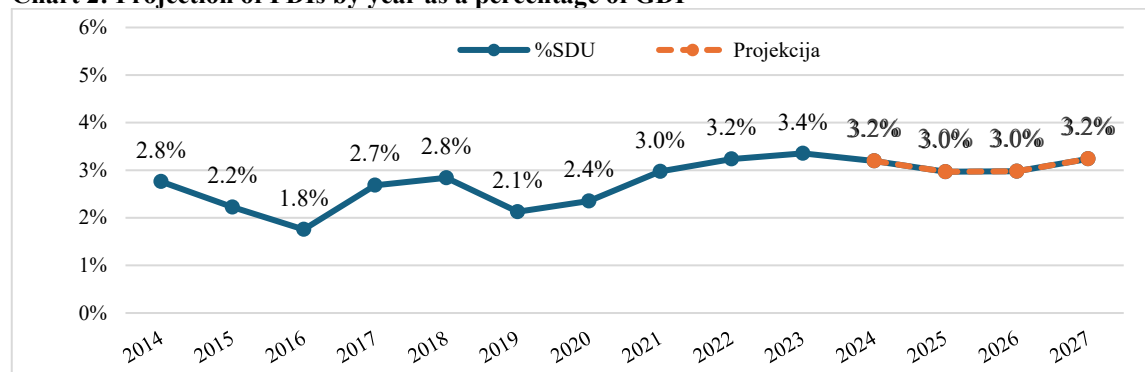
In Bosnia and Herzegovina, the total FDIs in 2023 reached BAM 1.7 billion with a growth rate of 15.8% yoy (net financial liabilities) and thus achieved a share in GDP of about 3.4%.

At the beginning of 2024, economic growth in the world was positively influenced by the fact that energy prices began to fall significantly with the final stabilisation of inflation. There was also an increase in the most important stock indices listed on the world's stock exchanges. Mostly all of the world's leading stock indices achieved positive growth rates at the end of the first half of 2024 compared to the end of 2023. The Dow Jones Industrial Average (DJIA) is up 3.8%, the S&P 500 is up 14.5% and the tech-heavy Nasdaq is up 18.1% yoy. In Asia, Japan's Nikkei is also up by 18.3% yoy. The Weekly Economic Index grew by 16.2% over the same period.

According to the latest available data from CBBH, the total FDIs in Bosnia and Herzegovina in the first quarter of 2024 reached BAM 509.4 million and were 4% higher than in the same period last year. It is estimated that the FDIs' share in GDP in 2024 be around 3.2%.

Significant funds are also expected from the initiated or announced infrastructure investments in the Banja Luka-Prijedor highway²⁰ (for which EUR 300 million is expected, with completion of works in 2028), Vukosavlje-Brčko-Bijeljina²¹ (i.e. Rača-Bijeljina section first²²), which should be completed by the end of 2025, and the long-announced Trebinje Airport project.

Chart 2: Projection of FDIs by year as a percentage of GDP



Source: BHAS, CBBH and DEP assessment

*%SDU - % of FDIs; Projekcija – projection.

3.2 Medium-term macroeconomic scenario

Assumptions for economic trends in 2025-2027

A very important determinant for economic trends in Bosnia and Herzegovina in the period 2025-2027, in addition to internal dynamics, will also be economic trends in the external environment, especially in the EU27 countries. This is to say that, in the last few years, the global economy, and thus the economic trends in Bosnia and Herzegovina, have been marked by major challenges, such as the global pandemic, conflicts in Ukraine, etc. The negative economic consequences of these events on the global economy

¹⁹ OECD, FDI- in- figures-July-2024., FDI inflow.

²⁰ Information provided by the entity coordinator.

²¹ <https://autoputevirs.com/2023/02/23>

²² <https://integral.ba/svecani-pocetak-radova-autoput-raca-bijeljina/>

are already visible and are manifested through trade, financial and price shocks that will not bypass Bosnia and Herzegovina. More specifically, previous reports have shown that the external environment (the EU and the countries of the region) represent a very important structural determinant of all economic trends in Bosnia and Herzegovina. Reference international institutions in the world such as the International Monetary Fund (IMF), the World Bank and the European Commission, indicate in certain publications that the latest international events will have negative economic consequences for the global economy. Therefore, it is worth noting that when preparing this report, DEP used the currently available edition²³ of the *European Economic Forecast Spring 2024 (Institutional Paper 286, May)* as part of projecting economic trends in the international economic environment.²⁴

In line with the latest economic developments in the world, DG ECFIN has significantly revised the projection of economic growth for EU countries, which is 1.6% in 2025, while the projection of inflation is 2.2%. Given that external dynamics are a very important structural determinant of all economic trends in Bosnia and Herzegovina, it is worth pointing out that the latest trends will play a decisive role in the country's economic growth prospects in the coming period. In addition to external dynamics, a very important factor for economic growth in the country during the 2025-2027 program period will also be the country's institutional capacity in the implementation of structural reforms in order to strengthen the contribution of internal dynamics in creating this. Further complexity of both external and internal dynamics would have very negative consequences for the BiH economy and reduce its potential growth. Bearing in mind both, external and internal circumstances, according to DEP projections, in the baseline scenario for the period 2025-2027, economic growth can be expected in Bosnia and Herzegovina with an average rate of about 3% on an annual basis (2025: 2.8%, in 2026 3.1% and in 2027 3.3%).²⁵

It is assumed that the key support for economic growth during this period should be domestic demand through an increase in private consumption and investments. This is to say that adequate implementation of structural reforms (ERP, Reform Agenda and other strategic documents) would lead to an increase in overall economic activity in the country through an increase in total production, the number of employees, an increase in capital investments (private and public), as well as export revenues (goods and services). In the baseline scenario, it is expected that these trends would ultimately result in an increase in the disposable income of citizens, and thus an increase in private consumption, which, as in previous years, will be a key pillar of economic growth. Thus, in the period 2025-2027, the average growth rate of private consumption is expected to be at 1.9%. On the other hand, given the high level of public spending within GDP in Bosnia and Herzegovina and the efforts made through the fiscal consolidation process in Bosnia and Herzegovina during this period, a gradual stabilisation of public finances is expected through a reduction in public expenditures and a simultaneous increase in public revenues in order to limit the growth of public spending. Thus, in the period 2025-2027, a uniform growth of public spending of about 1.5% is expected on an annual basis. If we take into account that during this period the projected rate of economic growth would be higher in relation to the growth of public spending, the share of it in the structure of GDP would partially decrease to about 17.8%. During this period, it is expected that fiscal policy measures should channel part of the funds from current spending in order to strengthen investment spending in Bosnia and Herzegovina. Therefore, with the improvement of the business environment, investments (unlike in previous years) could have a more significant growth and thus a greater contribution to the expected GDP growth. In the period 2025-2027, an increase in investments is expected in Bosnia and Herzegovina at an average annual growth rate of about 5% (2025: 4.6%, 2026: 5.4%, 2027: 4.7%). In this time frame, in addition to the increase in private investments, which makes up the majority of total investments (about 80% of total investments), as previously stated, a more significant contribution of public investments is expected. It is believed that progress in the process of EU integrations, combined with the improvement of the business environment through reform processes,

²³ It should be noted that an additional challenge for the preparation of macroeconomic projections in Bosnia and Herzegovina was the availability of international data, given that DG ECFIN plans to publish the autumn edition of macro projections on 15.11.2024.

²⁴ European Commission, "DG ECFIN, "European Economic Forecast" Spring 2024 (Institutional Paper 286) May 2024.

²⁵ DEP projections, September 2024

could increase the interest of both domestic and foreign investors in investing in Bosnia and Herzegovina. On the other hand, given the structure and position of the economy of Bosnia and Herzegovina, it is considered that public 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 - green transition, as well as the availability of funds from international financial institutions, could result in an annual increase in public investments of about 5.5% in the period from 2025 to 2027. Thus, in the medium term, the share of public investments in GDP in Bosnia and Herzegovina would increase to around 3.5% of GDP. Gradual stabilisation in the external environment along with the improvement of the industrial base and raising competitiveness in the country, are prerequisites for improving foreign trade with the world. Only under the condition of materialisation of these internal and external assumptions in the period 2025-2027 can an increase in foreign trade with the world be expected. In this case, an average annual growth of total exports of about 5% can be expected in Bosnia and Herzegovina (export of goods 4.4% and export of services 6.6%). The contribution of services should be particularly emphasised here, given that their share has significantly increased over the last few years and very often amortise certain losses in the export of goods that occurred due to fluctuations in international markets. Thus, during this period, thanks to this export growth, the share of exports in GDP would increase to around 45% at the end of 2027. On the other hand, imports in this period are expected to move at a slightly slower annual growth rate of 3.6% (import of goods 3.6%, import of services 3.7%). The consequence of this trend in import growth would be the stabilisation of the share of imports in GDP to about 54% of GDP at the end of 2027. A slightly stronger growth in exports compared to the growth of imports in the medium term would result in a gradual stabilisation of the foreign trade balance as a share of GDP at 9%, i.e. a slightly positive contribution to economic growth, while the coverage of imports by exports should be almost 82% by 2027.

Assumptions regarding the industrial production trends

In the period 2025-2027, both in Bosnia and Herzegovina and in the world, a more significant stabilisation of economic growth is expected, which will be reflected in the trend of the volume of production, employment and exports. During the observed period, trends in industrial production, in addition to economic trends in the external environment, will much depend on internal dynamics in Bosnia and Herzegovina. This is to say that, during this period, it is expected that the implementation of reform measures to improve the business environment will improve, which are implemented by the competent institutions in Bosnia and Herzegovina. Improving the business environment is a prerequisite for increasing capital investments (domestic and foreign), greater utilisation of existing and launching new capacities, increasing the number of employees and strengthening the competitive position of BiH manufacturers both in domestic and foreign markets. If we take into account the structure of production processes in Bosnia and Herzegovina, it is very important to approach the process of green transition in a timely manner and in full capacity. Possible delays in the green transition process pose a threat to the competitiveness of industrial production in Bosnia and Herzegovina. Only under the condition of materialisation of both external and internal assumptions, DEP projections actually would stand that Bosnia and Herzegovina could achieve an improvement and positive growth rates in the physical volume of industrial production.

Assumptions regarding the labor market in 2025-2027

Projections for the labor market in the period 2025-2027 are based on the business environment, i.e. the assumed economic growth and trends regarding demand, trade and investments. These components of economic growth significantly determine what is happening in the labor market. In its projections (September 2024), the ECB forecasts a modest growth in the number of employed persons in the euro area of 0.4% yoy in 2025 and 2026, with an unchanged unemployment rate of 6.5%.

According to DEP projections, GDP growth is expected to continue in Bosnia and Herzegovina in the period 2025-2027, partly due to the growth in the volume of investments and trade, which should have a positive impact on the number of employees and salaries. As in previous years, the business environment

in the segments that traditionally employ the most people in Bosnia and Herzegovina (industry, trade and certain service activities) could significantly determine the volume of employment with a smaller contribution of the public²⁶ sector. Better business opportunities in the segments of industry, trade, but also in certain service activities, would open the possibility of creating new jobs. Therefore, conditions would be created for the growth of the number of employed persons with a gradual decrease in the unemployment rate in Bosnia and Herzegovina, as well as for the growth of the average net salary. Thus, in 2025-2027, the total number of employed persons in Bosnia and Herzegovina could increase by 1.1%-1.8% yoy, while the average net salary could increase by 6-7% yoy. However, risks for the realisation of projections should be taken into account, which could significantly affect the assumed growth of basic indicators in the labor market.²⁷

Assumptions for price trends in 2025-2027

In 2025, a moderate increase in prices is expected in both the EU and Bosnia and Herzegovina. *The projected inflation rates in 2025 could mainly be the result of a gradual weakening of external pressures on prices, i.e. slightly lower prices of energy products and food products. According to the ECB's projections (September), the price of crude oil in 2025 could be lower by 8.5% yoy and would amount to \$76.1/barrel, and inflation in the eurozone could slow down to 2.2% yoy. The IMF has a similar forecast in its summer projections, according to which inflation in the eurozone could be at 2.1% in 2025, and the price of crude oil could be lower by 6% yoy. In its spring projections, the European Commission has made similar forecasts for inflation and crude oil prices.²⁸ If, in addition to the said external price determinants, the prices of utilities (overhead costs) are taken into account without large fluctuations in Bosnia and Herzegovina, inflation of around 1.9% yoy can be expected in 2025.²⁹*

The preparation of inflation projections in Bosnia and Herzegovina in the period 2026-2027, as well as in previous years, is based on the trends of food prices (as the dominant section) and energy products on the global market, as well as projections of inflation in the EU as important external factors. In the observed period, a moderate increase in the overall price level in Bosnia and Herzegovina is expected, which is related to the reduction of external price pressures. This slower rise in inflation reflects the continued decline in crude oil prices as well as natural gas. In its projections, the ECB predicts that the price of crude oil in 2026 could be lower by 3.8% yoy and would amount to \$73.2/barrel. The price of natural gas in 2026 could also be lower by 13.9% yoy. In addition, it is expected that food index³⁰ prices in the euro area in the observed year could rise moderately by 2.1% in 2026. When it comes to the trend of food indices on the world market, the latest available projections³¹ of the World Bank indicate that the food price index could be lower by 0.5% yoy in 2026 and maintain the same level next year. This could bring inflation in the euro area to 1.9% in 2026. If, in addition to the said external factors, stable prices of utilities are taken into account, as domestic factors, inflation in Bosnia and Herzegovina in 2026-2027 may be 1.7%-1.8% yoy.³²

Assumptions for the growth of bank loans and deposits in 2025-2027

According to DEP projections, economic activity in Bosnia and Herzegovina is expected to grow in the period 2025-2027, which would lead to the growth of loans to the non-financial institutions sector. Strengthening of foreign demand could lead to an increase in production and ultimately have a positive impact on foreign trade. In addition, the number of employed persons is expected to grow with a decrease

²⁶ The analysis refers to the activities of public administration, health and education.

²⁷ The said risks will determine whether the growth rates of the number of employed persons and net wages will be faster or slower than assumed in the baseline scenario.

²⁸ At the time of writing of the document, the last available projections of the EC were from May 2024 (inflation 2.1% in the euro area with a decrease in crude oil prices of 6.3% yoy).

²⁹ As in the previous year, the expected price growth will depend on the risks that would affect inflation.

³⁰ Food HICP, euro area (September 2024).

³¹ According to the World Bank's projections (April 2024).

³² As in the previous year, the expected price growth will depend on risks that could further increase inflation.

in the number of unemployed persons, which could also be reflected in the demand for bank loans from the retail sector. Loans approved to these sectors account for over 90% of bank loans in Bosnia and Herzegovina. Higher demand for loans from the retail segment and from the non-financial institutions would lead to an increase in total lending activity, which would amount to 8%-8.5% yoy in the period 2025-2027. In addition, the growth of disposable income and positive trends in the labor market would determine the trends regarding loans and retail deposits. With the stabilisation of energy and food prices, retail deposits would continue to grow in the observed period. The growth rate of total deposits could also be determined by the trend of deposits of non-financial private institutions. In the period 2025-2027, the growth rate of total deposits could range between 7% and 7.5%.

EXTERNAL SECTOR

Assumptions for the balance of payments 2025-2027

In the period 2025-2027, the nominal reduction of the foreign trade deficit is expected in the range of 1.8%-3.8%, as a result of an increase in the nominal import rate (4.5-6%) and an increase in the nominal export rate (6.3%-8.4%).

As a share of GDP, the current account deficit for 2024, according to DEP projections, would be around 3.1%, while in the period 2025-2027, we could expect it to be in the range of 1.8% to 2.7% of GDP. Net current inflows from abroad in 2024 are expected to be around 9% of GDP, while in 2025-2027 they could range from 7.8% to 8.6% of GDP.

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

Assumptions for foreign trade for the period 2025-2027

According to currently available projections, a slightly higher level of economic activity is expected in the EU countries in 2025 compared to previous years, with an expected economic growth rate of 1.6%.³³ In accordance with these trends and DEP's assumptions, a gradual recovery of foreign trade with the world can be expected from the baseline scenario in Bosnia and Herzegovina. This is to say that, according to DEP projections for 2025, total exports in Bosnia and Herzegovina are expected to grow by 4.3% in real terms, driven by the growth of exports of goods with an expected growth rate of 4.0%, while the expected growth in exports of services is 4.8%. On the other hand, given that Bosnia and Herzegovina is a fairly import-dependent economy, and that economic growth of 2.8% can be expected in 2025, which is mainly driven by domestic demand, an increase in imports is also expected. Thus, according to DEP projections, total imports can be expected to grow by 3% in 2025, with the expected growth rate of import of goods at 2.9% and import of services at 5.1%. Such trends in exports and imports should ultimately result in stagnation of the trade balance at the end of 2025, so that the expected contribution to overall economic growth is neutral.

The trends regarding economic activity, i.e. economic growth in the country and the external environment, will certainly be the main determinant of the trends related to foreign trade in goods in Bosnia and Herzegovina over the medium term. Therefore, the DEP projection is that in Bosnia and Herzegovina in the period 2026-2027, a real increase in total exports could be expected, with annual growth rates of 5.3% in 2026 and 5.8% in 2027 in real terms. This increase in exports is conditioned by stable export demand, expansion of the production base and raising competitiveness in the country. This is supported by the projections of an increase in imports to the EU during this period. On the other hand, the increase in economic activity in the country, i.e. the growth of domestic demand within the retail and

³³ In the process of projecting economic trends in the external environment (export demand), we used the available data of DG ECFIN "European Economic Forecasts" Spring 2024 from May 2024.

corporate sectors through a slightly faster growth of consumption and investments, should also result in an increase in imports to Bosnia and Herzegovina. According to DEP projections, import growth rates are expected to be slightly lower than exports and should range from 4.0% in 2026 and 3.8% in 2027. Higher growth rates of exports than imports in the medium term should result in an increase in the share of exports in GDP to about 45%, while total exports (goods + services) would amount to about 54% by 2027. The result of such trends in exports and imports would be a gradual stabilisation of the total foreign trade deficit at around 9% of GDP, with a slightly positive contribution to economic growth of 0.2 p.p. on an annual basis and an improved coverage of imports by exports to almost 82% by 2027.³⁴

Foreign Direct Investments

Assumptions for foreign direct investments for 2025-2027

The ever-increasing need for the transition to renewable energy sources makes this area of investment more and more attractive in our country. A significant investment in hydropower potential by the Republic of Serbia.

It is evident that investments in this period are also positively affected by the fact that at the beginning of August 2023, the credit rating agency Standard & Poor's increased Bosnia and Herzegovina's sovereign credit rating from "B with a positive outlook" to "B+ with a stable outlook" and confirmed this status in February 2024.

In the following years, the FDIs would reach an average of about 3.1% of GDP (in 2025 and 2026 it would be around 3.0% and in 2027 about 3.2% of GDP).

³⁴ DEP projections, September 2024

3.3 Alternative scenario and risks

Indicator	Official data	Projections				
	2023	2024	2025	2026	2027	
Nominal GDP in BAM million	50.932	53.299	56.206	59.341	62.624	
Nominal growth in %	11,7	4,6	5,5	5,6	5,5	
GDP deflator (previous year = 100)	109,6	102,6	102,2	102,1	101,9	
Real GDP in BAM million (previous year = 100)	46.458	51.961	54.977	58.092	61.457	
Real growth in %	1,9	2,0	3,1	3,4	3,6	
Consumer price index inflation in %	6,1	2	1,8	1,7	1,6	
Consumption in BAM million	43.658	45.749	47.675	49.643	51.573	
Real growth in %	1,3	2,6	2,1	2,1	1,9	
Government spending in BAM million	9.548	10.044	10.396	10.760	11.147	
Real growth in %	2,1	2,6	1,5	1,7	1,7	
Private consumption in BAM million	34.111	35.705	37.279	38.883	40.426	
Real growth in %	1,1	2,5	2,3	2,2	2,0	
Investments (gross) in fixed assets in BAM million	11.519	12.314	13.260	14.254	15.360	
Real growth in %	12,1	5,1	5,8	6,0	6,3	
Government investments in BAM million	1.487	1.681	1.882	2.080	2.273	
Real growth in %	7,6	9,7	8,7	8,2	7,1	
Private investments in BAM million	10.031	10.633	11.377	12.174	13.087	
Real growth in %	12,8	4,4	5,3	5,6	6,1	
Imports in BAM million	27.798	28.632	30.157	31.961	34.038	
Nominal growth in %	-1,6	3,0	5,3	6,0	6,5	
Real growth in %	-1,3	2,0	3,8	4,3	4,4	
Exports in BAM million	21.931	21.921	23.306	25.113	27.364	
Nominal growth in %	-0,5	0,0	6,3	7,8	9,0	
Real growth in %	-1,2	-1,8	4,3	5,3	6,4	
National gross savings as a percentage of GDP	23,4	22,9	23,4	24,1	25,0	
Current account balance in BAM million	-1.157	-2.075	-2.214	-2.235	-2.059	
Growth in %	-42,2	79,3	6,7	0,9	-7,9	
Current account balance as a percentage of GDP	-2,3	-3,9	-3,9	-3,8	-3,3	

In the past few years, Bosnia and Herzegovina has recorded a positive trend of growth in economic activity, which is confirmed by real GDP growth rates, which were at the level of the regional average of the Western Balkan countries. However, it is worth noting that this period was marked by quite challenging both external and internal assumptions for achieving higher rates of economic growth as a precondition for raising the standard of living of citizens in Bosnia and Herzegovina. This is to say that the recovery from the global pandemic, the crisis in Ukraine, the global energy crisis, the high level of inflation on one hand, and the complex institutional structure and constant political disagreements in the country, have made it impossible to achieve higher rates of economic growth. Currently available BHAS statistical indicators for P1 2024 indicate that the growth trend of economic activity continued, given the registered GDP growth rate was 2.4%. This rate of economic growth is identical to the DEP's estimate in

the baseline scenario of the September cycle of macroeconomic projections. Currently available domestic and international statistical data for 2024, as well as certain circumstances within Bosnia and Herzegovina (such as floods and landslides that, in addition to lost human lives, caused material damage to a very important transport corridor), have caused the revision of this estimate to a slightly lower level. Namely, a slightly weaker export result in the segment of goods (prices and quantities), the interruption in rail transport due to floods and landslides, as well as a lower level of economic activity in the EU than expected, led to a decrease in exports in Bosnia and Herzegovina, which was consequently reflected in the expected GDP growth by the end of 2024.

On the other hand, in line with the "Guidelines for the Preparation of Economic Reforms 2025-2027" and based on recent statistical data (domestic and international), DEP has prepared 2 alternative scenarios for the ERP purposes. Therefore, it is worth noting that when preparing the first alternative scenario, DEP took into account the increase in the perception of both external (external environment) and internal risks in Bosnia and Herzegovina. Given that currently available statistical indicators, as well as projections of international institutions, indicate that in the meantime there has been an additional complication of circumstances globally, this could be reflected in both global economic growth and growth in Bosnia and Herzegovina. Before presenting the alternative scenario, it should be pointed out that over the previous years, the external environment (primarily EU countries) - through trade and capital flows represented the main structural determinant of most economic trends in Bosnia and Herzegovina. Thus, under the alternative scenario, DEP estimates that a further weakening of economic activity with the main trade partners (the EU and the countries of the region) would have a very negative impact on almost all macroeconomic indicators in the country in the medium term. In other words, 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 (about 3% on an annual basis), and raising the potential level of economic growth would be prolonged. Due to the high level of trade integration with EU countries, a lower level of export demand would lead to a slower recovery of exports, a lower level of production and thus affect the aggregate supply of Bosnia and Herzegovina. On the other hand, weakening of economic activity in the external environment would undoubtedly lead to a slower recovery of domestic aggregate demand, as a lower level of production would slow down the planned increases in employment and wages, which, along with a weaker inflow of remittances from citizens 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 by both the private and public sectors.

Internal challenges and internal risks in Bosnia and Herzegovina also pose a threat to realisation of the projections from the baseline scenario. Internal risks are posed by a complex decision-making system and a slow pace of implementation of structural reforms in the country. It is very important to highlight the "Growth Plan for the Western Balkans" initiative because of the opportunity that this initiative provides for Bosnia and Herzegovina's economic prospects over the medium term. More specifically, possible delays in implementation of these as well as other general structural reforms from the ERP could have a negative impact on the overall economic growth. Partial implementation of the structural reforms envisaged by the program (business environment, labor market, education, energy market - green transition, transport infrastructure) as well as the migration of young and qualified people would undoubtedly result in a decrease in productivity and slower GDP growth than projected in the baseline scenario.

The second alternative scenario that implies more favorable external and internal assumptions for economic growth in the country would have a much more positive impact on the economic prospects of Bosnia and Herzegovina in the medium term. This is to say that more favorable international economic conditions would stimulate demand for BH. products with the main trade partners, increase the level of production and elevate productivity of employees. Before the increase in production, a possible improvement in the external environment would also have a positive impact on consumption, as the growth of wages and cash inflows of citizens would partially improve the disposable income of citizens

and thus private consumption, which would continue to be the main pillar of economic growth. On the other hand, it is worth pointing out here that the dynamisation of internal assumptions for creating economic growth is an equally important, if not more important, precondition for increasing economic growth in Bosnia and Herzegovina in the period 2025-2027. Here it is very important to emphasise the role of the "Growth Plan-Reform Agenda" as a lever for the achievement of these goals. Namely, the timely and adequate implementation of structural reforms within this process would almost certainly result in an increase in economic activity in the country (production, consumption, investments and foreign trade). It is assumed that a higher level of public investments in transport infrastructure, green energy and digitalization would create the preconditions for increasing private investments (domestic and foreign). In this way, conditions for a stable, sustainable and long-term trend of economic growth would be created in Bosnia and Herzegovina, the outflow of young qualified personnel would be prevented, the level of potential economic growth would be increased, and the convergence processes of raising the standard of living of citizens in the country would be reactivated. A more detailed overview and developments in macroeconomic indicators in the alternative scenario no. 2, which implies adequate implementation of structural reforms (in particular the Growth Plan - Reform Agenda) is shown in the table herewith.

The development of alternative scenarios in the domain of **inflation** is based on the underlying risks to the projections, which are divided into external and domestic factors. Therefore, energy prices on the global market, as well as domestic prices, have a significant role in the inflation trend. The first scenario takes into account that the trends regarding energy and food prices on a global level are on a downward trajectory. Assuming the stabilisation of geolytic events in the period 2025-2027, the impact of external factors on prices (through lower crude oil and gas prices) could be significantly weaker, which would lead to the maintained low level of inflation in Bosnia and Herzegovina. In addition, taking into account the assumption that utility costs do not contribute significantly to inflation, this would lead to inflation in Bosnia and Herzegovina remaining low in the period under review (as presented in the table herewith). In the second scenario, in the period 2025-2027, higher energy prices due to negative geopolitical trends would increase prices in the transport segment, as well as input costs, i.e. costs would be shifted from producers to consumers. At the same time, an increase in the prices of food products and services could be present. In addition, rising utility prices, as domestic determinant of the inflation, could contribute to rising inflation. In this way, overall inflation would be slightly higher compared to the baseline scenario.

In the domain of **the labor market**, alternative scenarios are determined by events in the region and the business environment both in Bosnia and Herzegovina and in the world, which also pose risks to the projections in the baseline scenario. According to the first scenario, in the period 2025-2027, with slower economic growth, lower volume of investments, trade and generally worse business conditions, the growth of the number of employed persons could be slower than assumed in the baseline scenario. In addition, if the level of the lowest wage remains unchanged in the observed period, it will affect the growth rate of average net wages. In addition to all of the above, delaying the implementation of the planned structural reforms in Bosnia and Herzegovina would result in postponed positive developments in the labor market. The second alternative scenario assumes faster economic growth compared to the baseline scenario in Bosnia and Herzegovina, which would have a positive impact on the business environment and thus on the labor market. In addition, the beginning of the implementation of the planned structural reforms in Bosnia and Herzegovina could affect the faster growth of the number of employees, as well as salaries, and the level of purchasing power and living standards in general. In addition, we should point out the current trend of outflow of skilled labor and migration of the population in general, which is likely to contribute to further pressures on wages.

If there is no planned salary increase in the observed period, this will be reflected in **total revenues**, and will keep the collection of income tax as well as social contributions at the level of the previous period and will not leave room for an increase in public revenues. On the other hand, the impact on total revenues certainly has uncertainties on the global level, which spills over into Bosnia and Herzegovina, and is manifested through the collection of revenues from indirect taxes. In addition to the existing revenues,

and the increase in the growth of public expenditures, due to the increase in their financing, these trends would thus lead to further fiscal deficit.

If the expected measure to increase minimum wages, as well as the increase in salaries in general, are realised during the said period, this will certainly have a positive impact on public revenues, through the growth of income tax revenues and contributions. On the other hand, fiscal reforms started in 2024³⁵ and continued during the observed period, would make a positive contribution to the fiscal policy (greater fiscal discipline, higher revenue collection, reduction of the informal economy, etc.). The expected growth of public expenditures, which would be financed by planned and collected revenues, would reduce the negative fiscal balance, which could even change its numerical sign during the observed period.

The trend related to **loans and deposits** in Bosnia and Herzegovina also relies on risks regarding the economic growth. According to the first alternative scenario, in the period 2025-2027, slower economic growth than assumed in the baseline scenario, both in Bosnia and Herzegovina and in the countries of the main trading partners, would be accompanied by the consequences of negative global trends. These negative trends would be reflected in the banking system in form of a decline in demand for new loans and an increase in interest rates on loans. The growth rates of deposits and loans of non-financial institutions could also change due to the growth of uncertainty in business operations, as well as the growth rate of deposits and loans in the retail segment due to the possible risk of changes in the labor market and disposable income. The second alternative scenario envisages a better business environment accompanied by faster economic growth, which would have an overall positive impact on the growth of demand for loans in the non-financial institutions sector, but also in the retail sector through the growth of wages and employment.

Most of the risks that can be reflected on the trend related to **the balance of payments deficit** of Bosnia and Herzegovina refers to the foreign trade deficit of goods and services and in the trend of the inflow of money from abroad. According to DEP projections, in 2024 there will be a deterioration in the foreign trade deficit of goods and services, and thus this will lead to an increase in the current account deficit, which will almost double in that year. Thanks to somewhat slower and even in some European countries unfavorable economic trends in 2024, there has been a decrease in employment and, consequently, lower disposable income, which could ultimately be reflected in a lower level of remittances from abroad.

For the period 2025-2027, the foreign trade deficit in goods and services can be expected to increase slightly, i.e. to remain the same, so that the current account deficit would be at approximately the same level as in 2024. Current net inflows from abroad, in the mentioned period, would increase in the event of an increase in the employment rate (and thus disposable income) in the countries of Western Europe where a large number of residents of Bosnia and Herzegovina are employed.

On the other hand, if in the period 2025-2027 there are unfavorable and negative trends in economic activities in European and neighboring countries, the current account deficit could deepen. A possible economic downturn would also lead to a reduction in the flow of money from abroad.

As important risks in financing the current account deficit, it is worth mentioning the reduced inflow of foreign direct investments, difficult access to trade loans, as well as possible problems with borrowing on the international financial market (unfavorable credit arrangements). In addition to the above factors, a number of external and internal risks that may affect the current account deficit should be taken into account, such as political insecurity and uncertainty in Bosnia and Herzegovina, slowness or non-implementation of reform measures, as well as the possible duration of the war in Ukraine.

³⁵ <https://fbihvlada.gov.ba/bs/139-hitna-tematska-sjednica-vlade-fbih-fiskalna-reforma>

The escalation of the conflict in the Middle East with the continuation of war in Ukraine in the first half of 2024 had a negative impact on **foreign direct investment** (FDI) flows on the global level. This is confirmed by preliminary data for the first half of the year by the OECD (FDI in figures, inflows), where total investment towards the G20 countries is lower by 6% yoy and globally higher by only 2% yoy. This was also reflected in investments in the first half of 2024. towards Bosnia and Herzegovina, which, with the achieved BAM 972.3 million, were lower by 11% compared to the same period last year. The decline in investments was mostly influenced by the decrease in investments in the second quarter, which was lower by as much as 37.2% compared to the same period the year before.

According to the negative alternative scenario, the economic and political uncertainty related to the new administration in the United States (through the change of economic policies and the introduction of trade barriers to Europe, but also to the countries of the Western Balkans) will inevitably be reflected in investments towards Bosnia and Herzegovina. The recent floods, which caused major material damage with the interruption of rail and road communication to the sea, will also have a negative impact on the FDIs. Political instability in our country, along with delays and further complications in the adoption of the Growth Plan, i.e. the Reform Agenda, have certainly already left negative consequences on the economic trends of the country. The delay in the implementation of reforms will also be directly reflected in the inability to obtain new proceeds from EU funds. The evident introduction of taxes on the export of electricity from the so-called "dirty energy sources"³⁶ by the EU (provisions from the Green Agenda³⁷) is also a real problem for the industry in Bosnia and Herzegovina. Therefore, political inconsistency and non-implementation of the energy transition would further jeopardize the growing need for the transition to renewable energy sources.

- 1. According to the positive scenario, economic flows and the FDIs towards Bosnia and Herzegovina would be significantly more favorable compared to the baseline scenario. Double-digit growth rates of all major world stock indices (November 2024) as a result of the growth of economic activity on world markets (caused mostly by political changes in the United States) will inevitably have a favorable effect on our country in the coming period. The announced calming of the war / conflicts in Ukraine and the Middle East and the resumed uninterrupted supply with cheaper raw materials and energy sources will further create new demand and investments in the world and in our country. Political stability and consensus on the necessary reforms and the adoption of the Growth Plan will enable Bosnia and Herzegovina to access EU development funds. The accelerated implementation of reform measures in key areas of the economy will further stimulate economic growth and attract new foreign investments. This will also have a positive impact on the country's credit rating, which means cheaper funds for finaFISCAL FRAMEWORK**

³⁶ <https://balkangreenenergynews.com/eu-announces-carbon-border-tax-from-2026-what-lies-ahead-for-exporters-from-western-balkans-turkey/>

³⁷ <https://europa.ba/wp-content/uploads/2020/11/Green-Agenda-Factsheet-2020.pdf>

4.1 Policy strategy and medium-term objectives

Fiscal policy in the year 2024 was moderately expansionary with a consolidated account deficit of 1.3% of GDP. Compared to the previous year, almost all public revenues increased, especially consumption taxes (around 10%) and social contributions (9.1%). At the same time, from the public expenditure side, expenditure on employees increased (10.6%), which is in accordance with the growth in revenue from social contributions. Total social transfers increased by around 10% in comparison to the year 2023, while at the same time, expenditures for subsidies increased by 16.6%. Finally, capital expenditures had a significant growth compared to the previous year (year-to-year growth of 18.5%). The latter is in accordance with the Joint Conclusions³⁸ to use the available fiscal space in the budget to increase public investment.

Despite numerous economic challenges in the world, the Federation of BiH³⁹ has maintained the stability of the public revenue collection system, which has enabled fiscal space to continue implementing measures to support the economy and households. The total level of public revenues, in the year 2024, incurred the growth of around 8% compared to the previous year, with a share of 39.5% in the GDP of the Federation of BiH. Inflationary trends have partly affected the level of incurred growth, but taking into account that the rate of recorded growth in public revenues is significantly above the recorded level of inflation in 2024, the Federation of BiH still has a stable, continuous real growth in public revenue collection, largely generated by an increase in final consumption and positive developments within the labour market (growth in the number of employees and growth in salaries due to adjustment of supply to demand ratio of skilled workforce). At the same time, the share of expenditures was at the level of 40.3% of FBiH GDP, which resulted in a deficit of 0.8% of FBiH GDP.

The consolidated general government deficit of Republika Srpska, in relation to the GDP of Republika Srpska in the year 2024, amounted to 2.4% of the GDP of Republika Srpska. Compared to the previous year, the growth of public revenues in 2024 amounted to 11.7%, while expenditures increased by 9.4%. At the same time, the share of public revenues in GDP increased by 2.8 pip, while the share of public expenditures increased by 2.1 pip. Such a trend on the expenditure side largely resulted from a multiple increase in social protection transfers and other expenditures. Social protection transfers increased significantly due to the regular adjustment of pensions in 2024, as well as the dynamics of the increase in the number of users.

Table 4.1: Fiscal indicators in BiH for the period 2023-2027⁴⁰

	2023	2024	2025	2026	2027
% of GDP	Execution	Execution assessment	Plan	Projection	Projection
Total revenues	39.8	41.4	42.1	42.6	43.3
Total expenditure	40.4	42.7	42.8	42.5	42.6
Net borrowing/lending	-0.6	-1.3	-0.7	0.1	0.7
Interest expenditures	0.9	1.0	1.2	1.0	1.0
Primary balance	0.2	-0.3	0.5	1.1	1.7

Source: MFiT BiH, FMF, MFRS and Finance Directorate of BD

³⁸ Joint Conclusions of the economic and financial dialogue between the EU and the Western Balkan countries and Turkey

³⁹ It is necessary to take into account that the Government of the Federation of BiH, at its 45th session, held on December 30, 2024, adopted the "Decision on the Minimum Wage for 2025", which raised the minimum wage from 619 KM to 1,000 KM per month. This decision could affect all projections in the PER 2025-2027. Given the period of adoption of this Decision, possible impacts were not taken into account when drafting this document.

⁴⁰ Consolidated revenues/expenditures of the wider Government of the Federation of BiH include data from the Budget of the Federation of BiH, cantonal budgets, budgets of local self-government units, financial plans of extra-budgetary funds and budgets of public enterprises financed from public revenues (Ceste FBiH (eng. *FBiH Roads*) and Autoceste FBiH (eng. *FBiH Highways*)). Consolidated revenues/expenditures of the general Government of Republika Srpska include data from the central Government of Republika Srpska (budget of Republika Srpska, users of the budget of Republika Srpska within and outside the Treasury General Ledger who have their own accounts, funds from projects financed from abroad, funds from escrow accounts), budgets of local self-government units and social security funds, and budgets of PE "Putevi Republike Srpske (eng. *Republika Srpska Roads*)" and PE "Autoputevi Republike Srpske (eng. *Republika Srpska Motorways*)".

Fiscal policy in the upcoming medium-term period, from 2025-2027, will be moderately restrictive and stabilizing, which will ultimately result in a projected surplus of around 0.7% of GDP in 2027. Such a fiscal policy will significantly contribute to preserving the country's macroeconomic stability, slowing inflation, and reducing the foreign trade deficit. Throughout the period, slower growth in public expenditures, than growth in public revenues, is expected, i.e. a gradual transition of the budget into a slight surplus in 2026. Such trends will lead to increase in the share of public revenues in GDP from 41.4% in 2024 to 43.3% of GDP in 2027. A stable share of expenditures in GDP of around 42.7% on average is also expected throughout the period. Such cautious fiscal planning and strategic management of a roughly balanced budget policy, as a result of policies at all levels of government, has additional significance in times of great global uncertainties. This provides sufficient fiscal space for possible budgetary interventions in the event of the materialization of some of the simmering external risks.

Bearing in mind that economic developments in the external environment, especially in the EU27 countries, will continue to determine economic developments in BiH, the Federation of BiH will continue to be exposed to the challenge of preserving economic growth, and thus the stability of the public revenue system, in the coming medium-term period. The expected medium-term growth in public revenue collection in the Federation will follow the forecasted trends in economic growth, and be directly linked to the main drivers of growth, final consumption and investments, and assumed positive trends within the labour market. Growth will be supported by continued activities to further strengthen the capacity of the tax administration, a more technologically advanced fiscalization process, restructuring of the tax system through activities aimed at preventing tax base erosion and profit shifting, which will increase the efficiency of public revenue collection in the future, increase labour market functionality and competitiveness, while creating the fiscal capacity of the budget to create fiscal instruments on the expenditure side.

The projected share of public revenues in the GDP of the Federation of BiH in the period 2025-2027 will increase noticeably. Namely, it is expected that public revenues will gradually increase from 39.5% of the FBiH GDP in 2024 to 42.4% of the FBiH GDP in 2027. This increase in the share of public revenues in GDP will not be a consequence of significant changes in tax policy, but the expected continuation of positive trends in the labour market. Such trends will consequently lead to a faster growth in contributions and labour tax collections than GDP growth. Following the structure of planned revenues at the level of general government sector of the Federation of BiH in the period 2025-2027, tax revenues will have the largest average share of 48.6%, followed by revenues from social contributions of 43.9%, while other revenues, which include various types of fees, charges and other non-tax revenues, will contribute a total of 7.5%. At the same time, the share of expenditures in FBiH GDP will also increase, from 40.3% in 2024 to 41.9% in 2027. This increase in public expenditures will mostly be a consequence of the planned increase in social transfers. Faster growth in public revenues than public expenditures will lead to a decline in the FBiH deficit in 2025 and a shift to a surplus in 2026 and 2027.

In the upcoming period in Republika Srpska, the projected share of total revenues in the GDP of Republika Srpska will increase from 42.5% in 2024 to 45% in 2027, while the share of public expenditures in GDP will decrease from 44.9% to 43.5%. As a result, the budget deficit will gradually decrease from 2.4% of RS GDP in 2024, 1.1% of GDP in 2025, to 0.2% of GDP in 2026, while in 2027 it will move to a surplus of 1.6% of GDP. An important channel for increasing public revenues and reducing the fiscal deficit in Republika Srpska will be the expected increase in fiscal revenues from labour (contributions and taxes on salaries), especially in 2025. In the period 2025-2027, tax revenues will account for 54.9% to 55.9% of total revenues, contributions will account for 35.3% to 35.8%, while the share of other revenues will range from 8.6% to 9.5%. Within the planned spending, current expenditures will account for 88.3% to 89.6% of total expenditures and outlays. Expenditures for gross salaries and remunerations will range from 21.7% to 24.8% of total expenditures and outlays, transfers for social protection from 49.6% to 54.8%, and other expenditures from 6.6% to 9.6%. Material outlays will range from 7.7% to 9.1%, while interest outlays are planned to account for 3.8% to 4.3% of total expenditures. In the structure of planned expenditures, a significant place is occupied by capital

expenditures, which will range from 10.4% to 11.7% in the observed period. Budget spending reflects priority policies that are in accordance with the overall level of available funds and is aimed at ensuring a realistic framework within which budget users can function, taking into account the fulfilment of legally created obligations, all guided by principles of rationality and saving money.

4.2 Budget implementation in 2024

During 2024, the realized fiscal flows deviated to a lesser extent from the expectations they commenced this year with. When drafting the budget for the year 2024, the principle of somewhat more conservative planning was respected, which was necessary taking into account the continued numerous economic uncertainties, primarily from the external environment. Due to such an approach to planning, during 2024, there was a systematic achievement of higher public revenues than planned, at all levels. Slightly different fiscal trends than planned led to the adoption of budget rebalances at various levels of government in BiH in 2024. The Brčko District adopted a budget rebalance for 2024 in July, and Republika Srpska in November. These rebalances took into account the increase in public revenues above planned, but also enabled a certain increase in public expenditures in accordance with identified needs. The changes brought by the adopted rebalances were implemented in such a way as to achieve a smaller fiscal deficit at the consolidated level than initially planned.

Consolidated revenues at the BiH level in 2024 amounted to 22.2 billion BAM, increase by 3.0%, compared to the originally adopted budgets. Such growth in public revenues resulted from increase in all current revenues, especially tax revenues, which increased by 4.2% compared to the initially planned ones. Revenues of BiH Institutions were at the planned level, while revenues of the Brčko District were above the planned level, as a result of higher revenues from indirect taxes (growth by 5.3%) and the growth in other revenues (32.9%). The reason for increase in other revenues is the implementation of the Law on Amendments to the Law on the Budget of the Brčko District of BiH, Article 120a of the basic law, which stipulates that funds unspent for capital projects from 2021, 2022 and 2023 shall be included in the budget for 2024.

The growth of total revenues at the level of the Federation of BiH amounted to around 4.2% above the planned level, and is the result of growth in both revenues from direct and indirect taxes (growth of 5.6%) and other revenues (growth of 4.1%). The largest percentage of increase within tax revenues was incurred in the category of indirect taxes, whose estimate follows the increase in the overall plan of such revenues in the Single Account, taken over by the Department for Macroeconomic Analysis of the Indirect Taxation Authority. Due to significant changes in the forecasts of key indicators related to the labour market, where the estimated growth rate of the average salary was increased by as much as 5.3 pip, compared to the original, and following the execution of collection during the year, estimates of income tax revenues increased by 4.4% compared to the original, while estimates of revenues from mandatory social contributions increased by 2.6%. Revenues from corporate income tax increased by 3.9%, while revenues from property tax and real estate transfer tax decreased by 2.3%, which can be explained by the high increase in real estate prices, which resulted in reduced turnover on the real estate market. Expectations regarding the collection of non-tax revenues, whose movement pattern is quite variable and sensitive to planning, increased by 4.1%.

Total revenues of Republika Srpska in 2024 are, approximately, at the same level, i.e. higher by around 0.5% compared to the plan. Tax revenues are higher by 2.8% compared to the plan, which resulted from the growth of indirect tax revenues, as well as corporate income tax revenues. Namely, according to APIF data, the pre-tax profit of business entities in Republika Srpska for the year 2023 is higher by 23% than in 2022, which certainly influenced higher payments of such tax per annual return compared to those expected in 2024, which was also reflected in the growth of total tax revenues. Income from contributions in 2024 was at the planned level. Other income decreased by 10.7% compared to the original plan, which resulted from significantly lower income from dividends, equity participation and similar rights.

Total consolidated expenditures were higher by around 1.9% than originally planned in the budgets for the year 2024. The growth of expenditures was primarily driven by the growth of current expenditures by 2.3%, while capital expenditures had a slightly lower performance by 1.4%. In current expenditures, the highest growth was incurred in material outlays (4.6%), other expenditures (5%) and interest expenditures (4.2%). The lower execution, compared to the expenditure plan in the category of gross salaries and allowances at the level of BiH institutions, resulted from the fact that most institutions are not staffed in accordance with the number of employees approved by the budget, because the Council of Ministers of BiH did not give consent for new employment in the previous term. At the same time, material costs were executed less than planned due to the temporary funding and lengthy public procurement procedures with budget users in the first quarter of 2024. Budget execution at the level of the Brčko District was higher due to the growth of social protection expenditures (37.5%) and capital expenditures (12.7%). However, the growth of expenditure was within the limits of available income.

The growth of expenditures at the level of the Federation of BiH amounted to 1.8% and resulted, primarily, from the growth of material outlays (4.3%) and interest expenditures (3.3%). Expenditures for gross salaries and remunerations incurred a growth of 2.9% above the plan. In order to improve the material and social position of pensioners, the Government of the Federation of BiH adopted a Regulation on the payment of one-time financial assistance to pensioners in the Federation of BiH. The total funds for the implementation of this regulation are provided in the Budget of the Federation of BiH for 2024. 37 million BAM has been secured for the payment of assistance, for a total of 402,579 pensioners in the Federation of BiH.

In order to mitigate the economic consequences caused by the growth of prices of basic foodstuffs, the Government of the Federation of BiH has adopted a Regulation regulating the right to payment of assistance by the employer in a maximum amount of up to 2,768 BAM, which is temporary and valid until 31 December 2024. The payment of tax-free assistance to workers will have the effect on increasing their purchasing power and making it easier to withstand inflationary pressure. Employers will have the opportunity to help their employees through this Regulation, without additional tax burden, while on the other hand, this measure will contribute to retaining jobs and reducing employee turnover.

In Republika Srpska, total expenditures and outlays are higher by 2.4% than the amount planned for in the budget for the year 2024. The largest part refers to current expenditures, which increased by 3.6% compared to the plan. Within current expenditures, gross salaries and remunerations are higher by 1.7% compared to the plan, while interest outlays are higher by 5.2%. Interest outlays are in accordance with the repayment plan for external and domestic debt, the updated plan for withdrawing funds from investment loans in 2024, the planned financing of the budget for 2024, and the calendar of long-term bond issuances. Social protection transfers are higher by 1.9% than planned. In this group of expenditures, a regular adjustment of pensions by 9.6% was made as of 1 January 2024. Moreover, the Government of Republika Srpska provides support to an unemployed parent of four or more children in Republika Srpska in the form of a monthly cash remuneration in the net amount of 750 BAM to one of the unemployed parents of four or more children, one of whom is a minor. The aforementioned remuneration amount is subject to the corresponding contributions for health and pension/disability insurance, which is a significant benefit and expansion of rights. Within other expenditures, funds are planned for recording outlays based on value added tax, outlays for repayment of outstanding liabilities from previous years, outlays based on income tax refunds and public revenue refunds, as well as other outlays from transactions with other government units. The growth in other expenditures amounted to 12.9% compared to the plan. Capital expenditures were lower by 6.5% compared to the originally adopted budget for the year 2024.

Table 4.2: Budget plan and execution for the year 2024 (in millions of BAM)

	Plan for 2024	Estimated Execution for 2024	Estimated Execution - Plan (abs. difference)	Estimated Execution / Plan (difference in %)
Total revenues	21,539.0	22,176.0	637.0	3.0
Current revenue	21,539.0	22,176.0	637.0	3.0
- Tax revenues (direct and indirect)	11,522.5	12,001.9	479.4	4.2
- Contribution revenue	7,902.3	8,040.7	138.4	1.8
- Other revenue	2,114.3	2,133.3	19.1	0.9
Total expenditures and outlays	22,435.6	22,859.6	423.9	1.9
Current expenditures	20,149.4	20,606.1	456.7	2.3
- Gross salaries and remunerations	5,818.1	5,903.6	85.6	1.5
- Material outlays	3,551.3	3,714.6	163.3	4.6
- Transfers for social protection	8,686.7	8,794.5	107.9	1.2
- Interest outlays	527.2	549.1	21.9	4.2
- Other expenditures	1,566.3	1,644.3	78.0	5.0
Capital expenditure and outlays	2,286.2	2,253.5	-32.7	-1.4
Balance	-896.7	-683.6	213.1	-23.8
Primary balance	-369.5	-134.5	235.0	-63.6

Source: MFiT BiH, FMF, MFRS and Finance Directorate of BD

As a result of revenue and expenditure developments in 2024, the consolidated general government budget account had a deficit of around 1.3% of GDP, which less by 23.8% than the originally planned deficit. The reason for this is primarily the aforementioned growth in budget revenues at all levels, which in the consolidated account amounted to around 3%. At the same time, the primary balance was in deficit by around 0.3% of GDP, which is an even greater deficit in comparison to the plan, since interest expenditures were somewhat higher than originally planned. At the level of the Federation of BiH, the deficit of 0.8% (in % of FBiH GDP) is also slightly lower than planned, considering that the increase in expenditures (1.8%) was less than the growth in revenues (4.2%). The main reason for the deficit reduction, which also led to a primary balance surplus, was slightly better collection of indirect taxes compared to the plan. In Republika Srpska, the fiscal deficit increased, compared to the plan, from 1.5% of RS GDP to 2.4% of GDP. The reason for the larger deficit is increase in total expenditures, not accompanied by an increase in revenues at the same level.

4.3 Budget plans for the ERP submission year

Consolidated revenues in 2025 are planned at the level of 23.7 billion BAM, which is more by 6.9% than the budget realization in 2024. This resulted from increase in contributions revenue by 10.2%, due to continued positive trends in the labour market, and by 6.3% increase in tax revenues. Within tax revenues, indirect revenues are expected to grow in accordance with price increases and expected real growth in consumption. In 2025, a decrease in non-tax revenues is expected, which will be lower by 2.2% than the budget implementation for 2024.

The Fiscal Council in BiH has not adopted the Global Framework for Fiscal Balance and Policies in BiH for 2025-2027. Accordingly, the MFT BiH still does not have a legal basis for the preparation of the Budget of BiH institutions for the period 2025-2027 and the Draft Law on the Budget on BiH Institutions and International Obligations of BiH for 2025. Therefore, data for BiH Institutions are taken from the Budget of BiH for 2024-2026, which implies the same level of revenue in 2025.

At the level of the Brčko District, revenue reduction by 5.4% is planned for 2025, which primarily results from amendments to the Law on Budget and a reduction in other revenues on such basis. Namely, by implementing the Law on Amendments to the Law on the Budget of the Brčko District of BiH, Article 120a of the basic law, funds unspent for capital projects from 2021, 2022 and 2023 were included in the budget for 2024. An increase in tax revenues (around 12.7%) and contribution revenues (5.2%) is also planned.

In the Federation of BiH, the expected growth in total revenues in 2025 amounts to 7.2% compared to the execution assessment for 2024. Growth is expected in all revenue categories, primarily in contribution revenue (10.3%), and tax revenue (5.3%). Revenues from indirect taxes should be higher by 4.4%, while revenues from corporate income tax should increase by 5.6% in 2025. Following the assumed movements of key indicators related to the labour market, applying the correlation coefficient, the expected growth of income from income tax amounts to 11.9%. Revenues from property tax and real estate transfer tax are estimated at a conservative growth of 3%, while the expected growth of non-tax revenues amounts to 2.9%.

In Republika Srpska, planned total revenues in 2025 are higher by 10.5% than the execution assessment of budget in 2024. In accordance with the plan, tax revenues are higher by 9.1%, resulting from significant growth in revenues from indirect taxes and corporate income tax revenues. Contribution revenues increased by 10.0%, in accordance with the current trend in contribution revenues and planned growth in salaries and number of employees in Republika Srpska in the coming period, as well as the effects of the amendment to the Law on Contributions. The highest growth rate is expected for other revenues, which in 2025 will be higher by 21.9% compared to the estimate of execution in 2024. The significant growth in these revenues is largely a consequence of the transition of health centres to a treasury-based operating system and, as such, planned higher revenues in local community budgets. Moreover, the projection of these revenues is in accordance with past collection trends and expected economic developments.

Total consolidated expenditures of BiH in 2025 are nominally higher by 5.4% than the estimated budget execution for 2024 and will amount to 24.1 billion BAM. The growth in expenditures resulted from increase in almost all expenditures, and the largest growth is expected in interest expenditures (18.0%), which is a consequence of increasing interest rates and, accordingly, more expensive loans. Moreover, an increase is expected in expenditures for gross salaries (7.5%), material overlays (.6%) and social protection transfers (6.4%).

On the expenditure side of BiH Institutions, the increase mostly relates to the category of salaries due to the effect of the increase in the salary base, and the increase in material costs due to the increase in the general price level. In the Brčko District, an increase is expected in gross salary expenditures (12.3%) and interest expenditures (83.9%). Increased funds in the budget proposal for interest and debt repayment are the result of the repayment start of certain loans, as well as the MFT BiH's assessment of the funds needed to repay the debt due to the growth of EURIBOR, as well as the increased amount of debt, i.e. withdrawn credit funds per loan.

In the Federation of BiH, total expenditures are expected to grow by around 5.6% in 2025 compared to the estimated budget execution for 2024. Such growth resulted from increase in almost all categories of expenditures, primarily expenditures for material overlays (7.8%), due to the increase in prices in the previous period, as well as transfers for social protection (6.9%) and expenditures for gross salaries and remunerations (5.5%). Due to the increase in interest rates, increase in interest expenditures by 20.5% is planned compared to 2024. Capital expenditures in the Federation of Bosnia and Herzegovina will be higher by 7.1% in 2025 compared to the previous year.

In Republika Srpska in 2025, planned total expenditures and overlays are higher by 7.3% than the revised budget for 2024. Planned gross salaries and remuneration are higher by 11.9%, resulting from adjustment of the salary coefficients of employees with university and higher education degree in the area of

education and culture, who have a salary coefficient lower than the salary coefficient of the fifth salary group (senior professional associate with university degree), defined by the Law on Salaries of Employees in Administrative Bodies. Moreover, in accordance with Article 6 of the Law on Salaries and Other Remuneration of Judges and Prosecutors in Republika Srpska funds are planned for increasing the salaries of judges and prosecutors. Interest expenditures planned to be higher by 14.8% than the revised budget of the general government of Republika Srpska for 2024, which is in accordance with the maturity of liabilities. Social protection transfers have increased by 6.2% compared to the revised budget for 2024, and from 2025, the amount for pensions in Republika Srpska Budget will be higher by 8.3%. The Government of Republika Srpska provides support in the form of a monthly cash remuneration in the net amount of 750 BAM to one unemployed parent of four or more children, one of whom is a minor. The aforementioned remuneration amount is subject to the corresponding contributions for health and pension/disability insurance, which is a significant benefit and expansion of rights. Planned funds for capital expenditures in Republika Srpska in 2025 will be higher by 15.2% than the revised budget for 2024.

Table 4.3 Estimated budget execution for 2024 and plan for 2025 (in millions of BAM)

	Estimated Execution for 2024	Plan for 2025	2025-2024 (difference)	2025/2024 (difference in %)
Total revenues	22,176.0	23,706.2	1,530.3	6.9
Current revenue	22,176.0	23,706.2	1,530.3	6.9
- Tax revenues (direct and indirect)	12,001.9	12,758.9	757.0	6.3
- Contribution revenue	8,040.7	8,860.0	819.2	10.2
- Other revenue	2,133.3	2,087.3	-46.0	-2.2
Total expenditures and outlays	22,859.6	24,086.9	1,227.4	5.4
Current expenditures	20,606.1	21,783.6	1,177.5	5.7
- Gross salaries and remunerations	5,903.7	6,346.1	442.4	7.5
- Material outlays	3,714.6	3,959.3	244.7	6.6
- Transfers for social protection	8,794.5	9,353.9	559.4	6.4
- Interest outlays	549.1	647.9	98.8	18.0
- Other expenditures	1,644.3	1,476.6	-167.7	-10.2
Capital expenditures and outlays	2,253.5	2,303.3	49.9	2.2
Balance	-683.6	-380.7	302.9	-44.3
Primary balance	-134.5	267.2	401.7	-298.7

Source: MFiT BiH, FMF, MFRS and Finance Directorate of BD

As a result of planned revenue and expenditure trends in 2025, the consolidated budget deficit is planned at 380.7 million BAM (around 0.7% of GDP), which is a decrease of around 44% compared to the previous year. At the same time, a primary surplus is planned of around 0.5% of GDP in 2025. The consolidated fiscal result is a consequence of the following movements:

- Deficit of 111 million BAM at the level of BiH Institutions, which will be financed from the carried-over surplus of revenues over expenditures from previous years, in accordance with the amount stated in the Budget Execution Reports of BiH Institutions and international obligations of BiH, and other sources;
- Deficit of 199.6 million BAM in Republika Srpska;
- Deficit of 70.1 million BAM in the Federation of BiH, and
- A balanced result at the level of the Brčko District.

4.4 Medium-term budgetary outlook

The share of total revenue in GDP will continue to grow in the medium term from around 41.4% in 2024 to an expected 43.3% in 2027, with constant growth throughout the period. It is expected that revenue growth at the BiH level will continue at an average of 6.7% annually in nominal terms (2026-2027). It will largely result from the growth in contribution revenues (around 10%) and tax revenues (around 5%). These projections are close to the projected growth in economic activity and growth in salaries and employment (estimated employment growth by 1.1-1.8% on average per year in the period 2025-2027, and salary growth in the same period by 6-7%). Revenue trends at the BiH level result from revenue trends at the level of the Federation of BiH and the level of Republika Srpska.

Medium-term projections of total revenues of the broader government sector of the Federation of BiH follow macroeconomic expectations in the movement of those aggregates with which they are significantly correlated, with expected growth rates in 2026 and 2027 of 7.9% and 8.6%, respectively. The expected average annual growth rate of revenue from revenue tax amounts to 13.6%, while the expected average annual growth rate of revenue from mandatory social contributions amounts to 11.8%. Corporate income tax revenues in the period of 2026 and 2027 are projected with an expected average annual growth by 6.2%, while the expected average annual growth rate of revenues from property tax and real estate sales tax amounts to 3.6%. At the level of the non-tax revenue category, an average annual growth by 3.7% is projected. The expected average annual share of total revenues in the GDP of the Federation of BiH amounts to 41.8%, and its increase compared to the realized share in 2023 results from expected increase in population income due to the retention of a deficient workforce on the labour market in the FBiH. The share of expenditures in the GDP of the Federation of BiH in the medium term is planned to be at the level of 41.3%.

As already noted, faced with a significant outflow of qualified labour, there is a continuous growth in salaries driven by the labour market mechanism. However, it should be borne in mind that the shortage of qualified labour and skills is increasing in all countries, where the adjustment of labour prices by the market mechanism in a small economy such as Bosnia and Herzegovina, reliant on external influences, can very quickly reach a point of exhaustion. Tax policy support, through restructuring the tax system, can create more favourable conditions for the establishment of a functional and competitive labour market, while, simultaneously, increasing the efficiency of public revenue collection, although a negative impact may arise from other risk factors in Bosnia and Herzegovina that are outside the domain of tax policy. Restructuring the tax system is of crucial importance, especially considering the demographic picture of the FBiH, and the fact that in the observed medium-term period, an average of 13% of total annual expenditures on pension payments are not covered by the expected collection of contributions for pension and disability insurance, and will be provided from other budget revenues.

In the period 2026-2027, at the level of Republika Srpska, an average revenue growth of around 5% per year is expected, while the growth of tax revenues is projected at 4.7% on average per year. Within tax revenues, the largest share is accounted for by revenues from indirect taxes and revenues from income tax and profit tax. The aforementioned projection takes into account GDP growth rates, inflation, as well as projected growth rates of salaries and the number of employees. Contribution revenues growth is expected to be 5.8% on average per year. The aforementioned projection is in accordance with the previous trend, as well as with the expected trend in gross salaries and the number of insured persons in the observed period. Other revenues are expected to grow by an average of 3.5% per year.

The increase in consolidated expenditures in the period 2026-2027 is planned at a level of around 5% on average per year. The largest increase in consolidated expenditures is projected for social protection transfers (10.2) and material overlays (6.3%), taking into account the growth in the number of users and the general increase in prices, respectively. At the level of the Federation of BiH, an increase in expenditures for gross salaries and remunerations of around 4.3% on average per year is expected, followed by an increase in expenditures for material overlays (8.1%) and social protection transfers (14.6%). Moreover, a decrease in interest expenditures and other expenditures is expected.

Looking at the expenditure projections of Republika Srpska, growth by 1.9% on average per year is predicted, with a growth in current expenditure by 2.5%. The most significant share in the expenditure structure is held by social protection transfers, which, with an average growth rate by 4%, contribute the most to the growth of total expenditure. After a planned annual growth of 15.2% in 2025 and 4.1% in 2026, capital expenditures are planned to stagnate by around 10% in 2027.

Table 4.4 Medium-term budgetary outlook 2023-2027 (in millions of BAM)

	Execution for 2023	Estimate for 2024	Projection for 2025	Projection for 2026	Projection for 2027
Total revenues	20,253.9	22,176.0	23,706.2	25,226.2	26,975.4
Current revenues	20,253.9	22,176.0	23,706.2	25,226.2	26,975.5
- <i>Tax revenues</i>	10,868.7	12,001.9	12,758.9	13,355.5	14,039.3
- <i>Contribution revenue</i>	7,370.6	8,040.7	8,860.0	9,710.7	10,707.2
- <i>Other revenue</i>	2,014.6	2,133.3	2,087.3	2,160.1	2,229.0
Total expenditures and overlays	20,582.8	22,859.6	24,086.9	25,194.0	26,560.0
Current expenditure	18,681.6	20,606.2	21,783.7	22,814.4	24,198.3
- <i>Gross salaries and remunerations</i>	5,337.1	5,903.7	6,346.0	6,511.6	6,703.5
- <i>Material outlays</i>	3,335.7	3,714.6	3,959.2	4,176.4	4,470.6
- <i>Transfers for social protection</i>	7,986.9	8,794.5	9,353.9	10,398.5	11,360.7
- <i>Interest outlays</i>	455.5	549.1	647.9	608.2	621.4
- <i>Other expenditures</i>	1,566.4	1,644.3	1,476.6	1,119.8	1,042.2
Capital expenditures and outlays	1,901.3	2,253.5	2,303.3	2,379.4	2,361.8
Balance	-328.9	-683.6	-380.7	32.2	415.4
Primary balance	126.6	-134.5	267.2	640.3	1,036.8

Source: MFiT BiH, FMF, MFRS and Finance Directorate of BD

In accordance with the trend of consolidated revenues and expenditures in the medium term, an improvement in the fiscal result is projected, which, after a deficit of 0.7% in 2025, will transition to a slight surplus of 0.1% in 2026 and 0.7% in 2027. The fiscal result is a consequence of the projected reduction in the deficit in the Federation of BiH, from 70.1 million BAM in 2025 and a transition to a surplus of 212.5 million BAM in 2027. At the same time, the deficit in Republika Srpska is projected to decrease from 199.6 million BAM in 2025 and transition to a surplus of 300.1 million BAM in 2027.

When it comes to financing in the coming period, a deficit is planned at the level of BiH institutions, which will be financed with funds carried over from previous periods. In the Federation of BiH, the deficit in 2025 of 0.2% of FBiH GDP will be financed by the issuance of treasury bills, while a budget surplus is planned for the period 2026-2027. In the period 2025-2027, in the Brčko District, a balanced budget is planned, so additional financing will not be necessary.

Financing the deficit of the consolidated budget of the general government of Republika Srpska, in the period 2024-2026, is expected to result in positive net receipts from loans, as well as from net receipts from non-financial assets. In the period 2025-2027, total financing through borrowing by the Government of Republika Srpska⁴¹ is planned in the amount of 2.7 billion BAM, of which 1 billion BAM in 2025,

⁴¹ Financing for the period 2025-2027 includes a plan for the withdrawal of external loan funds for investment projects in implementation, approved by the National Assembly of Republika Srpska as of 30 September 2024, a plan for receipts based on the new loans and securities

1.2 billion BAM in 2026, and 0.5 billion BAM in 2027. During the given period, financing is planned to be largely from external sources, with the share of external financing sources in 2025 amounting to 65.5%, in 2026, 71.1%, and in 2027, 52.5%. Planned financing is implemented through long-term (domestic and external) instruments, while short-term instruments are used for temporary financing of the deficit arising from cash flow. In the observed period, financing through debt (compared to securities) is more dominant, and in 2025 it amounts to 65.5%, in 2026 to 71.1%, while in 2027 it amounts to 52.5% of the total planned financing. Investment projects will be fully financed from external sources, as a result of maximum use of access to concessional sources of financing (World Bank, EIB, EBRD, IFAD, etc). Domestic and external sources of financing will be used to finance budget spending.⁴²

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

The cyclically adjusted budget balance was calculated based on the European Commission's semi-aggregate method. The calculation of the cyclical part of the balance carried out by the European Commission is based on the usual two-step procedure: (i) an assessment of the aggregate output gap as an indicator of the economy cycle, and (ii) an assessment of the elasticity of total revenues and expenditures in relation to that gap.

In the first step, the cyclical state of the economy (output gap) is assessed by comparing actual GDP with potential. The estimate of potential GDP is based on an adjusted Hodrick-Prescott (H-P) filter,⁴³ due to its transparency and simplicity, with a smoothing coefficient (λ) for annual data of 6.25.⁴⁴ The adapted Hodrick-Prescott filter solves the problem of bias at the beginning/end of the sample, 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 impact of cyclical movements on the budget is estimated by applying budget elasticities. The total elasticity of revenues/expenditures is derived as a weighted sum of the elasticities of individual revenue/expenditure categories that are sensitive to business cycle movements, where the weights of individual categories are their shares in total revenues/expenditures. The elasticity of individual revenue/expenditure components is first calculated with respect to their relevant macroeconomic base, and then the elasticity of the macroeconomic base to the aggregate output gap is assessed. By multiplying these two elasticities, we obtain the elasticity of a particular revenue/expenditure component to the aggregate output gap.

As a standard in assessing the elasticity of revenues and expenditures, it is assumed that the elasticities of consumption taxes, income taxes, corporate taxes, social contributions, and expenditures for the unemployed are equal to unit in relation to the corresponding tax base. The total elasticity of the consolidated general government budget balance calculated in this way amounts to 0.34, where the estimated elasticity for revenues amounts to 0.33, and for expenditures -0.01. The obtained results and their interpretation depend largely 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 a 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

issues for the purpose of financing budget spending in the period 2025-2027, which the National Assembly of Republika Srpska will decide on within the framework of annual decisions on long-term borrowing.

⁴² Of the total financing through external sources, 74.1% in 2025, 81.3% in 2026, and 81.5% in 2027 relate to the financing of budget spending.

⁴³ In the preparation of the ERP for the period 2025-2027, a pilot calculation of potential GDP was carried out based on the Cobb-Douglas production function. The potential GDP obtained in such a way is almost identical to the one obtained through the HP filter. However, the resulting series of potential GDP calculated via the Cobb-Douglas production function is significantly shorter (due to the lack of detailed historical data that this model uses). Therefore, in this report we continue to use the HP-filter as the basic method for calculating potential GDP. On the one hand, it provides a significantly longer series of data on the structural deficit of BiH, and on the other hand, it provides sufficiently high-quality results for calculating the structural deficit and other parameters necessary for assessing fiscal policy.

⁴⁴ 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 MTI.

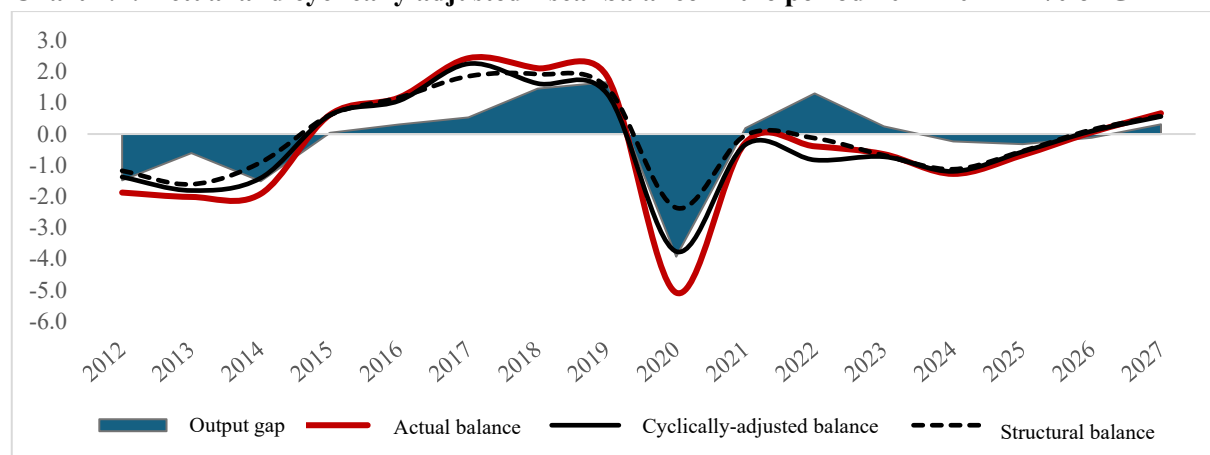
as the annual change in the cyclically adjusted primary budget balance (excluding interest) reduced by one-off measures (structural primary budget balance), with a positive sign indicating expansionary, and a negative sign indicating restrictive policy. The structural primary balance calculated in such a way shows the structural fiscal position.

Table 4.5: Fiscal balance and components for calculating the cyclically adjusted balance in the period 2007-2027, in % of GDP

Year	Output gap	Cyclical component CC	Actual balance	Primary balance	Cyclically adjusted balance	Cyclically-adjusted primary balance	Structural balance	Structural primary balance	Fiscal position
2007	0.6	0.2	1.1	1.5	0.9	1.3	-3.1	-2.7	
2008	4.1	1.4	-2.0	-1.5	-3.4	-2.9	-1.8	-1.3	-1.4
2009	-0.2	-0.1	-4.0	-3.5	-3.9	-3.5	-3.3	-2.9	1.6
2010	-0.1	0.0	-2.3	-1.8	-2.3	-1.8	-0.3	0.2	-3.1
2011	0.2	0.1	-1.2	-0.6	-1.3	-0.7	-0.4	0.2	-0.1
2012	-1.5	-0.5	-1.9	-1.2	-1.4	-0.7	-1.2	-0.5	0.7
2013	-0.6	-0.2	-2.0	-1.3	-1.8	-1.1	-1.6	-0.9	0.4
2014	-1.5	-0.5	-1.9	-1.1	-1.4	-0.6	-0.9	-0.1	-0.8
2015	0.0	0.0	0.6	1.5	0.6	1.5	0.6	1.5	-1.6
2016	0.3	0.1	1.2	2.0	1.1	1.9	1.2	2.0	-0.5
2017	0.5	0.2	2.4	3.1	2.3	2.9	1.9	2.5	-0.6
2018	1.5	0.5	2.1	2.8	1.6	2.3	1.9	2.6	-0.1
2019	1.7	0.6	1.9	2.5	1.3	2.0	1.5	2.2	0.5
2020	-3.9	-1.3	-5.1	-4.4	-3.8	-3.0	-2.4	-1.6	3.8
2021	0.2	0.1	-0.3	0.3	-0.3	0.3	0.0	0.6	-2.2
2022	1.3	0.4	-0.4	0.2	-0.8	-0.3	-0.1	0.4	0.1
2023	0.2	0.1	-0.6	0.2	-0.7	0.2	-0.7	0.2	0.2
2024	-0.2	-0.1	-1.3	-0.3	-1.2	-0.2	-1.1	-0.1	0.3
2025	-0.3	-0.1	-0.7	0.5	-0.6	0.6	-0.5	0.6	-0.7
2026	-0.1	0.0	0.1	1.1	0.1	1.1	0.1	1.2	-0.6
2027	0.3	0.1	0.7	1.7	0.6	1.6	0.6	1.6	-0.4

Source: Ministry of Finance and Treasury of Bosnia and Herzegovina

Chart 4.1: Actual and cyclically adjusted fiscal balance in the period 2012-2027 in % of GDP

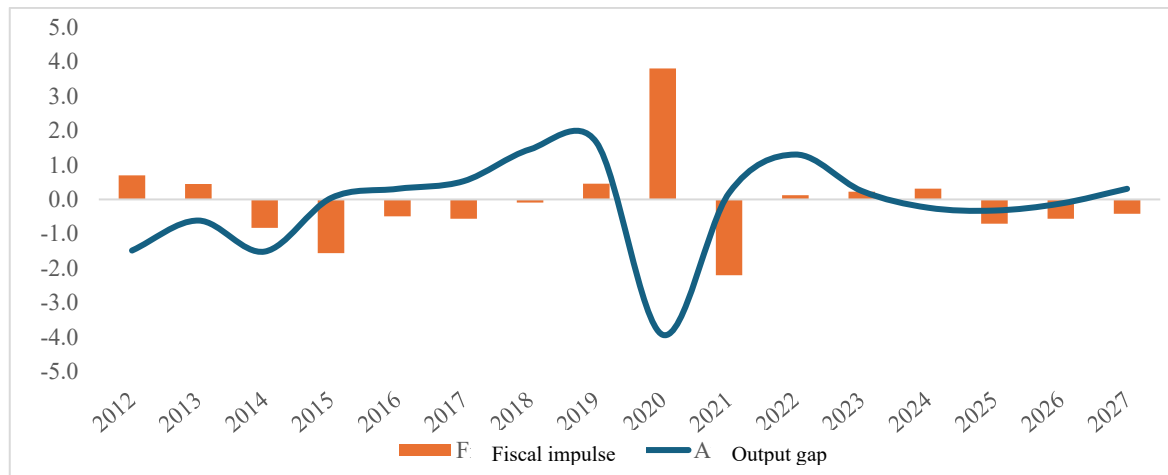


Source: Ministry of Finance and Treasury of Bosnia and Herzegovina

Based on the data submitted by BiH Institutions, the Federation of BiH, Republika Srpska and the Brčko District, and their aggregation, the calculation of the structural balance, estimate of the fiscal position

and fiscal policy in BiH were performed. When interpreting such analyses, it should be borne in mind that data from different entities were aggregated to assess the overall character of fiscal policy at the BiH level. Therefore, if in a certain year the fiscal policy at the BiH level was restrictive, this does not necessarily mean that the same assessment automatically applies to all individual budgets that are aggregated (Institutions of BiH, Federation of BiH, Republika Srpska, Brčko District). In other words, it is not excluded that some of these budgets in the same observed year had an expansionary character. With this caveat, the obtained assessments presented in this section certainly represent the prevailing fiscal policy that has been conducted, or is planned, in BiH.

Chart 4.2: The character of fiscal policy in Bosnia and Herzegovina in the period 2012-2027



Source: Ministry of Finance and Treasury of Bosnia and Herzegovina

The sharp decline in economic activity in BiH, with a deterioration in most macroeconomic aggregates in 2020, resulted from the COVID-19 pandemic. There was a decrease in the collection of all public revenues and a strong increase in public expenditures due to high healthcare costs and measures taken to assist the economy and citizens (counter-cyclical expansionary fiscal policy). Subsequently, the gradual stabilization of the epidemiological situation and a strong recovery of economic growth in the EU and the region lead to a high increase in economic activity in 2021 (GDP growth by 7.4%). As a result of the recovery of domestic demand (private consumption), there is a significant increase in public revenues, while at the same time, the expansionary, crisis-related fiscal policy measures are gradually abandoned. Measures to assist the economy and the population, and increased healthcare spending, continued in 2021, but on a significantly reduced scale. The fiscal impulse thus reversed direction in 2021 and shifted to a counter-cyclical restrictive fiscal policy. During 2022, the economy was faced with new challenges due to complex international political circumstances related to the war in Ukraine, which significantly reflected on global and domestic economic trends, primarily through sudden and high inflationary trends and a slowdown in economic activity. Such circumstances required the intervention of all levels of government in Bosnia and Herzegovina through the adoption and implementation of fiscal policy measures (especially in the aspects of preserving the living standard of citizens and social protection). Fiscal policy measures, such as increases in salaries, pensions, and social benefits, also had their effect during 2023 and 2024, when fiscal policy became expansive again (Chart 4.2).

Taking all this into account, it can be observed that the period 2020-2024 was marked by unusually large macroeconomic changes, which were accompanied by strong fiscal policy reactions (especially in 2020). However, despite all this, the structural fiscal position of the country has not been significantly damaged, especially if one takes into account the relatively low ratio of public debt to GDP. The structural fiscal balance of BiH in 2019 amounted to 1.5% of GDP, and in 2023 it was estimated to -1.1% of GDP (while

the primary structural balance changed from 2.2% of GDP in 2019 to -0.1% of GDP in 2024). In the coming period (2025-2027), stabilization of macroeconomic and fiscal trends is expected. According to available data and forecasts, projected GDP in the period 2025-2027 will be close to potential, and fiscal policy will be slightly restrictive, almost balanced, with a minor impact on changes in aggregate demand (Chart 4.2).

4.6 Debt levels and developments, analysis of below-the-line operations and stock-flow adjustments

In accordance with the constitutional order of BiH, a legislative and institutional framework for public debt management has been established at all levels of government. Regulations at the level of BiH, the Federation of BiH, Republika Srpska and the Brčko District establish fiscal rules relating to borrowing limits for the respective government level. According to the legal framework, public debt management in BiH is carried out by the Ministry of Finance and Treasury of BiH, the Federal Ministry of Finance, the Ministry of Finance of Republika Srpska and the Finance Directorate of the BD. Public debt management is carried out through the implementation of borrowing procedures, recording, monitoring, servicing and preparing debt management strategies and developing plans for external and domestic operations with public debt. Debt management is carried out in accordance with the guidelines defined by the Medium-Term Debt Management Strategy of Bosnia and Herzegovina, and the Medium-Term Debt Management Strategies of the Federation of BiH, Republika Srpska and the Brčko District. Debt management activities are directed towards keeping costs and risks at an acceptable level.

The Law on Debt, Borrowing and Guarantees of BiH regulates the debt and guarantees of BiH, the method and procedure of borrowing, securing funds for debt repayment, issuing guarantees and securities, reserve measures and their application, keeping records of debt and guarantees, and other issues related to the debt and guarantees of BiH. Borrowing based on the long-term government debt may arise if, at the time of borrowing based on the long-term direct domestic government debt or long-term direct external government debt, the amount of long-term debt servicing due in any subsequent year does not exceed 18% of regular revenues generated in the previous fiscal year.

In accordance with the Law on Debt, Borrowing and Guarantees in the Federation of Bosnia and Herzegovina (hereinafter: Debt Law in the FBiH), the Federation of Bosnia and Herzegovina can borrow domestically and externally in domestic or foreign currency. The Debt Law in the FBiH establishes borrowing limits for the FBiH, cantons, cities and municipalities, as well as the purposes for which borrowing can be done on the external or domestic market, and guarantees can be issued. Borrowing limits have also been defined for the total public debt of the FBiH, which is consolidated at the FBiH level. It is envisaged that the FBiH may borrow in the long term if, at the time of borrowing, the amount of debt servicing, total domestic and external debt and guarantees due each subsequent year, including servicing proposed new borrowing and all loans for which the FBiH has issued guarantees, with limitations on the amount of cantonal debt, does not exceed 18 percent of the consolidated revenues of the FBiH and cantons generated in the previous fiscal year, is determined. Cantons, cities and municipalities may borrow in the long term if, at the time of the long-term debt, the amount of debt repayments for the total domestic and external debt and guarantees due in each subsequent year, including servicing for proposed new debt and all loans for which guarantees have been issued by the cantons, cities and municipalities, 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 Debt Law in the FBiH, the FBiH Government has formed a Debt Commission consisting of representatives of the federal and cantonal ministries of finance. This Commission is, among other things, responsible for monitoring the sustainability of the total debt in the Federation of BiH.

The Law on Borrowing, Debt and Guarantees of Republika Srpska⁴⁵ regulates in detail the area of borrowing and issuing guarantees of Republika Srpska and local self-government units, as well as the methods and procedures of borrowing, which, together with the existing laws on the budget system and the Law on Fiscal Responsibility in Republika Srpska, forms a comprehensive legal framework for the improvement and control of budget discipline. In accordance with the Law on Borrowing, Debt and Guarantees of Republika Srpska, a debt limit has been set so that the total debt of Republika Srpska⁴⁶ at the end of the fiscal year cannot exceed 60%, while the public debt of Republika Srpska cannot exceed 55% of the GDP incurred in that year. The debt of Republika Srpska arising from the debt for financing damage repair from the Single Register of Damages, prescribed by the Law on the Solidarity Fund for Renovation of Republika Srpska, is exempt from the limitations 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 issued guarantees cannot exceed 15% of the realized 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, upon the proposal of the Government, decides on the total short-term and long-term borrowing that may arise during the fiscal year, as well as its purpose, on the total amount of guarantees of Republika Srpska that the Government may issue during the fiscal year⁴⁷, and on the approval of capital investments and the maximum amount of borrowing to finance such investments.

Local government units in Republika Srpska may incur long-term debt only if, during the period of debt origination, the total amount due for repayment, based on the proposed debt and the entire due amount, outstanding existing debt, in any subsequent year does not exceed 18% of the amount of their regular revenues 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 to issued guarantees cannot exceed 30% of the amount of their regular revenues generated in the previous fiscal year (all rules that apply to local self-government units also apply to social security funds, except that social security funds cannot issue guarantees). The assembly of the local self-government unit makes a decision on the borrowing and issuance of a guarantee by the local self-government unit, and the Ministry of Finance gives its consent to the borrowing and issuance of a guarantee. The Board of Directors of the Social Security Fund makes a decision on borrowing from the Social Security Fund, the Ministry of Finance provides an opinion, and the Government of Republika Srpska gives its consent to the borrowing of the fund. The Law on Fiscal Responsibility⁴⁸, within the framework of general fiscal rules, establishes a debt rule that implies that the public debt of Republika Srpska at the end of the fiscal year cannot exceed 55% of the GDP incurred in that year, while within the framework of specific fiscal rules, a debt threshold is defined that implies if the public debt of Republika Srpska at the end of the fiscal year reaches 50% of the GDP incurred in that year, the budget for the following year must have a budget surplus. The Ministry of Finance of Republika Srpska annually reports to the Government of Republika Srpska and the National Assembly of RS on the state of debt and other indicators related to total and public debt⁴⁹.

Limits on the amount of domestic debt of the Brčko District are set by the Law on Domestic Debt of the Brčko District of BiH. Short-term debt cannot at any time exceed 5% of regular revenues collected in the previous fiscal year. The District may incur long-term liabilities only if, at the time of incurring the debt, the amount of debt service in any subsequent year for all outstanding long-term domestic debt of the BD

⁴⁵ "Official Gazette of Republika Srpska" no. 71/12, 52/14, 114/17, 131/20, 28/21 and 90/21.

⁴⁶ In accordance with the Law on Borrowing, Debt and Guarantees of RS, the total debt of RS consists of the public debt of Republika Srpska, the debt of public enterprises, the Investment-Development Bank of Republika Srpska, and public sector institutions. Public debt is the debt of Republika Srpska (budget), the debt of local government units, and the debt of social security funds.

⁴⁷ 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).

⁴⁸ "Official Gazette of Republika Srpska" no. 94/15 and 62/18.

⁴⁹ The document [Information on Debt with the balance as of December 31, 2023](#) is available on the website of the Ministry of Finance of Republika Srpska.

and proposed borrowing to be incurred does not exceed 10% of the regular revenues collected in the previous fiscal year. The BD has not regulated the subject of borrowing from foreign creditors in its regulations, and external borrowing by the BD can be carried out based on the Law on Borrowing, Debt and Guarantees of BiH. The Law on Debt, Borrowing and Guarantees of the BD is in process of being drafted, which will encompass the entire area of borrowing, and set clearer restrictions and fiscal rules in the area of borrowing in the BD.

According to estimates from all levels of government in BiH, the total debt at the end of 2024 will amount to 13,115.6 million BAM (6,705.7 million EUR or 24.5% of GDP). Of the total estimated value of total debt at the end of 2024, 99.3% relates to the entities (Federation of BiH 48.1% or 6,304.9 million BAM and Republika Srpska 51.2% or 6,715.0 million BAM). One of the main characteristics of BiH's public debt is that the largest part of the debt relates to external debt, according to the estimate at the end of 2024, 68.4% of public debt relates to external debt, while 31.6% of public debt relates to domestic debt. If we look at entities one by one, the share of external debt in the public debt of the Federation of BiH amounts to 75.2%, while in Republika Srpska it amounts to 61.6% at the end of 2024. The estimate of the external debt balance at the end of 2024 is based on the amount of withdrawn credit funds as of 30 September 2024, increased by the estimated amount of withdrawals for investment projects under implementation and decreased by the amount of servicing the principal of the external debt.

According to the data of MFiT BiH, the average interest rate at the end of September 2024 was 3.03% on the external debt of BiH, which is an increase of 0.32 pip compared to last year, while on the same day, the share of fixed interest rate amounted to 60.9%, and variable interest rate to 39.1%. The average maturity (years) of external debt as of 30 September 2024 amounted to 7.0 years.

In terms of currency structure, the largest part of external debt is denominated in euros (74.5%), while 4.0% is denominated in US dollars, and 15.4% in SDRs. 6.1% of the external debt was denominated in other currencies. Currency risk is moderate and significantly lower compared to the share of external debt in the total debt structure due to the currency clause (linkage of BAM to EUR), which is why 25.5% of the total debt is exposed to changes in currency rates, although the share of external debt in the total public debt amounts to 67.5%. The largest creditors of external debt at the end of September 2024 were the World Bank (28%), the European Investment Bank (27%), the European Bank for Reconstruction and Development (10%), the IMF (4%) and the European Commission (3%), while other creditors accounted for 28% of external debt at the observed date.

On 30 September 2024, the external debt of BiH Institutions amounts to 42.9 million BAM, which is 0.08% of the GDP of BiH. In the currency structure of the external debt of BiH Institutions, the largest percentage refers to the EUR currency (69%), while the rest refers to the SAR currency (31%). The currency risk of the existing debt is low, which stems from the fact that the EUR currency has a high share in the currency structure of the external debt. The entire external debt of BiH Institutions is repaid at a fixed interest rate. The average interest rate amounts to 1.1%, while the average maturity of external debt of BiH Institutions (ATM) is 6.7 years.

At the level of the Federation of BiH, the public debt balance as of 30 September 2024 amounts to 6,360.1 million BAM (18.9% of the GDP of the Federation of BiH), of which 4,889.6 million BAM refers to external debt⁵⁰, and 1,470.8 million BAM to domestic debt. The currency structure of the total debt portfolio of the Federation of BiH is as follows: EUR – 58.7%, SDR – 13.4%, BAM – 17.6%, USD – 5.1%. The currency risk of the total debt of the Federation of BiH is relatively moderate, taking into account that around 20% of the external debt is sensitive to changes in exchange rates (after SDR decomposition, the share of EUR currency in the total debt amounts to 63.26%). Refinancing risk is significant for both domestic and external debt and is concentrated in the short and medium term. Average time to maturity (ATM) for the end of 2024 is 3.9 years for domestic debt and 6.7 years for external debt. The debt that is refixed within one year amounts to 44.8% of the total debt and is slightly reduced

⁵⁰This data differs from the official data of the Ministry of Finance by 28 million BAM.

compared to the previous period. The average time to refixing the total debt of the Federation of BiH is 4.15 years, or 4.2 years for external debt and 3.9 years for domestic debt. According to data from 30 September 2024, the average interest rate for domestic debt is still relatively low and amounts to 2.05%, i.e. the weighted average interest rate is 2.02%; while the ratio of fixed and variable interest rate on external debt is in favour of fixed rate, which accounts for 55.2% of external debt. Estimate of the average weighted interest rate on the domestic debt for the period 2024-2027 amounts to 2.27%, 2.84%, 3.53% and 4.39%, respectively, and on external debt, 3.36%, 3.62%, 3.85% and 4.09%.

The public debt of Republika Srpska as of 30 September 2024, amounts to 5,634.1 million BAM, which is 33.5% of the GDP of Republika Srpska⁵¹, while the total debt of Republika Srpska amounts to 6,543.6 million BAM, i.e. 39.0% of GDP. The total external debt balance amounts to 3,911.1 million BAM⁵², while the total domestic debt balance amounts to 2,632.4 million BAM. As of 30 September 2024, the total debt of Republika Srpska subject to legal limitation amounts to 6,490.5 million BAM (38.6% of GDP), while the public debt subject to legal limitation amounts to 5,581 million BAM (33.2% of GDP). In the currency structure of the total debt of Republika Srpska, three currencies prevail: EUR (42.9%), BAM (40.2%) and SDR (7.8%). Of the total debt of Republika Srpska, only 3.3% is short-term debt (original maturity), while the entire remaining debt is long-term with share of 96.7%. The majority of the total debt, i.e. 80.8%, is repaid at fixed interest rates. Of the total external debt, 72.7% is repaid on fixed terms, while of the total domestic debt, 92.8% is repaid on fixed terms. When it comes to the structure of the total debt of Republika Srpska from the point of view of instruments, the marketable part of the debt (bonds and treasury bills) amounts to 39.3%, 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). The average weighted interest rate of the total debt of Republika Srpska for 2023 amounts to 3.3%, of which 3.2% for external debt and 3.4% for domestic debt. The average weighted interest rate of the total debt estimated for the period 2024-2027⁵³ amounts to 3.5%, 4.2%, 4.4% and 4.7%, of which external debt amounts to 3.5%, 3.8%, 4.0% and 4.5%, and domestic debt to 3.6%, 4.7%, 5.2% and 5.2% per year, respectively.

On 30 September 2024, the public debt of the Brčko District amounts to 43.1 million BAM, which is 3.4% of the GDP of the Brčko District of BiH, and the entire amount refers to external debt.⁵⁴ In the currency structure of the District's public debt, the largest percentage refers to the EUR currency (84%), followed by the USD (11%), while the rest refers to the SDR (basket of currencies). The currency risk of the existing debt is low, although the share of external debt in the total debt is 100%, which stems from the fact that the EUR currency has a high share in the currency structure of external debt (84%), so that only 16% of the total debt is exposed to currency risk. The interest rate risk for total debt is high given the fact that around 72% of debt is debt with a variable interest rate.

Table 4.6: Public debt situation and projections (in millions of BAM)*

	2023	2024	2025	2026	2027
1 EXTERNAL DEBT (1.1+1.2+1.3+1.4)	8,915.6	8,974.6	10,679.5	10,354.4	10,378.2
1.1 BiH Institutions	46.5	42.7	37.0	33.4	30.7
- loans	46.5	42.7	37.0	33.4	30.7
1.2 Federation of BiH	5,166.7	4,739.4	6,157.9	5,901.8	6,089.4
- securities	0.0	0.0	586.8	586.8	586.8
- loans	5,166.7	4,739.4	5,571.2	5,315.1	5,502.7
1.3 Republika Srpska	3,656.3	4,139.5	4,405.8	4,326.4	4,166.5

⁵¹ The estimated value of GDP for 2024 amounts to 16,800 million BAM.

⁵² This data differs from the official data of the Ministry of Finance by 354.2 million BAM, which represents the difference in direct credit borrowing of RS.

⁵³ Interest rate values are obtained by relating the estimated amount of interest for a given year to the debt balance for the previous year.

⁵⁴ The external debt situation differs from the official data of the Ministry of Finance for the amount of external debt services by the BD, which arose in the period before establishment of the BD (difference of 2.1 million BAM)

- securities	586.7	586.7	586.7	0.0	0.0
- loans	3,069.4	3,552.7	3,819.1	4,326.4	4,166.5
1.4 Brčko District	46.1	53.0	78.8	92.8	91.6
- loans	46.1	53.0	78.8	92.8	91.6
2 DOMESTIC DEBT (2.1+2.2+2.3)	4,020.4	4,141.0	4,181.2	4,231.4	3,854.7
2.1 BiH Institutions	0.0	0.0	0.0	0.0	0.0
- securities	0.0	0.0	0.0	0.0	0.0
- loans	0.0	0.0	0.0	0.0	0.0
2.2 Federation of BiH	1,425.3	1,565.5	1,777.6	1,861.5	1,798.2
- securities	941.0	1,155.3	1,210.9	1,279.8	1,201.5
- loans	484.3	410.2	566.7	581.7	596.7
2.3 Republika Srpska	2,595.1	2,575.5	2,403.6	2,369.9	2,056.5
- securities	1,987.3	1,901.9	1,861.6	1,962.0	1,836.6
- loans	570.5	638.7	520.4	393.8	211.9
- other	37.3	34.9	21.7	14.1	8.1
2.4 Brčko District	0.0	0.0	0.0	0.0	0.0
- securities	0.0	0.0	0.0	0.0	0.0
- loans	0.0	0.0	0.0	0.0	0.0
TOTAL (1+2)	12,936.0	13,115.6	14,860.7	14,585.8	14,232.9

Source: MFiT BiH, FMF, MFRS and Finance Directorate of BD

* The debt balance in 2023 is given according to individual data from FMF, MFRS and BD and differs from the official data from MFiT by 11.0 million BAM for FBiH, -1.2 million BAM for RS and -0.8 million BAM for DFBD, so the total difference amounts to 9.0 million BAM

Table 4.7: Public debt situation and projections (in millions of BAM)

	2023	2024	2025	2026	2027
General government debt					
1 BiH Institutions	46.5	42.7	37.0	33.4	30.7
2 Federation of BiH	6,592.0	6,304.9	7,935.5	7,763.4	7,887.6
- Government of the Federation of	5,712.4	5,442.7	6,840.4	6,716.9	6,783.3
- Cantons	608.3	597.9	738.0	698.7	709.9
- Municipalities and cities	271.3	264.3	357.1	347.8	394.4
3 Republika Srpska	6,251.4	6,715.0	6,809.4	6,696.2	6,223.1
- Budget of Republika Srpska	4,640.1	5,024.7	5,215.7	5,221.2	5,014.4
- Local self-government units	483.9	538.0	512.2	469.4	360.6
- Social security funds	180.3	235.0	183.7	125.8	66.0
- Debt of public companies and the Investment-Development Bank	947.1	917.2	897.8	879.8	782.1
4 Brčko District	46.1	53.0	78.8	92.8	91.6
TOTAL (1+2+3+4)	12,936.0	13,115.6	14,860.7	14,585.8	14,232.9

Source: MFiT BiH, FMF, MFRS and Finance Directorate of BD

Contingent liabilities

As of 30 September 2024, the total exposure of the FBiH to issued guarantees amounts to 254.04 million BAM (0.84% of the FBiH GDP incurred in 2023), and refers to guarantees issued within the framework of the credit guarantee programs of the Guarantee Fund established in 2020 for the purpose of economic

recovery from the consequences of the COVID-19 pandemic. The aforementioned fund is managed by the Development Bank of the Federation of BiH.

As of 30 September 2024, the total exposure of Republika Srpska to issued guarantees amounts to 1,290 million BAM (7.7% of the GDP of Republika Srpska estimated for 2024). Of the aforementioned amount, 10.4 million BAM refers to guarantees issued by Republika Srpska for domestic borrowings of local self-government units, 240.7 million BAM for domestic borrowings of social security funds, 948.6 million BAM for borrowings of public enterprises (of which 572.6 million BAM are external and 376 million BAM are domestic borrowings), and 90.2 million BAM for domestic borrowings of the public sector. The total exposure of local self-government units under issued guarantees as of 30 September 2024 amounts to 39.4 million BAM.

Table 4.8: Balance of contingent liabilities in the period 2024-2027 (in millions of BAM)

	2024	2025	2026	2027
Federation of BiH	85.6	87.4		
Guarantees of cantons	52.0	53.1		
Guarantees of local governments	33.6	34.3		
Republika Srpska				
Exposure under issued guarantees	1,271.2	1,072.0	892.6	715.8
Republika Srpska	1,233.4	1,042.1	869.9	698.9
Local self-government units	37.8	29.9	22.7	16.9
Debt balance under issued guarantees	864.9	885.8	784.4	651.4
Republika Srpska	827.1	856	761.6	634.6
<i>of which the debt balance under issued guarantees for borrowing by local self-government units is included in the total debt</i>	<i>10.1</i>	<i>8.8</i>	<i>7.5</i>	<i>6.2</i>
<i>of which the debt balance under issued guarantees for borrowing by social security funds is included in the total debt</i>	<i>209.5</i>	<i>163.2</i>	<i>112.3</i>	<i>58.3</i>
Local self-government units	37.8	29.9	22.7	16.9
Brčko District	0.0	0.0	0.0	0.0
BiH Institutions	0.0	0.0	0.0	0.0
Total				
% of GDP				

Source: MFiT BiH, FMF, MFRS and Finance Directorate of BD

4.7 Sensitivity analysis and comparison with the previous program

Sensitivity of the budgetary projections to alternative scenarios and risks

The economic policy of BiH is characterized by pronounced fiscal stability in the long term, i.e. an almost balanced fiscal balance with a low share of public debt in GDP of below 30%. The public debt of BiH is therefore systematically one of the lowest among EU countries and candidate countries. This commitment to BiH's fiscal policy makes its fiscal position extremely resilient to possible external and internal shocks. Concrete confirmation of such a claim can also be found in fiscal developments during the coronavirus pandemic in 2020 and 2021. Namely, even in such extraordinary circumstances, BiH had a fiscal deficit of 5.1% of GDP in 2020, which was lower by 1.6 pip than the one incurred at the EU level. Already in the following year, 2021, BiH almost balanced its budget (the fiscal deficit was only 0.3% of GDP). In the same year, the fiscal deficit in the EU amounted to 4.6% of GDP.

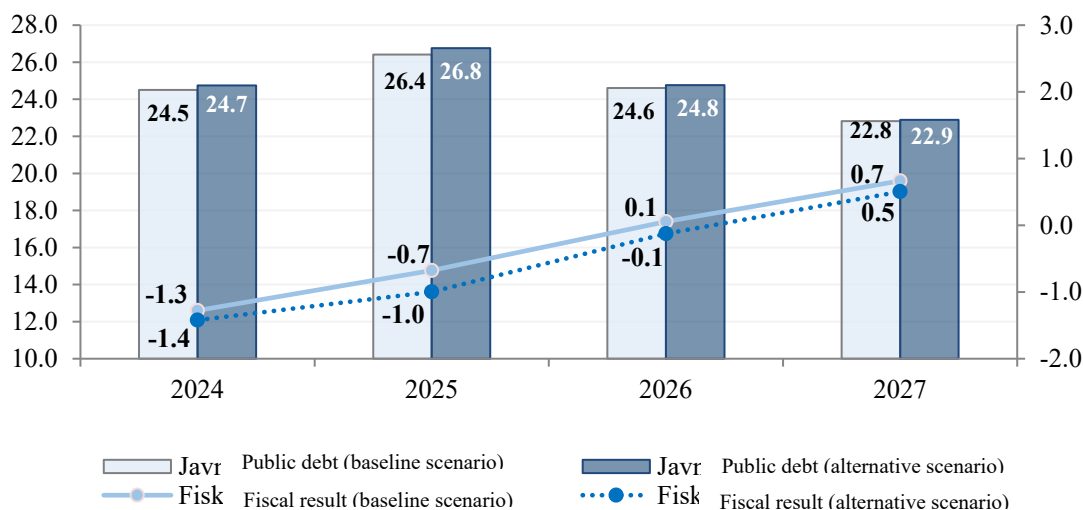
Responsible fiscal policy in BiH is envisaged in the coming years. The medium-term plan envisages that the budget in the period 2025-2027 will be balanced on average, which will lead to a moderate decrease in the share of public debt in GDP – from an estimated 24.7% of GDP at the end of 2024 to 22.8% of GDP at the end of 2027. Certain deviations from this plan are, by definition, possible, since all medium-

term macroeconomic and fiscal projections are always accompanied by a certain level of uncertainty and risk. Namely, they are based on assumptions related to developments in the domestic economy as well as the external environment that may not be fully realized. The main of these risks are explained in more detail in section 3.3.

The movement of the fiscal balance and public debt in the baseline and alternative scenarios is presented in Chart 4.3. To calculate alternative developments in the fiscal balance and public debt, an alternative scenario of macroeconomic developments in BiH in the medium term was used (quantified and presented in the Table at the beginning of section 3.3). The macroeconomic aggregate whose change has the main impact on public revenues is GDP. The impact of GDP changes on public revenues in the alternative scenario was calculated with an elasticity of 0.33. On the public expenditure side, the assumption was used that there would be no adjustment, i.e. that all planned fiscal expenditure policies (general government salaries, pensions, public investments, subsidies, etc.) would be implemented. The only component of public expenditure that has changed (worsened) in the alternative scenario presented is interest expenditure. Namely, in order to assess the resilience of the fiscal balance and public debt to an interest rate shock, it was assumed that interest rates on government borrowing in the next three years would be 3 pip higher than the current average interest rate on public debt.

Chart 4.3 shows that basic fiscal trends in BiH have a relatively low sensitivity to potential changes in the macroeconomic environment with interest rate shocks. Current fiscal stability, along with the envisaged very responsible fiscal policy in the medium term, represent a sufficient guarantee that even possible macroeconomic changes will not cause significant fiscal disruptions. In addition, the low share of public debt in GDP, along with relatively small budget allocations for interest, make BiH very resilient to a potential interest rate shock. Such a fiscal position of the country indicates that BiH's public finances would be resilient to significantly stronger shocks and instabilities than those predicted in the analysed alternative scenario.

Chart 4.3: Public debt and fiscal balance under the baseline and alternative scenarios, 2024-2027.



Source: MFiT BiH

Comparison with the previous program

The projection of the medium-term fiscal framework compared to the previous program has noticeable differences. Namely, at the time of preparation and submission of the ERP 2024-2026 for adoption by the Council of Ministers of BiH, the FBiH budget for 2024 had not yet been adopted. The subsequently adopted budget of the FBiH changed the fiscal policy in 2024 to a certain extent, compared to that envisaged by the ERP (e.g. the fiscal deficit of the FBiH in 2024 increased compared to expectations from the ERP 2024-2026 by 516.1 million BAM). In addition, during 2024, on the public revenue side,

there was a better collection than expected at all levels of government. Higher collection in 2024 consequently reflected an increase in the base from which revenues were projected in the following years, but it also influenced a somewhat more optimistic approach to projecting public revenues in the medium term compared to the previous program. On the other hand, the increase in public expenditures in 2024 is largely a consequence of the aforementioned, subsequently adopted FBiH budget for 2024. After 2024, the increase in the projection of public expenditures in the new ERP, compared to the previous program, occurred mainly due to their adjustment to increased public revenue forecasts. In Republika Srpska, the increase in expenditure is slightly less than the planned increase in revenue.

Table 4.9: Comparison of fiscal results with the previous program

	2023	2024	2025	2026	2027
	ERP 2024-2026				
Total revenues	20,287.9	21,436.1	22,282.2	23,292.0	
Total expenditure	20,463.4	21,747.5	22,336.8	23,144.7	
Net borrowing/lending	-175.5	-311.4	-54.6	147.3	
	ERP 2025-2027				
Total revenues	20,253.9	22,176.0	23,705.5	25,226.2	26,975.4
Total expenditure	20,582.8	22,859.6	24,086.9	25,194.0	26,560.0
Net borrowing/lending	-328.9	-683.6	-381.4	32.2	415.4
	Difference				
Total revenues	-34.0	739.9	1,423.3	1,934.2	
Total expenditure	119.4	1,112.1	1,750.1	2,049.3	
Net borrowing/lending	-153.4	-372.2	-326.8	-115.1	

Source: MFiT BiH, FMF, MFRS and Finance Directorate of BD

4.8 Quality of public finances

Improving public finance management is one of the strategic priorities of the government at all levels in Bosnia and Herzegovina, and efficient public finances are the foundation for meeting the requirements of the European integration process of Bosnia and Herzegovina, especially in light of the new European Union instrument - the Growth Plan for the Western Balkans. Reform measures that will contribute to the quality of public finances in Bosnia and Herzegovina are defined in the Comprehensive Strategy for Public Finance Management in BiH for the period 2021-2025, as well as in individual strategies of all levels of government. Considering that the institutional framework for planning and implementing public finance management reforms in Bosnia and Herzegovina is characterized by a high degree of decentralization, the key factor for the success of reform activities is the coordination of all levels of government in the implementation of measures defined in strategic documents.

At the end of 2024, the Consolidated Report on the Implementation of the Comprehensive Public Finance Management Strategy in BiH for 2023 was completed and submitted for adoption, after the reports on the implementation of the strategies at all levels of government were adopted. The Consolidated Report for the year 2023 shows some progress in the implementation of all six public finance reform areas, with a focus on improving fiscal consolidation, preparing the budget in a program format, restructuring the tax burden, and improving the functioning of the financial management and audit system.

Taking into account that the strategic framework for the area of public finance is valid until the end of 2025, during 2024, activities were initiated to develop a new strategic framework at all levels of government for the period 2026-2030. In early 2024, the findings of the assessment conducted by the Public Expenditure and Financial Accountability (PEFA) for Bosnia and Herzegovina were published, which will be the basis for defining reform activities in the new strategic framework, in accordance with the progress incurred in the implementation of the Comprehensive Strategy for the period 2021-2025. In May 2024, the first dialogue on public finance management between Bosnia and Herzegovina and the

European Union was held, presenting the results incurred in this area, as well as planned activities in the coming period. Moreover, the results of the PEFA and PIMA findings for Bosnia and Herzegovina were presented, and it was agreed that dialogue meetings would be held every year, in order to continuously monitor progress in implementing reforms in this area.

During 2024, activities were intensified at all levels of government in Bosnia and Herzegovina to improve macroeconomic projections, increase the credibility of the PER fiscal framework, and strengthen the capacity of institutions to develop the Economic Reform Program in BiH, through the implementation of the IPA 2018 project "Support to the Economic Reform Program in BiH". Next to this, activities continued on improvement of the process of budget preparation and monitoring in a program format, through the EU project "Continued Support for Public Finance Management in BiH".

The Government of the Federation of BiH remains strongly committed to adopting a new Law on Income Tax and the Law on Contributions with the aim of reducing the tax burden on labour. The implementation of activities to establish a more technologically advanced fiscalization system in the Federation of BiH will significantly affect the reduction of the informal economy. Activities to modernize tax administration in the Federation of BiH, through process improvement and implementation of more advanced information systems, will improve the business environment in terms of simplifying the provision of services to taxpayers, as well as faster flow of information exchange between tax administrations. On the other hand, when it comes to international cooperation regarding tax issues, the continuation of activities within the framework of the Global Forum on Transparency and Exchange of Information for Tax Purposes and the Inclusive Framework for the Implementation of Measures on Base Erosion and Profit Shifting (BEPS), prevents tax base erosion and profit shifting outside the Federation of BiH, with the aim of increasing the efficiency of the public revenue collection system in the future.

In Republika Srpska, activities continued on establishing a new improved fiscalization system, after the new Law on Fiscalization was adopted in February 2022. The new fiscalization model is based on new technologies and signifies a simplification of the entire process for fiscalization taxpayers, greater transparency in relation to consumers in terms of checking the validity of invoices, and a very high-quality tool for the Tax Administration of Republika Srpska for combating the grey area in trade. In 2024, the fiscalization of the first group of taxpayers began, while the fiscalization of the second group is planned for the following year, i.e. the completion of the initial fiscalization of all taxpayers in Republika Srpska. With the aim of approximating the tax burden of workers and entrepreneurs, it has been proposed to adopt the Law on Amendments to the Law on Contributions, and the Law on Amendments to the Law on Income Tax. These laws introduce the obligation to pay contributions for pensioners who are self-employed, on a basis of 30% of the average gross salary in Republika Srpska for the previous year, and increase the minimum base for other self-employed entrepreneurs from the current 60% to 70% of the average gross salary in Republika Srpska for the previous year in 2025 and to 80% of the average gross salary from January 2026. Moreover, following the example of neighbouring countries, as well as the goal of establishing a small entrepreneur regime, in addition to the activities of lawyers, notaries, tax advisors, engineers, and professional athletes, other related activities are also exempted from such a regime, namely the activities of accounting, computer programming, market research, mediation, and business and other consulting. With the aim of reducing the grey area in the area of labour, in the coming period, efforts will be made to find a model for simplified taxation of persons in certain forms of temporary jobs, which are exclusively short-term and do not fit into the form of standard employment relationships. Due to formal obstacles, such problems are currently largely in the grey area, which indicates that it is necessary to find a model of simple registration and payment of obligations for these persons.

4.9 Fiscal governance and budgetary frameworks

The budget process in BiH begins with the adoption of the Global Framework for Fiscal Balance and Policies in Bosnia and Herzegovina (GOFBP) by the Fiscal Council in BiH for a period of three years. The Fiscal Council coordinates fiscal policy in BiH to ensure macroeconomic stability and sustainability

of public finances at all levels of government. The GOFBP document is prepared based on the Law on the Fiscal Council in BiH, and contains all the necessary elements that fiscal policy makers in BiH need to prepare their framework budget documents, as well as annual budgets. These elements include: fiscal targets 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, and a proposal for the upper limit of budget borrowing for BiH Institutions, RS, FBiH and DB. The aforementioned elements, the harmonization of which represents a basic assumption for budget planning by fiscal policy makers in BiH, constitute the essence of fiscal coordination in BiH.

The procedure is the same for Budget Framework Documents (BFD) at other levels of government in BiH. Considering the pronounced fiscal decentralization and the independence of each level of government in BiH in determining fiscal policy, the structure of budget expenditures presented in the GOFBP tables is indicative for each level of government, and each level of government, in accordance with adopted policies, determines the final structure of expenditures and revenues in its framework budget documents (DOB) and annual budgets. In this process, each level of government in BiH contains and implements its own laws on the budget system and budgets and defines the development of DOB for the next three years.

The Law on the Budget System of Republika Srpska defines the budget system of Republika Srpska and the development of the Framework Budget Document of Republika Srpska as the basis for the preparation and drafting of the budget. Every year, the Budget of Republika Srpska is adopted for the following year and the following two years, and its purpose is to set a strategic framework and resource ceilings, within which the annual budget should be prepared. In this context, the preparation and drafting of the budget is based on the Budget Framework Document. The key objective of this document is to ensure better linkage between the Government's priority policies and the way it allocates public resources. Moreover, the Law on the Budget System of Republika Srpska regulates, among other things, the allocation and distribution of revenues from indirect and direct taxes, as well as non-tax revenues in Republika Srpska. This law also regulates the general rules of the budget system of Republika Srpska, as well as provisions stipulating that budget funds be used to finance the functions of budget users, perform their tasks and for other purposes that are in accordance with the Constitution and law, as well as regulations of local self-government units and funds. In this regard, an Initiative of local self-government units, namely the Association of Municipalities and Towns of Republika Srpska, was submitted to the Government of Republika Srpska requesting an amendment to the subject law. With the aim of achieving financial stability and development of underdeveloped and extremely underdeveloped local self-government units, a measure was proposed to reduce the amount of indirect tax revenues of developed local self-government units by a certain amount in the next three years so that such an amount of funds be put towards development of underdeveloped local self-government units.

Fiscal rules in BiH are determined at levels of Federation of BiH, Republika Srpska and Brčko District. The Law on Amendments to the Law on the Budget of the Brčko District of BiH stipulates that "the share of the budget deficit in the gross domestic product cannot exceed 3% of the District's gross domestic product at the end of the previous fiscal year." The fiscal rule on debt will be incorporated into the Law on Borrowing, Debt and Guarantees of the Brčko District of BiH, which is in the process of being drafted. The Law on Domestic Debt of the Brčko District establishes limits on the amount of domestic debt of the Brčko District, according to which short-term debt may not exceed 5% of regular revenues collected in the previous fiscal year at any time, and that the District may incur long-term debt obligations only if, at the time of the debt, the amount of debt repayment is repayable in any subsequent year for all outstanding long-term domestic debt of the District and the proposed debt, which is to be incurred, does not exceed 10% of regular revenues collected in the previous fiscal year.

In the Federation of BiH, budget preparation is prescribed by the Law on Budgets in the Federation of BiH, where the budget calendar defines the deadlines for preparation, drafting and adoption. At the proposal of the Federal Ministry of Finance, the Government of the Federation of Bosnia and

Herzegovina adopts the Economic and Fiscal Policy Guidelines for a three-year period, which represents the basis for further budget planning in the Federation of Bosnia and Herzegovina. The budget process in the Federation of BiH takes place in two phases: the medium-term planning process (which involves the development of the FBiH Framework Budget Document – FBiH DOB) and the FBiH budget development process. The FBiH Framework Budget Document sets out a strategic framework and resource ceilings, within which the annual budget should be prepared.

Fiscal rules in the Federation of BiH are prescribed by the Law on Budgets of the FBiH and the Law on Debt, Borrowing and Guarantees of the FBiH:

- The planned current budget balance must be positive or equal to zero, except in cases of natural disasters or a state of natural disaster declared by the legislative body, when the amount of determined damages reaches or exceeds 20% of the expenditures incurred in the previous fiscal year.
- Short-term debt incurred through borrowing to temporarily finance a cash flow deficit shall be repaid within one year and shall not exceed 5% of the gross revenues in the previous fiscal year at any time during the fiscal year.
- The Federation of BiH may incur long-term debt, so that the liabilities due each year do not exceed 18% of consolidated revenues from the previous year, while the annual debt obligations of cantons, cities and municipalities may not exceed 10% of the revenues incurred in the previous year.

At the same time, the Law on Fiscal Responsibility of Republika Srpska regulates fiscal rules, measures and procedures based on 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 Republika Srpska and strengthens the system of controls and supervision. This law defines general and specific fiscal rules. General fiscal rules refer to the entire budget system of Republika Srpska, while specific fiscal rules represent binding, automatic measures if the indicators stated in the general fiscal rules reach the value thresholds defined by this law. The general fiscal rules in Republika Srpska are:

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

Independent fiscal institutions. The Law on the Fiscal Council in BiH established the Fiscal Council with the task of coordinating fiscal policy in BiH in order to ensure macroeconomic stability and sustainability of all levels of government in BiH. The Fiscal Council is responsible for developing fiscal budget targets and debt ceilings for the next three years, as well as developing macroeconomic projections within the Global Framework for Fiscal Balance and Policies document, which is adopted every year for the following year and the following two years.

Fiscal policy coordination in the Federation of BiH is carried out through the Fiscal Coordination Body in the Federation of BiH, which is responsible for proposing and implementing fiscal goals for the budget of the Federation and lower levels in the FBiH. In addition, the Fiscal Coordination Body is responsible for controlling the implementation of fiscal rules, monitoring the implementation of set goals and criteria when adopting and executing the budget.

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

preparation of government documents, provides an independent and credible assessment of economic policy, assesses the main fiscal risks and the likelihood that the Government will meet its goals in the future, assesses the extent to which the Government has met the set fiscal goals, and verifies whether fiscal rules have been followed.

The Government of Republika Srpska has undertaken a series of measures aimed at supporting public sector employees and the most vulnerable categories of society (pensioners, veterans, young people, unemployed parents with four or more children, children of fallen veterans registered with the Employment Agency of Republika Srpska) to overcome the crisis caused by high inflation as easily as possible. The measures taken by the Government in response to the current crisis have resulted in an increase in expenditures, which ultimately resulted in a high share of the consolidated budget deficit in GDP in 2022, exceeding the consolidated budget deficit threshold by 3%, prescribed by the Law on Fiscal Responsibility. For this reason, the National Assembly of Republika Srpska adopted the Decision on the Adoption of the Fiscal Consolidation Program for the Period 2024-2026, which planned a gradual reduction in the consolidated budget deficit, resulting in a positive impact on fiscal stability. If the assumptions on which this Program was based are realized, the budget system deficit of Republika Srpska would return to the framework of fiscal rules prescribed by the Law on Fiscal Responsibility within the time frame foreseen by the Program.

Financial reporting. All levels of government in BiH have regulated financial reporting through their bylaws. Accordingly, all levels of government in BiH prepare and publish their quarterly and annual reports on budget execution. In terms of consolidated reporting for BiH, the Central Bank of BiH (CBBiH) publishes reports on government operations for all general government sectors in BiH in accordance with GFS 2014.

In the Federation of BiH, budget execution is based on the Law on Budget Execution for the Federation and cantons, and for lower levels, budget execution is defined by the decision. The consolidated budget of the Federation of BiH includes the Budget of the Federation of BiH, budgets of the cantons, budgets of local self-government units and budgets of extra-budgetary funds. The Rulebook on Financial Reporting and Annual Budget Calculation in the Federation of BiH regulates the area related to financial reporting. Accordingly, consolidated periodic and annual reports are prepared in the Federation of BiH, which include lower levels of government and extra-budgetary funds. These reports are regularly published on the website of the Federal Ministry of Finance. Public enterprises financed from public revenues or enterprises for which the FBiH Government issues debt guarantees (*Željeznice FBiH (eng. FBiH Railways)*, *Ceste FBiH* and *Autoceste FBiH*) submit periodic and annual financial reports on the execution of the business plan to the Federal Ministry of Finance. The Rulebook on Financial Reporting and Annual Budget Calculation in the Federation of BiH is in accordance with the mandatory statistical standard of the European Union - ESA 2010, and the statistical system of the International Monetary Fund - GFS 2014.

In the area of financial reporting, budget users in Republika Srpska, in accordance with the Law on Accounting and Auditing, apply IPSAS, which is based on the accrual basis of accounting, as the basis for the preparation and presentation of financial statements. One of the primary goals of implementing IPSAS is to increase the quality of financial statements in the budget sector, but also to ensure the comparability of general-purpose financial statements prepared by budget users with general purpose financial statements presented by other reporting entities (the real sector). In the area of financial reporting, and in accordance with the Rulebook on Financial Reporting of Budget Users, starting from 2017, financial data for the central government of Republika Srpska is published monthly on the website of the Ministry of Finance of Republika Srpska, and consolidated data for the central government of Republika Srpska, extra-budgetary funds not included in the republican budget, and all local self-government units are published quarterly. The data are presented in GFS codes (GFS 2014) and are available in Serbian and English.

In Republika Srpska, the development and implementation of treasury GFS and ESA books is underway, which will provide a prerequisite for a higher degree of automation, consistency and precision in the process of translating and reconsolidating accounting data from the Treasury System (SUFI) to the GFS 2014 and ESA 2010 classifications, which are applied internationally, and undoubtedly improve transparency and uniformity of reporting, which would lead to gradual harmonization with the best practices of the countries in the region and the EU in the future. In the coming period, efforts will be made to introduce as many budget users as possible, who have their own bank accounts, into the treasury system, since a certain number of budget users operate entirely or partially outside the treasury system and their data is included in consolidated financial statements based on submitted reports from their separate general ledgers.

Reforms in the area of public finance are contained in individual Public Finance Management Strategies for the period 2021-2025 and the Comprehensive Public Finance Management Strategy in BiH for the period 2021-2025, which have been 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.

Given that the strategic framework for public finance in Bosnia and Herzegovina is valid until the end of 2025, during 2024, activities were initiated to develop a new strategic framework at all levels of government for the period 2026-2030. In early 2024, the findings of the assessment conducted by the Public Expenditure and Financial Accountability (PEFA) for Bosnia and Herzegovina were published, which will be used as the basis for defining reform activities in the new strategic framework, in accordance with the progress incurred in the implementation of the Comprehensive Public Finance Management Strategy in Bosnia and Herzegovina for the period 2021-2025.

Within the framework of planning and budgeting, two IPA projects related to the implementation of ESA standards are in the process of implementation since 2023. In this regard, expansion of the scope of users/institutions in accordance with international standards is planned. In addition, the implementation of a project related to improving budgeting in a program format is underway, with the aim of more efficient and transparent budget planning and spending of public funds. For the implementation of the program budget at all levels of government in BiH, the procurement procedure for adequate software has been completed, and is being financed by the EU (IPA III). Moreover, the World Bank will provide technical assistance on fiscal management with funding from the European Union through the Trust Fund for Strengthening Fiscal Governance in the Western Balkans. These activities are in accordance with the second recommendation of the Joint Conclusions.

In order to create a legal framework for the introduction of program budgeting, the Law on Amendments to the Law on Budgets in the Federation of Bosnia and Herzegovina is being prepared. It defines that the implementation of program budgeting will be applied by gradually introducing the program budget format, starting with the budget cycle for 2025 for the Federation level and extra-budgetary funds at the Federation level, that is, for 2027 for the cantonal level and extra-budgetary funds at the cantonal level. The implementation of program budgeting will not apply to cities and municipalities.

Improving the public investment system will ensure more efficient management of public finances, that is, better planning and management, supervision of public investments, improved cost estimates per project, as well as determination of priority investments. The aim is to ensure the harmonization of public investment programs 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 individual and comprehensive PFM strategies. At the same time, these activities are in accordance with part of the first recommendation of the Common Guidelines concerning increase in the share of capital investments in GDP. The Government of the Federation of BiH has adopted a Regulation on Amendments to the Regulation on Methods and Criteria for the Preparation, Development and Monitoring of the Implementation of the Public Investment Program. The aim of adopting this act is to improve the legislative framework that will ensure better preparation of projects for future financing from the

European Union and the Western Balkans Investment Framework. The regulation is in accordance with European legislation and European Union requirements. In order to comply with the Law on Budgets in the FBiH and European Union regulations, clearer definitions for small, medium and large projects are being introduced. It is specified that a small-value project is a project whose total value is greater than 100,000 BAM and less than 2,000,000 BAM, while a medium-value project has a total value greater than 2,000,000 BAM and less than 30,000,000 BAM. A high-value project is a project whose total value is greater than 30,000,000 BAM. In addition, higher standards are set for the preparation of project documentation for more complex and financially significant projects. The project evaluation form has also been changed in order to be in accordance with EU requirements. The new project evaluation model establishes unique criteria for distinguishing mature from less mature projects for the purpose of forming a list of sectoral infrastructure projects, which later needs to be merged with the aim of obtaining a Unique List of Infrastructure Projects at the BiH level. In order to strengthen capacities in the area of macroeconomic statistics, training was organized for FMF employees on the use and application of a software package for simulations of econometric models and forecasting. The application of the software package should improve the work on estimating and forecasting fiscal parameters, revenues, expenditures and external debt.

Part of the second recommendation of the Joint Conclusions relates to the assessment of fiscal risks and potential liabilities related to publicly owned enterprises, and, in order to fulfil this recommendation, activities were undertaken during 2024 to implement such recommendation.⁵⁵ In October 2024, the Ministry of Finance of Republika Srpska prepared a Report on Fiscal Risks Related to Public Enterprises in Republika Srpska in the year 2023. The aforementioned report is prepared annually and provides insight into the financial position of public enterprises of specific interest and fiscal risks that may arise from their operations. The first Report on Fiscal Risks Related to Public Enterprises in Republika Srpska in 2022 was prepared in September 2023. The Department for Supervision Coordination of Public Enterprises has been established within the General Secretariat of the Government of Republika Srpska, which is responsible for performing tasks of centralized collection and processing of data on public enterprises for the needs of the Government, and other tasks related to coordination of supervision over the work of public enterprises. At the same time, at the level of the FBiH, to address the problem of transparency and good governance in public enterprises in accordance with the strategy, a measure is planned to establish a unit for monitoring the work of public enterprises within the General Secretariat of the Government of the FBiH. The task of this unit will be to conduct initial analysis of the situation, including reports and recommendations from international institutions, and to draft bylaws that will regulate its work.

4.10 Sustainability of public finances

Demographic changes, in the long term, represent one of the key problems facing BiH. Negative demographic trends worsen the labour market and fiscal position in the long term, as well as the sustainability of all budgetary expenditures, public health and education systems. The demographic picture is characterized by a low birth rate and a high level of migration. Demographic changes have a significant impact on the state's tax revenues and require adjustments to fiscal policy in order to preserve fiscal stability. Due to the constitutional arrangement and specific legislative frameworks for financing and exercising rights in pension and health insurance systems, it is necessary to prepare separate analyses and projections for the Federation of BiH and Republika Srpska, to assess the long-term sustainability of these systems in BiH.

By introducing the Pension and Disability Insurance Funds of Republika Srpska into the budget of Republika Srpska from 01 January 2016, and the Federation of BiH into the budget of the FBiH from 01 January 2020, the governments of both entities have expressed their commitment to giving priority to the

⁵⁵ The first estimates of contingent liabilities are given in Section 4.6, table 4.8.

pensioner population in the payment of budget benefits. In such a way, complete fiscal consolidation of the Pension and Disability Insurance Funds was carried out.

The pension system reform was implemented in Republika Srpska in 2011, and in the Federation of BiH in 2018. The reform in both entities provided with significant results in terms of the sustainability of the pension system in the medium term. However, due to demographic trends, it will be necessary to monitor the parameters of the pension system very carefully in the coming period, especially in the segment of pension adequacy, in order to be able to react in a timely manner to negative demographic or economic trends. Due to the aging population and the departure of young and working-age population, a smaller number of contributors is expected in the coming years, also, it is expected that the pension system will be endangered in the long term and the budget system will be overloaded. Challenges for the coming period in the area of the healthcare are particularly related to the aging population, the growth of malignant diseases, monitoring modern medical equipment technologies and treatment methods, as well as revising the network of healthcare institutions.

The strategic commitment of the Government of Republika Srpska is to settle the outstanding liabilities of public health institutions and the Health Insurance Fund from the previous period, and to introduce public health institutions into the treasury system of operations.⁵⁶ The aforementioned will preserve fiscal discipline within the healthcare system, and create the prerequisites for structural reform of the system, which will be based on standardizing the network of healthcare institutions, and finding new models of financing health insurance. The healthcare system reform will establish a financially sustainable system, which will enable more efficient healthcare.

The Government of the Federation of BiH has devoted special attention to resolving problems related to the demographic future of the Federation of Bosnia and Herzegovina, and the competent ministries of the Government of the FBiH have begun developing strategies and policies related to this area. As a result, the Decision on the Development of the Strategy for Demographic Development and Recovery of the Federation of BiH (2024-2031) was adopted.⁵⁷ As the pension system of the Federation of BiH is largely based on the contribution of the working-age population for the payment of pensions, in this context, it is important to emphasize the adoption of the Employment Strategy of the Federation of BiH (2023-2030).⁵⁸ The ultimate outcome of this strategy in terms of relieving the burden on the pension system should be a change in the ratio of employees to pensioners, thus ensuring the long-term sustainability of the financial system.

The Government of the Federation of Bosnia and Herzegovina has accepted another document that will have an impact on future social and economic developments - the Strategy for the Development of the Social and Child Protection System in the Federation of Bosnia and Herzegovina (2024-2030). By reducing poverty and mitigating its consequences, and strengthening the inclusion of marginalized individuals and groups while strengthening institutional mechanisms and capacities, this strategic document should have a long-term positive impact on social and economic developments, and therefore on financial sustainability.

Given that the Public Finance Management Reform Strategy 2021-2025 expires in 2025, adoption of a new Public Finance Management Reform Strategy is planned, which will continue and upgrade on the previous one, as well as introduce new measures and activities. The purpose of the Strategy is to provide a comprehensive and integrated framework for planning, coordination, implementation and monitoring of progress towards the efficient use of available public resources, increasing transparency and functionality of public finance management in accordance with EU and international standards.

⁵⁶ Since 2021, 4 institutes have been introduced into the treasury system at the level of Republika Srpska, and 18 health centres at the level of local self-government units in Republika Srpska. The plan is to introduce a total of 37 health centres into the treasury system by 2025.

⁵⁷ 20th session of the FBiH Government; 15 November 2023

⁵⁸ 14TH SESSION OF THE FBiH GOVERNMENT; 21 SEPTEMBER 2023

Moreover, the Strategy is the basis for coordinating financial and technical assistance from international financial institutions, the EU and other development partners.

5A. CONSISTENCY OF THE REFORM AGENDA WITH THE ERP'S MACRO-FISCAL FRAMEWORK

I. Impact estimate of the Reform Agenda

The impact estimate of reforms and measures from the Reform Agenda (RA) aimed to assess the economic effects of key measures proposed within the reform agenda. The necessity of developing an impact estimate is to ensure, on a scientific basis and with a unified methodology, a representation of the impact of selected reforms/measures on macroeconomic stability, with a focus on the potential contribution to economic growth, employment and infrastructure improvement. When prioritizing reforms and allocating resources for achieving desired goals, it is necessary to take into account analysis results.

Reforms selected for impact estimates were identified based on their expected contribution to GDP growth, particularly those that generate significant investment, employment opportunities, or infrastructure improvements to improve the business environment. When preparing the analyses, available data, information and methodologies were used to ensure the credibility and reliability of calculations and projections. It is very important to note that data was missing for some of the measures, so the experiences of other countries in the region were used.

It should be noted that the given estimates are not included in the baseline scenario or fiscal framework. The analysis was conducted using the existing draft of the Reform Agenda and may not reflect the final version of the document.

Macroeconomic impacts were conducted by the Directorate for Economic Planning, and Fiscal impacts by the Ministry of Finance and Treasury of BiH.

II. Impact estimates for each reform

1.1.1 Enable a secure broadband network, including deployment of 5G (potentially)

- Macroeconomic impact

The optical network is crucial for the development of 5G technology because it enables the fast and reliable transfer of huge amounts of data required by modern mobile communication. Fiber optic cables offer far greater capacity and lower latency compared to existing infrastructure. In Bosnia and Herzegovina, this is especially important because the digital transformation of society and the development of modern infrastructure depend on quality network connectivity. Since the 5G network requires densely placed base stations, optical infrastructure is necessary and a prerequisite for their connection. The implementation of these projects requires significant financial investments that will enable the technological progress of the country and the start of the 5G network.

The digitization process will require a series of preparatory activities. One of the prerequisites for the implementation of this measure is the abolition of the analogue signal and the transition to a digital signal, which will require additional investments. The impact analysis showed that investments in broadband and 5G infrastructure are needed. The benefits of full implementation of this measure would be multiple for the public and private sectors (industry, logistics, public services, etc.), which would result in increased investments and an impact on GDP, as well as an increase in tax revenues. The first step in the implementation of this measure is achieving 33% coverage of household by 5G network and alignment with EU digital policies.

State revenues were calculated based on the experience of the Republic of Croatia, which generated approximately 50 million euros in revenue based on frequency auction data. Using the Croatian auction as a baseline, we can increase the expected revenue from auctions so that revenue from auctions in Bosnia and Herzegovina could reach around 25.2 million BAM.

Based on the Analysis Mason study⁵⁹, the total investment required for Bosnia and Herzegovina to achieve its 5G network implementation goals can be estimated by extrapolating from European benchmarks. The study estimates that total infrastructure investment in 5G enhanced mobile broadband network (eMBB) across Europe will amount to approximately 150 billion EUR in the period between 2019 and 2040. This estimate, adjusted for BiH, results in around 213 million EUR of private investment by telecom companies in the first three years of implementation with a coverage of 33% (five large cities and 80% of the population). For full 5G network coverage, it is estimated that investments of 1.2 billion BAM are needed, which would have a positive impact on GDP of around 2.2%. The share of investments in GDP would increase by an average of 1.1 percentage points (pip) per year. At the same time, this amount of investment would result in an increase in the share of imports by an average of 0.8 pip per year, which would ultimately generate more revenue from indirect taxes by an average of 0.1 pip.

- Fiscal impact

In addition to the aforementioned, dynamic investment growth will involve hiring new workforce and operations (most likely through subcontract agreement), which will also have positive fiscal effects (contributions, labour taxes, profit tax). Ultimately, the construction of modern digital infrastructure (5G network) will have its own important additional and positive fiscal effects that will be achieved through indirect channels. Better infrastructure in this area is an important factor that can contribute to the acceleration of digitalization as well as stimulate the accelerated development of the ICT sector in BiH - along with its better integration into the EU market. This should have a positive impact on the country's economic development and consequently public revenues in the long term. Of course, all the previously mentioned (dominantly positive) macroeconomic and fiscal effects associated with the introduction and development of the 5G network will begin to take effect after the auction, which is planned for the end of 2026. For reasons of conservatism, they are not included in the estimated fiscal effects (Table at the end of text).

The overall fiscal effects of implementing reform 1.1.1 will have its expenditure components. Namely, Bosnia and Herzegovina predicted that: 1) by mid-2025, it will establish all bodies and staff at all levels to coordinate the development of broadband infrastructure, in accordance with EU legislation; 2) by the end of 2025, it will adopt legislation that will be in accordance with the EU Broadband Cost Reduction Directive, the European Electronic Communications Code and the Gigabit Infrastructure Act; and 3) by the end of 2026, it will adopt a new Law on Broadband Network Security and the Deployment of 5G Infrastructure in accordance with the EU Toolbox for 5G Security at all levels.

These employees would present (with the necessary training) the core staff for drafting the necessary laws and bylaws for the implementation of the 1.1.1 reform in BiH. The fiscal cost of establishing and operating these new bodies (salary costs, plus operating costs and staff training costs) could amount to around 2.5 million EUR in the period covered by the ERP (according to Reform Agenda estimates). Of course, the fiscal cost could be somewhat lower if part of such employees in new bodies were taken over from the existing institutions. An additional fiscal cost will also present the creation of a GIS map of communication infrastructure, which should cover 70% of the country by the end of 2027.

Taking all of this into account, the fiscal effects of implementing reform 1.1.1 will undoubtedly be positive. In the first years (until the auction is conducted and infrastructure construction begins),

⁵⁹ <https://www.analysismason.com/contentassets/81084235a1d9474bb7c0214b68454d58/anaysys-mason-executive-summary-for-5g-geographic-study.pdf>

BiH will bear a certain fiscal cost of establishing the necessary bodies to implement the reform, along with developing the necessary legislation and operational tools (of an order of magnitude less than one million EUR year at all levels of government). However, this initial cost should be covered very comfortably with the expected revenues from the frequency auction for the 5G network alone. After this, in the long term, public revenues would be of an order of magnitude higher than the operating costs of new bodies. Ultimately, it is important to mention that the EU has foreseen that in the event of successful implementation of this reform, it will make available around 21.8 million EUR in four tranches by December 2026.

1.4.1 Full implementation of the third energy package (potentially)

- **Macroeconomic impact**

The Green Transition reforms in Bosnia and Herzegovina (including the price of CO₂ emission permits, energy market integration and emissions reduction) should be comprehensively estimated to understand their economic impact. Although these measures aim to change the structure of the energy sector, they also present economic challenges that must be systematically approached and managed.

Bosnia and Herzegovina, as a signatory to the European Energy Community Treaty, has committed to reducing fossil fuel production by increasing energy production from renewable sources. According to currently available data on electricity production, thermal power plants play a dominant role with a share of around 66% in total production. If Bosnia and Herzegovina were part of an integrated market, according to the existing business model and taking into account the current permit price of 70 EUR per ton of CO₂, this would result in significant costs in the short term for manufacturers, but a significant reduction in greenhouse gas emissions would be achieved. Total CO₂ emissions from thermal power plants (TPP) amount to 4.5 million tons, with contributions from lignite, brown coal, hard coal, coke and natural gas. The cost is calculated by multiplying the total emissions with the carbon price, which would lead to an additional annual cost of around 365 million EUR. Due to the increase in the price of the permit in the EU by 65%, the impact on the GDP growth rate in Bosnia and Herzegovina would be negative and would amount to 1 pip per year. Moreover, inflation would increase by 2 pip in the short term.

Increasing the price of CO₂ emission permits also significantly affects greenhouse gas (GHG) emissions. A study evaluating the effects of an increase in effective carbon rates (ECR) of 10 EUR shows a reduction of total greenhouse gas emissions in Bosnia and Herzegovina by 19.6%. Emission reductions specifically from fossil fuels would reach 102.2%, reflecting the transition from fossil fuel-based production to renewable energy sources. A negative impact of carbon pricing can be expected, which will not be fully taken into account in the impact estimate projections. The goal is not to introduce coupons immediately for all industries, but in gradual stages to mitigate the impact and achieve this just transition. The implementation of the aforementioned permit pricing policy, as part of the Third Energy Package, as part of the EU ETS package, would require structural reforms and investments in renewable energy sources in order to mitigate negative economic and environmental impacts.

1.5.1 Implementation of the NECP and just transition of mining regions (potentially)

The transformation of the mining sector, which includes mines and thermal power plants, is complex over a long period of time and requires large costs, which can be compensated, to some extent, through investments. The reform aims to retrain 20% of workers in coal regions and employ 40% in new sectors

to address job losses due to the transition⁶⁰. Of the 18,600 jobs at risk, the fiscal costs include early retirement, severance pay, unemployment benefits, and social assistance.

Estimated direct economic effects include a loss of added value of around 2.7% and a loss of GDP of around 2.3% in the long term due to the transformation of the mining sector. In order to mitigate the negative effects, it is necessary to implement certain measures such as re-employing around 40% of affected workers (7,440 jobs), which will result in a slight increase in productivity (1.05) and a reduction in net job losses to 11,160 employees. As a result, the net loss of added value was reduced to 1.6%, and the net loss of GDP was reduced to 1.3%. If, in addition to the aforementioned measure, there were additional investments in renewable energy sources (RES) with savings in CO₂ costs, this would have a positive effect and support a sustainable energy transition.

- Fiscal impact

When it comes to the fiscal costs of implementing this measure, we estimate that they could amount to around 35 million EUR in total. The calculation was made based on the need for retraining of 20% of workers in the mining sector (3,720) and the unit price of retraining which is equivalent to the costs of education on an annual basis (around 2,500 EUR). The total costs of retraining would amount to 9.3 million EUR. On the other hand, the measure predicts that 40% of employees will move to other sectors. Taking into account the experience from the privatization process, it is realistic to expect that severance payments for such employees will amount to 25 million EUR (three average gross salaries per employee). At the same time, the re-employment of these workers will have a neutral impact on direct tax revenues. Finally, the implementation of this measure of the Reform Agenda envisages the possibility of allocating 17.85 million EUR in two tranches from EU funds by June 2027.

1.6.1 Implementation of the Renewable Energy Directive (potential)

- Macroeconomic impact

The implementation of this reform could lead to potential employment growth and increased economic activity in the country. At the same time, the application of renewable energy sources will directly create new jobs in the construction, operation and maintenance of renewable energy projects. Investments in renewable energy sources will be mainly private, in accordance with the requirements of an integrated market. Jobs created by the reform will increase GDP (using multipliers that are the same for the Western Balkans, the assumption is that GDP would grow by 0.4% per year or 1.25% in three years) and employment in the country. The conducted analyses confirmed that the value of the investment multiplier amounts to 1.15 (for 1 euro invested, the return is 1.15 euros).

The focus of estimate was on increasing renewable energy capacity and consumer incentives. The goals included installing 0.9 GW of solar and wind power by 2027 and 180 MW of consumer capacity by 2026.⁶¹ Economic performance is modelled through investment requirements and projected outcomes, linking energy reforms to long-term economic and environmental goals.⁶² The highest level of investment is expected from energy-intensive industries and companies. According to the draft National Energy Plan (NECPA) in Bosnia and Herzegovina, the share of renewable energy sources is expected to increase by 0.9 GW. According to IRENA estimate⁶³ for 2023, the expected implementation costs would require _____

⁶⁰ The percentages of overqualified workers and employment in new sectors are considered overestimated and have not been finally agreed upon.

⁶¹ Nicoletta Batini, Mario Di Serio, Matteo Fragetta, Giovanni Melina, Anthony Waldron, Building back better: How big are green spending multipliers?, Ecological Economics, Volume 193, 2022.

⁶² Garrett-Peltier, H. (2017). Green versus brown: Comparing the employment impacts of energy efficiency, renewable energy, and fossil fuels using an input-output model. *Economic Modelling*, 61, 439–447.

⁶³ International Renewable Energy Agency

investments of around 990 million EUR and around 162 million EUR to achieve the prosumer target (180 MW). These investments would also provide with potential full-time jobs, around 8,000 new jobs. The share of investments in GDP would increase by an average of 2.6 pip per year. At the same time, this amount of investment would result in an increase in the share of imports by an average of 1.3 pip annually, which would ultimately generate more revenue from indirect taxes by an average of 0.1 pip.

- Fiscal impact

This measure would also have certain fiscal expenditures during the implementation period. They primarily concern increasing administrative capacities through training and education, establishing new institutions (e.g. "one stop shop" for RES), but also preparing and implementing incentives for prosumers. Currently, around 55% of investments in RES are subsidized (55% in FBiH and 50-65% in RS). If this level were to be maintained, around 45 million EUR would be needed over the implementation period to achieve the 180MW prosumer target (on average around 15 million EUR per year). Investments would also provide with potential full-time jobs, around 8,000 new jobs, which would bring in around 40 million EUR annually (taxes and contributions) during the investment implementation period.

Taking all of this into account, the fiscal effects of implementing reform 1.6.1 will undoubtedly be positive. The initial cost at the beginning of implementation, which concerns the establishment and improvement of the RES support system, as well as expenses for incentives for prosumers, would be covered very quickly by revenue from investments and new jobs. Also, this measure would largely compensate for the loss of capacity and, in connection with this, the macroeconomic performance of electricity production from coal, which would occur through the implementation of measure 1.5.1 of the Reform Agenda. Ultimately, the implementation of all steps of this Reform Agenda measure envisages the possibility of allocating around 43.6 million EUR of EU funds in four tranches by mid-2026.

1.7.1 Full implementation of EED, EPBD, Eco-design and Energy Labelling Legislation

- Macroeconomic impact

The analysis of this reform measure determined that reliable and relevant data for Bosnia and Herzegovina were not available to be used to estimate its total costs. Therefore, the estimate is based on the experiences of countries in the region. The reform aims to renovate 3% of public buildings annually, supported by new energy efficiency laws and market-based ESCO mechanisms. The analysis estimated investment costs based on Slovenian NRRP⁶⁴ benchmarks and modelled impacts on:

- creation of new jobs,
- reduction of energy costs, and
- growth of GDP, in accordance with NECP and EU energy directives.

Estimates suggest that the renovation of public buildings would require a partial investment in the range of 263-391 EUR/m² and residential buildings would require investments of around 211.5 EUR/m².

Based on the number of buildings planned to be renovated and the square footage they cover, it will subsequently be possible to determine and estimate the total investments for these efficiency measures. This measure is expected to create additional employment using multipliers of 7.75 jobs per 1 million EUR of investment in energy efficiency.

⁶⁴National Recovery and Resilience Plan

Although green reforms may create short-term economic shocks, they provide short- and long-term gains through increased investment, innovation, and potential GDP growth by 0.55% above the baseline scenario, driven by revenue reallocation and increased efficiency. Aligning these reforms, with appropriate regulation and technological advances, will be key to achieving climate goals without undermining economic stability.

2.1.1 Strengthening the governance, efficiency and transparency of publicly owned enterprises (POEs)

- Macroeconomic impact

The focus of estimate was on improving the governance of public enterprises (PEs) through reducing debt by 30% and attracting private investment. One of the modalities is public-private partnership (PPP) which could be applied to airport management. The impact estimate is focused on improving the efficiency of PEs, which would lead to a reduction in budget subsidies for them. PEs/SOEs in Bosnia and Herzegovina receive around 0.9% of GDP in subsidies and pay only around 0.3% in dividends, which means that, from a fiscal perspective, the government is at a net loss. It is assumed that the implementation of this reform and the reduction of PE arrears by 30% will have a similar percentage impact on the reduction of state subsidies for them. In addition, a conservative estimate is that dividends will remain the same, since the reform would potentially take longer to implement. This would create government savings that could be used for further investment either in PEs/SOEs or in other capital projects. Therefore, the projected savings would lead to an increase in GDP of around 0.001 pip per year. When it comes to potential PPPs for the airport, the regional experiences of Pristina and Skopje were analysed. In the case of applying this modality and a potential investment of around 100 million EUR, a rate of return for owner is expected of around 40% of the airport's revenue. Indirect effects would be an increase in the number of passengers and the number of flights, and additional tourism revenues. The combined contribution of direct (investment) and indirect effects would contribute to increasing the GDP growth rate by an additional 1.5% per year. The share of investments in GDP would increase by an average of 0.5 pip per year. At the same time, this amount of investment would result in an increase in the share of imports by an average of 0.2 pip per year, which would ultimately generate less revenue from indirect taxes by an average of 0.07 pip.

- Fiscal impact

It is currently impossible to more precisely quantify and distribute all fiscal effects of implementing reforms in this area by year – especially considering that the details of the potential PPP for the airport have not yet been defined. However, based on the main elements of the reforms outlined, it is clear that the fiscal benefits for such reform will be quite substantial and more lasting, and that they could be of an order of magnitude amounting to 0.5% of GDP on an annual basis. Namely, the planned reform of public enterprises could permanently reduce annual state expenditures for subsidies to public enterprises by around 0.3% of GDP, while annual state revenues from the successful implementation of the concession could be slightly below 0.1% of GDP. In addition, there would be additional, indirect positive fiscal effects of the successful implementation of reforms in this area, which would supplement the presented estimate of fiscal benefits by around 0.5% of GDP per year. More specifically, the beginning of resolving the problem of arrears of public enterprises will inject some liquidity into the economy, as well as growth in profits and investments of such enterprises, thus stimulating overall economic activity, while the successful implementation of the concession would contribute to accelerating the growth of investments and tourism. Ultimately, it is important to mention that the EU has foreseen that in the event of successful implementation of this group of reforms, it will make 75.4 million EUR available to BiH. This last piece of information also indicates how important the reform of

public enterprises is for improving the economic environment in the country and the mere process of accession of BiH to the EU.

2.1.5 Introduction of intelligent transport systems (ITS) (potential)

- Macroeconomic impact

The ITS reform is in accordance with the EU ITS Directive, targeting a 50 km section of the TEN-T⁶⁵ road network and a 40% upgrade of the TEN-T rail network (in accordance with ERTMS).⁶⁶ Impact modelling used pilot ITS data to quantify the reduction in traffic accidents, improved transportation efficiency, and cost savings from reduced delays, highlighting safety and the potential contribution to economic growth.

- a) The implementation of ITS on the TEN-T corridor of Bosnia and Herzegovina results in significant travel time savings. Taking as an example travel time from Sarajevo to the coast, time is reduced from 3.5 hours (210 minutes) to 2 hours (120 minutes), saving 90 minutes per trip, or 42.9% of the total travel time. When extrapolated to the entire 400 km corridor, using a time saving rate of 0.47 minutes per kilometre, the total estimated time saved per trip is 189 minutes. This significant reduction highlights the efficiency gains that ITS brings to road transport, improving overall mobility.
- b) The ITS reform is modelled to reduce traffic accidents along the TEN-T corridor, creating significant economic and safety benefits. Baseline data for 2022 shows that Bosnia and Herzegovina counts 380 deaths and 11,000 injuries in traffic accidents annually, with total economic costs of 400 million EUR per year, or 5% of GDP. Assuming accidents are proportionally distributed, the TEN-T corridor represents 17.2 deaths and 497.2 injuries annually, representing a GDP loss of 0.23%. Studies show that implementing ITS can reduce accidents by around 50%. This results in a reduction of deaths to 8.6 per year and injuries to 248.6 per year on the TEN-T corridor. The corresponding GDP loss from accidents falls to 0.11%, saving approximately 18.08 million EUR per year. In the long term, ITS contributes an estimated GDP benefit of 0.04% each year. In the short term, covering only 50 km of the corridor (12.5% total), the reduction in accidents yields immediate, but smaller, GDP savings of 0.014%–0.005% per year.

2.2.1 Financial support for Start-ups and MSMEs

- Macroeconomic impact

The focus of the reform is on harmonizing the support framework for small and medium-sized enterprises and improving access to alternative financing. The impact estimate quantified the creation of new jobs, growth in investment, and increased competitiveness in the digital sector. This included an analysis of research and development costs and strategic guidelines to encourage innovation and private sector collaboration.

In the baseline scenario, Bosnia and Herzegovina's gross domestic spending on research and development remains constant at 0.187% of GDP between 2022 and 2027, with total spending on research and development projected to increase from 85.5 million BAM in 2022 to 112.1 million BAM by 2027. The business sector accounts for 36.9% of the share, while contributions from government, higher education and the non-profit sector remain unchanged. GDP is projected to reach 59.8 billion BAM by 2027 without further interventions.

⁶⁵ Trans-European Transport Network

⁶⁶ The European Rail Traffic Management System

In the target scenario, 20% expenditure increase of business sector for research and development increases its share to 41.3%, leading to total outlays for research and development of 120.4 million BAM, which is 8.3 million BAM more than in the baseline scenario. Based on a global study⁶⁷, this additional investment raises GDP growth by 0.257% in the short term and 0.073% in the long term, which means a short-term GDP growth of 0.019 pip. Another study⁶⁸ of EU countries suggests that increasing the share of research and development in GDP by 0.014 pip would raise GDP growth in the range of 0.015 to 0.031 pip.

The results suggest that the short-term impact on GDP in pip may be within the range of 0.019 to 0.031. The analysis highlights the economic value of increased investment in research and development, especially in the short term, where the effects on GDP growth are more evident.⁶⁹

3.1.1 Increase Share of Children Enrolled in Early Childhood Education and Care Services Country-Wide

- Macroeconomic impact

The reform seeks to address low enrolment rates in early childhood education (ECE) institutions throughout Bosnia and Herzegovina, with a focus on increasing access to early childhood education for children aged 0 to 6.

As an indirect effect of implementing this reform, it is assumed that increased access to early childhood education will enable more mothers to enter the labour market. This is based on the assumption that affordable and reliable institutional childcare frees up time for women to seek employment or further education. This assumption is consistent with international data showing that higher early childhood education enrolment rates are positively and directly correlated with increased female labour force participation. The impact of the reform on GDP can be calculated by taking into account additional employment of women, which would increase the labour force by around 10 thousand over a period of 3 years, or after full implementation of the reform, an increase of 2.3%. In addition, this economic impact includes the potential for greater gender equality in employment and improved household financial stability.

- Fiscal impact

According to official data from the Agency for Statistics of Bosnia and Herzegovina, there are currently 493 early childhood education institutions in BiH (250 public and 243 private), with a total of 41,214 children of all ages enrolled, while the coverage of children aged 0 to 5 is far lower than in EU countries. Increasing the coverage of children of the aforementioned age to the targeted 30% (0-2 y.o.) and 60% (3-5 y.o.) is possible only with a significant expansion of the network of early childhood education institutions. Initial preliminary estimates indicate that around 140,000 square meters of additional space for children should be provided, which can be achieved by building new institutions and, where possible, expanding existing kindergartens. Such an expansion of the early childhood education institution network could cost around 100 million EUR.

It is also estimated that the operating costs of early childhood education institutions after expanding coverage would increase by at least an additional 100 million EUR annually (salaries of employed

⁶⁷ OECD (2010). *The OECD Innovation Strategy: Getting a Head Start on Tomorrow*. OECD Publishing, Paris.

⁶⁸ Guellec, D., & van Pottelsberghe de la Potterie, B. (2004). From R&D to Productivity Growth: Do the Institutional Settings and the Source of Funds of R&D Matter? *Oxford Bulletin of Economics and Statistics*, 66(3), 353–378.

⁶⁹ Coe, D.T., Helpman, E., & Hoffmaister, A.W. (2009). *International R&D Spillovers and Economic Growth*.

educators and other staff, procurement of food and other necessary materials, utility services, etc).⁷⁰ If we assume the same structure of financing early childhood education institutions between the public and private sectors and co-financing by parents, around 62.5 million EUR could fall on public funds, for financing increased current expenses from early childhood education institutions.⁷¹

Therefore, taking into account that the expansion will occur gradually over three years, we estimate that the total cost to public funds could amount to around EUR 190 million in the period 2025-2027, of which EUR 65 million for investments and another EUR 125 million for budget transfers/subsidies, which would finance the increased needs of the daily functioning of preschool institutions.⁷²

Conclusion

The impact estimate highlights the importance of selected reforms within the Reform Agenda that significantly contribute to economic growth, job creation and infrastructure improvement. The focus was on reforms with partially measurable results, whose analyses, assumptions and estimates offer policymakers a better basis for their implementation. The analyses ensure that the selected reforms are complementary and have synergistic effects, with the aim of achieving economic sustainability. The results highlight the need for targeted investments in areas such as green transition, digital infrastructure and education. Due to the dynamics of the implementation of these reforms, negative effects could be expected in the short term, while positive effects would most certainly prevail in the long term. The implementation of such reforms is expected to impact GDP growth, possibly strengthening fiscal stability, improving social equality through creation of jobs and better business environment. However, the analyses also reveal potential economic challenges, such as short-term fiscal pressures and structural adjustments, which require the readiness of all actors to adapt in the process of transition and gradual implementation of reforms.

In millions of EUR, unless otherwise indicated	Estimated investments	Estimated employment	Estimated fiscal revenues	Estimated fiscal expenditures, annually	Estimated impact on GDP
1.1.1 Enable a secure broadband network, including deployment of 5G	213		12.6	2.5-3	2.2%
1.4.1 Full implementation of the third energy package				-	-5.0%
1.5.1 Implementation of the NECP and just transition of mining regions		-11.160	-	35	-1.5%
1.6.1 Implementation of the Renewable Energy Directive	1.152	+8.000	-	15	2.2%
1.7.1 Full implementation of EED, EPBD, Eco-design and Energy Labelling Legislation				-	N/A
2.1.1 Strengthening the governance, efficiency and transparency of publicly owned enterprises (POEs)			0,5% of GDP	-	N/A
2.1.5 Introduction of intelligent transport			-	-	0.005%

⁷⁰ The estimate was made based on an estimated unit monthly cost of around 300 EUR per child and 36,000 children who would be additionally included in early childhood education.

⁷¹ It is estimated, in accordance with the current situation, that the public sector will participate in financing of 65% of the expansion of the early childhood education institution network, then 80% of the operating costs of kindergartens in its ownership will be through transfers, and up to 30% of the operating costs of privately owned kindergartens through subsidies.

⁷² It is assumed that the budget expenditures intended to finance the operating costs of preschool institutions will grow in line with the dynamics of the network expansion. The assumption used for the calculation of this measure is that each year a third of the capital expenditures required to expand coverage in accordance with the target values are realized. At the same time, the budget expenditures to cover the operating costs of preschool institutions are gradually increasing. Specifically, in the first year they amount to 1/3 of the total annual costs, in the second year 2/3 and finally in the third year they reach their full amount of EUR 62.5 million.

systems (ITS)					
2.2.1 Financial support for Start-ups and MSMEs	4.1		-	-	0.031%
3.1.1 Increase Share of Children Enrolled in Early Childhood Education and Care Services Country-Wide	65	+ 10,394		120	N/A

6. INSTITUTIONAL ISSUES AND STAKEHOLDER INVOLVEMENT

The Economic Reform Programme (ERP) 2025-2027 cycle was officially launched by the European Commission in May 2024, with the presentation of the new Guidelines for the Economic Reform Programmes of candidate and potential candidate countries for the period 2025-2027. At its 64th session held on 12.11.2024, the Council of Ministers of BiH adopted the Activity Plan of the Economic Reform Programme of BiH (ERP BiH) together with the accompanying documents of the European Commission, which are the basis for the eleventh cycle of the ERP preparation, thus officially starting the process of preparing the document.

The process of drafting and coordinating the PER BiH 2025-2027. As in previous years, the PER was led by the Directorate for Economic Planning in the role of technical coordinator on behalf of the Council of Ministers of Bosnia and Herzegovina, and in cooperation with the Federal Institute for Development Programming and the Ministry of Finance of the Republika Srpska in the capacity of coordinators from the Federation of BiH and the Republika Srpska (Coordinators). Two meetings were held during the document preparation period. Chapter 4 of the document was coordinated and prepared by the Ministry of Finance and Treasury of Bosnia and Herzegovina, and inputs for data consolidation were provided by the Ministry of Finance of Republika Srpska, the Federal Ministry of Finance and the Directorate of Finance of the Brčko District.

This year's focus in the process of preparing the PER of BiH was on linking the Reform Agenda and the PER in such a way that the Reform Agenda/Growth Plan changes the previous Chapter 5, which referred to structural reforms. These two processes needed to find a way to complement each other for the purpose of credibility and coherence of economic and fiscal policies in Bosnia and Herzegovina. Therefore, the preparation of this year's PER was marked by certain changes in the EC Guidelines, which are reflected in the fact that the EC adopted the Growth Plan for the Western Balkans on 08.11.2023 and that the Reform and Growth Instrument was established by Regulation (EU) 2024/1449 of the European Parliament and of the Council from May 2024. In order to receive EU support under this Instrument, each beneficiary is obliged to submit to the Commission a Reform Agenda, which represents a comprehensive and coordinated set of priority reforms according to the priority investment areas according to the provisions contained in the Instrument. Bosnia and Herzegovina, as a potential beneficiary of funds from the Growth Plan, was obliged to work on Chapter 5A of the PER BiH 2025-2027. in a way that demonstrates the compliance of the Reform Agenda with the macro and fiscal frameworks of the PER.

Taking into account the fact that Bosnia and Herzegovina failed to submit an agreed Reform Agenda proposal to the EC and that there were doubts within the PER Coordinator regarding how to work on the PER BiH 2025-2027. in this regard, additional clarification was requested from the Directorate General for Economic and Financial Affairs (DG ECFIN) on how BiH should draft this chapter. Taking into account the received guidance delivered from DG ECFIN, Chapter 5 of the PER and the draft PER were drafted by the Directorate for Economic Planning, taking into account the existing draft of the Reform Agenda and using a combination of assistance from the European Commission through the Center of Excellence in Finance (CEF), Ljubljana and technical assistance from the EU4ERP project.

The draft Economic Reform Program was subject to public consultations in accordance with the rules for conducting public consultations, which are followed by ministries and other bodies of the Council of Ministers of BiH when drafting programs and plans that are part of the annual work plan of the Council of Ministers of Bosnia and Herzegovina. In this regard, the preliminary draft of the PER BiH 2025-2027. was the subject of e-consultations from January 8, 2025. until 22.01.2025. year. In the specified period, we did not receive any comments on the specified document proposal.

As in the previous year, Bosnia and Herzegovina received the support of the European Union for this cycle of development and coordination of the BiH PER in the form of a technical assistance project from

IPA2018 funds "*EU Support to the Program of Economic Reforms, BiH*", which began work in February 2023 (Project EU4ERP).

In preparation for this year's PER, with the support of the EU4ERP Project, a series of meetings and workshops were held with representatives from all levels of government from August to December 2024. The goal was to prepare a quality PER, in accordance with the EC Guidelines, but also to improve the coordination process itself and the capacity for preparing PER in the long term.

Throughout the process, there was constant communication between the Coordinators, while the coordinators individually coordinated at their level of government with representatives of the relevant ministries at their level of government. During 2024, a total of 10 workshops were organized within the EU4ERP Project, including 2 workshops to improve the macroeconomic framework, which were attended by representatives of the DEP, 6 workshops related to improving the fiscal framework, and 2 workshops to improve the definition of strategic reforms and adapt the PER to the new methodology prescribed by the EC Guidelines.

During the entire process, care was taken to consistently apply the recommendations from the Joint Conclusions and other reports from the EU accession process, as well as EC Guidelines, as well as the principles of good public policy planning based on facts and oriented towards results.

As part of the process of drafting the RS PER Proposal 2025-2027, the Government of the Republika Srpska, at its 87th session, held on September 26, 2024, considered and adopted the Information on Activities for the Drafting of the Republika Srpska Economic Reform Program for the Period 2025-2027 and the Coordination of Activities Related to the Preparation of the BiH Economic Reform Program for the Period 2025-2027. The Government of the Republika Srpska appointed the Team for the Drafting and Monitoring of the Republika Srpska Economic Reform Program for the Period 2025-2027 and the Reform Plan for the Implementation of the Growth Plan for the Western Balkans (hereinafter: the RS Team) and tasked the Ministry of Finance with coordinating activities for the drafting of the Republika Srpska Economic Reform Program for the Period 2025-2027 and coordinating activities related to the preparation of the BiH Economic Reform Program for the Period 2025-2027.

Considering that the Economic Reform Program of the Republika Srpska is a document presenting the economic policy measures of the Government of the Republika Srpska, and that the Government is committed to working together with the business community and trade unions on all policies it implements, proposals have been requested from the Union of Employers of the Republika Srpska, the Chamber of Commerce of the Republika Srpska and the Confederation of Trade Unions of the Republika Srpska in the development of the Proposal for the PER RS 2025–2027, in the form of proposals for structural reforms whose implementation will contribute to overcoming obstacles to competitiveness, as well as sustainable and inclusive growth.

The above activities are a continuation of the practice implemented in all cycles of the development of the Economic Reform Program of the Republic of Srpska, recognizing the importance, role and continuous participation of social partners in issues important for the creation and implementation of economic policy.

The Chamber of Commerce of the Republic of Srpska, the Confederation of Trade Unions of the Republic of Srpska and the Union of Employers of the Republic of Srpska submitted proposals for structural reforms and reform measures for the development of the Proposal for the PER RS 2025–2027. The proposals were reviewed and taken into account in the development of the document when formulating reform measures for the next program cycle.

The Union of Employers of Republika Srpska, within the project "*Contribution of civil society organizations to improving the impact of entrepreneurship on the socio-economic development of BiH - EISE*", funded by the European Union, organized round tables on the topics:

State of the economy - challenges and perspectives, on June 28, 2024 in Banja Luka,

State of the economy - how to achieve higher productivity and wages, on June 25, 2024 in Trebinje,

Challenges and perspectives of business, on June 20, 2024 in Bijeljina,

Challenges and perspectives of business, on May 16, 2024 in Trebinje.

The Union of Employers of Republika Srpska and the Confederation of Trade Unions of Republika Srpska signed the agreement "For the Future of Srpska" on October 27, 2023. The agreement contains 11 measures aimed at ensuring sustainable economic growth, a social protection system and better competitiveness, which, in part, served as the basis for the development of the Proposal for the PER RS 2025–2027.

In order to determine the best model for the new wage system in the Republika Srpska, a two-day workshop "The Minimum Wage as a Basis for Creating a New Wage System in the Republika Srpska" was held in Jahorina in March 2024, organized by the Confederation of Trade Unions of the Republika Srpska, and through the project "EU for Civil Society (EU4CS)". Representatives of the Confederation of Trade Unions of the Republika Srpska, the Ministry of Labor and Veterans' and Disability Protection of the Republika Srpska, the Ministry of Finance of the Republika Srpska, the Inspectorate of the Republika Srpska and the Tax Administration of the Republika Srpska participated in the workshop.

At the conference "The New Wage System in the Republika Srpska", supported by the International Labor Organization (ILO), held on August 27, 2024 in Banja Luka, the Confederation of Trade Unions of the Republika Srpska presented a detailed proposal on how to improve wage determination in the Republika Srpska. The proposal in question is the subject of negotiations between trade unions, employers and the Government of the Republika Srpska.

On November 4, 2024, the conference "Western Balkans Competitiveness Outlook 2024" was held at the Administrative Center of the Government of the Republika Srpska in Banja Luka, where this year's Western Balkans Competitiveness Report for Bosnia and Herzegovina was presented. The conference was organized by the Organization for Economic Cooperation and Development (OECD) and the European Union, in cooperation with the Ministry for European Integration and International Cooperation. In the context of competitiveness analysis, cooperation with the OECD is very important, especially because it provides a unique forum where governments work together to address the economic, social and environmental challenges of globalization. The Government of the Republika Srpska has made recommendations for addressing the problems and challenges identified in this year's Western Balkans Competitiveness Report, which is a sufficient indicator of readiness to respond to all challenges and continue, institutionally and coordinated, with active participation in the work and strengthening of competitiveness in Southeast Europe.

As part of the activities of the Government of the Republika Srpska on the development of the Budget Proposal of the Republika Srpska for 2025 and the Proposal of the PER RS 2025–2027, consultations were held from 22 to 29 November 2024 with representatives of the Chamber of Commerce of the Republika Srpska, the Union of Employers of the Republika Srpska, the Chamber of Crafts and Entrepreneurs of the Republika Srpska, the Association of Pensioners of the Republika Srpska, the Union of Trade Unions of the Republika Srpska, the Confederation of Trade Unions of the Republika Srpska, representatives of associations arising from the Patriotic War and representatives of the Youth Council of the Republika Srpska and the Union of Students of the Republika Srpska.

The participation of the FBiH in the preparation of the Economic Reform Program of BiH 2025-2027 is ensured through the Decision of the Government of the FBiH appointing the FBiH Coordinator, who participates in joint activities and coordinates the participation of the institutions of the FBiH.

At its 44th session held on 11.12.2024., the Government of the Federation of BiH adopted Conclusion No.: 1981/2024, which accepts the Information on the process of preparing the Economic Reform

Program of Bosnia and Herzegovina and the Federation of BiH 2025-2027, and tasks the Federal Institute for Development Programming, as the coordinator for the Economic Reform Program, to carry out activities to prepare the PER 2025-2027 document in cooperation with the Federal Ministry of Finance and other federal ministries. The same Conclusion tasks all ministries of the Government of the Federation of BiH to achieve effective communication and coordination with the Federal Institute for Development Programming, and to undertake all necessary activities within their jurisdiction for the purpose of preparing the Economic Reform Program.

Given the complementarity of the process of developing the Reform Agenda and the Economic Reform Program, the participation of federal ministries and other institutions in these processes is also ensured by earlier conclusions of the Government of the Federation of BiH No. 377/2024 of 11.03.2024 and No. 466/2024 of 28.03.2024, which task the Federal Institute for Development Programming (FZZPR) to, in cooperation with the competent ministries, undertake activities to define the list of reforms of the Reform Agenda, and to regularly report to the Government of the Federation of BiH on the level of implementation of the aforementioned activities. The largest number of federal institutions appointed their representatives who actively participated in these processes by providing comments on the reform proposals and activities and participating in all workshops with the aim of final harmonization, which, according to the Guidelines for the development of the PER, represent the basis for the development of an assessment of the macro-fiscal impact of reforms through Chapter 5A of the PER.

Representatives of the Federal Ministry of Finance and the Federal Institute for Development Programming actively participated in the CEF workshops on the methodology for drafting Chapter 5A, and provided their input to the above, which is in line with the agreed Activity Plan of the Economic Reform Program.

The Draft Economic Reform Program of BiH 2025-2027 was sent by the Federal Institute for Development Programming to all relevant federal institutions for comments, and the comments received were submitted to the DEP.

In addition to participating in thematic workshops organized as part of the ERP BiH coordination, the FBiH ministries worked intensively on harmonizing the three-year budget and planning framework with the ERP preparation process, which again includes public consultations in the form of publishing the draft and collecting comments from the interested public. The FBiH Annex to the ERP BiH, entitled the FBiH Economic Reform Program, is adopted by the FBiH Government in parallel with the adoption of the state ERP.

This process of parallel expert and technical consultations among representatives of institutions at all levels ensured that decision-making on the PER in BiH is carried out in parallel with the process of drafting the PER RS and PER FBiH.

At its 97th session, held on December 4, 2024, the Government of the Republika Srpska established the Proposal for the Economic Reform Program of the Republika Srpska for the period 2025–2027, under an urgent procedure. The National Assembly of the Republika Srpska, at its 14th special session, held on December 11, 2024, adopted the Economic Reform Program of the Republika Srpska for the period 2025–2027.⁷³

The Economic Reform Program of BiH for 2025-2027 was adopted by the Council of Ministers of Bosnia and Herzegovina on the 73rd session held 17.03.2025. In 2025, the Program of Economic Reforms of BiH for the period 2025-2027 was adopted. and in accordance with the procedure, the document was sent to the European Commission.

⁷³ "Official Gazette of the Republic of Srpska", number 110/24.

7. ANNEXES

Annex 1: Tables to be contained in the Economic Reform Programmes and their updates

Table 1a: Macroeconomic prospects

	ESA Code	2023	2023	2024	2025	2026	2027
		bn EUR	Rate of change				
1. Real GDP at market prices	B1*g	23.8	1.9	2.4	2.8	3.1	3.3
2. Current GDP at market prices	B1*g	26.0	11.7	5.1	5.1	5.3	5.2
Components of real GDP							
3. Private consumption expenditure	P3	15.9	1.1	2.4	1.8	1.9	2.0
4. Government consumption expenditure	P3	4.4	2.1	2.6	1.5	1.7	1.4
5. Gross fixed capital formation	P51	5.8	12.1	5.1	4.0	5.2	5.1
6. Changes in inventories and net acquisition of valuables (% of GDP)	P52+P53	0.8	3.2	3.7	3.8	3.9	3.8
7. Exports of goods and services	P6	11.1	-1.2	-0.3	4.3	5.3	5.8
8. Imports of goods and services	P7	14.3	-1.3	2.5	3.0	4.0	3.8
Contribution to real GDP growth							
9. Final domestic demand		26.1	3.8	3.3	2.4	2.7	2.7
10. Change in inventories and net acquisition of valuables	P52+P53	0.8	-2.1	0.6	0.3	0.3	0.1
11. External balance of goods/services	B11	-3.1	0.2	-1.5	0.1	0.1	0.4

Table 1b: Price developments

	ESA Code	2023	2024	2025	2026	2027
1. GDP deflator	% yoy	9.6	2.7	2.2	2.1	1.9
2. Private consumption deflator	% yoy	9.6	2.2	2.0	2.0	1.9
3. HICP ⁷⁴	% yoy	:	:	:	:	:
4. National CPI change	% yoy	6.1	2.0	1.9	1.8	1.7
5. Public consumption deflator	% yoy	9.8	2.5	2.0	1.8	1.9
6. Investment deflator	% yoy	2.0	1.7	1.8	1.4	1.4
7. Export price deflator (goods & services)	% yoy	0.8	1.8	2.0	2.3	2.4
8. Import price deflator (goods & services)	% yoy	-0.3	0.9	1.4	1.6	2.1

⁷⁴ Agency for Statistics of Bosnia and Herzegovina does not publish HICP.

Table 1c: Labour markets developments

	ESA Code	2023	2023	2024	2025	2026	2027
		Level	Level/Rate of change				
1. Population (thousands)			3,453.9	3,444.8	3,435.2	3,425.0	3,414.2
2. Population (growth rate in %)			-0.2	-0.3	-0.3	-0.3	-0.3
3. Working-age population (persons)			2,277	2,257	2,257	2,257	2,257
4. Participation rate			60.5	62.1	62.3	62.7	63.4
5. Employment, persons			1,196	1,214	1,227	1,246	1,268
6. Employment, hours worked			:	:	:	:	:
7. Employment (growth rate in %)			2.9	1.5	1.1	1.5	1.8
8. Public sector employment (persons)			207.2	208.8	:	:	:
9. Public sector employment (growth in %)			1.4	0.8	:	:	:
10. Unemployment rate			13.1	13.3	12.6	12.0	11.3
11. Labour productivity, persons		38.8	-1.0	0.8	1.7	1.6	1.4
12. Labour productivity, hours worked			:	:	:	:	:
13. Compensation of employees	D1	23.4	12.8	:	:	:	:

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>

All survey data for 2024 represent the average of Q1 and Q2. More details in the methodological explanations in the document at the link: https://bhas.gov.ba/data/Publikacije/Saopstenja/2024/LAB_00_2024_Q2_1_BS.pdf

Projections on the working age population (15-64) are not available, so the last available data from 2024 has been retained until the end of the projection period. Item 4. Participation rate - refers to the participation of the labour force in the working age population (survey data). Historical data on the working age population, labour 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 2024, data for Q1 and Q2 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 2024, 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	2023	2024	2025	2026	2027
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	1.8	8.2	3.8	5.0	:
<i>of which:</i>						
- Balance of goods and services		-11.5	-13.2	-12.5	-11.9	:
- Balance of primary incomes and transfers		12.7	20.7	15.6	16.2	:
- Capital account		0.6	0.7	0.6	0.6	:
2. Net lending/borrowing of the private sector	B.9/ EDI B.9	1.8	8.8	3.8	4.3	:
3. Net lending/borrowing of general government		-0.6	-1.3	-0.7	0.1	0.7
4. Statistical discrepancy		0.0	0.0	0.0	0.0	:

Table 1e: GDP, investment and gross value added

	ESA Code	2023	2024	2025	2026	2027
GDP and investment						
GDP level at current market prices (in domestic currency)	B1g	50.9	53.5	56.3	59.3	62.4
Investment ratio (% of GDP)		22.6	23.0	23.2	23.5	23.8
Growth of Gross Value Added, percentage changes at constant prices						
1. Agriculture		-1.8	:	:	:	:
2. Industry (excluding construction)		-2.6	:	:	:	:
3. Construction		7.5	:	:	:	:
4. Services		3.7	:	:	:	:

Note: Projections for growth of gross value added are not available.

Table 1f: External sector developments

		2023	2024	2025	2026	2027
1. Current account balance	% of GDP	-2.3	-4.0	-3.9	-3.5	:
2. Export of goods	bn EUR	7.9	7.2	7.7	8.2	:
3. Import of goods	bn EUR	13.2	13.0	13.4	13.9	:
4. Trade balance	bn EUR	-5.2	-5.7	-5.7	-5.7	:
5. Export of services	bn EUR	3.3	3.1	3.1	3.1	:
6. Import of services	bn EUR	1.0	1.0	1.0	1.0	:
7. Service balance	bn EUR	2.2	2.1	2.1	2.1	:
8. Net interest payments from abroad	bn EUR	0.1	0.1	0.1	0.1	:
9. Other net factor income from abroad	bn EUR	-0.2	-0.1	-0.2	-0.3	:
10. Current transfers	bn EUR	2.5	2.5	2.6	2.7	:
11. <i>Of which</i> from EU	bn EUR	1.1	1.1	1.2	1.2	:
12. Current account balance	bn EUR	-0.6	-1.1	-1.1	-1.1	:
13. Capital and financial account	bn EUR	0.4	1.6	1.0	1.2	:
14. Foreign direct investment	bn EUR	0.9	0.8	0.8	0.8	:
15. Foreign reserves	bn EUR	0.0	0.7	0.0	0.3	:
16. Foreign debt	bn EUR	-0.4	0.9	0.2	0.3	:
17. <i>Of which</i> : public	bn EUR	-0.3	-0.2	-0.2	-0.1	:
18. <i>O/w</i> : foreign currency denominated	bn EUR	:	:	:	:	:
19. <i>O/w</i> : repayments due	bn EUR	0.6	0.7	0.6	0.7	:
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	:	:	:	:	:

Source: CBBH

Table 1g: Sustainability indicators

	Dimension	2020	2021	2022	2023	2024
1. Current Account Balance	% of GDP	-2.8	-1.4	-4.4	-2.3	4.0
2. Net International Investment Position	% of GDP	-32.7	-28.2	-25.7	-22.0	:
3. Export market shares	%, yoy	:	:	:	:	:
4. Real Effective Exchange Rate	%, yoy	-0.8	-0.3	3.7	0.2	:
5. Nominal Unit Labour Costs	%, yoy	:	:	:	:	:
6. Private sector credit flow	% of GDP	:	:	:	:	:
7. Private sector debt	% of GDP	:	:	:	:	:
8. General Government Debt	% of GDP	:	:	28.4	25.4	24.5

Table 2a: General government budgetary prospects – Bosnia and Herzegovina

	ESA Code	2023	2023	2024	2025	2026	2027
		mill. KM	% of GDP BiH				
Net lending (B9) by sub-sectors							
1. General government	S13	-328.9	-0.6	-1.3	-0.7	0.1	0.7
2. Central government	S1311	-484.6	-1.0	-1.2	-1.2	-0.5	0.0
3. State government	S1312	0.0	0.0	0.0	0.0	0.0	0.0
4. Local government	S1313	29.5	0.1	-0.2	0.0	0.1	0.1
5. Social security funds	S1314	126.2	0.2	0.1	0.5	0.5	0.6
General government (S13)							
6. Total revenue	TR	20,253.9	39.8	41.4	42.1	42.6	43.3
7. Total expenditure	TE	20,582.8	40.4	42.7	42.8	42.5	42.6
8. Net borrowing/lending	EDP.B9	-328.9	-0.6	-1.3	-0.7	0.1	0.7
9. Interest expenditure	EDP.D41 incl. FISIM	455.5	0.9	1.0	1.2	1.0	1.0
10. Primary balance		126.6	0.2	-0.3	0.5	1.1	1.7
11. One-off and other temporary measures		-23.4	0.0	-0.1	0.0	0.0	0.0
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		10,868.7	21.3	22.4	22.7	22.5	22.5
12a. Taxes on production and imports	D2	8,622.1	16.9	17.7	17.8	17.5	17.4
12b. Current taxes on income and wealth	D5	2,245.2	4.4	4.7	4.9	5.0	5.1
12c. Capital taxes	D91	1.4	0.0	0.0	0.0	0.0	0.0
13. Social contributions	D61	7,370.6	14.5	15.0	15.7	16.4	17.2
14. Property income	D4	157.7	0.3	0.3	0.3	0.3	0.3
15. Other (15 = 16-(12+13+14))		1,856.9	3.6	3.6	3.4	3.3	3.2
16 = 6. Total revenue	TR	20,253.9	39.8	41.4	42.1	42.6	43.3
p.m.: Tax burden (D2+D5+D61+D91-D995)		18,239.3	35.8	37.4	38.4	38.9	39.7
Selected components of expenditures							
17. Collective consumption	P32	8,430.6	16.6	17.5	17.7	17.5	17.4
18. Total social transfers	D62 + D63	7,959.8	15.6	16.4	16.6	17.5	18.2
18a. Social transfers in kind	P31=D63	956.2	1.9	2.0	2.1	2.0	2.0
18b. Social transfers other than in kind	D62	7,003.6	13.8	14.3	14.5	15.5	16.2
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	455.5	0.9	1.0	1.2	1.0	1.0
20. Subsidies	D3	869.9	1.7	1.9	2.3	1.6	1.5
21. Gross fixed capital formation	P51	1,901.3	3.7	4.2	4.1	4.0	3.8
22. Other (22 = 23-(17+18+19+20+21))		965.7	1.9	1.7	1.0	0.8	0.7
23=7. Total expenditures	TE	20,582.7	40.4	42.7	42.8	42.5	42.6
p.m. compensation of employees	D1	5,337.1	10.5	11.0	11.3	11.0	10.7

Source: MFT BiH, FMF, MFRS and Finance Directorate of Brčko District

Table 2a: General government budgetary prospects – Institutions of Bosnia and Herzegovina

	ESA Code	2023	2023	2024	2025	2026	2027
		mill. KM	% of GDP BiH				
Net lending (B9) by sub-sectors							
1. General government	S13	85.9	0.2	0.0	-0.2	-0.2	-0.2
2. Central government	S1311	85.9	0.2	0.0	-0.2	-0.2	-0.2
3. State government	S1312	0.0	0.0	0.0	0.0	0.0	0.0
4. Local government	S1313	0.0	0.0	0.0	0.0	0.0	0.0
5. Social security funds	S1314	0.0	0.0	0.0	0.0	0.0	0.0
General government (S13)							
6. Total revenue	TR	1,241.8	2.4	2.4	2.1	2.0	1.9
7. Total expenditure	TE	1,155.9	2.3	2.4	2.3	2.2	2.1
8. Net borrowing/lending	EDP.B9	85.9	0.2	0.0	-0.2	-0.2	-0.2
9. Interest expenditure	EDP.D41 incl. FISIM	0.7	0.0	0.0	0.0	0.0	0.0
10. Primary balance		86.6	0.2	0.0	-0.2	-0.2	-0.2
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)		1,020.5	2.0	1.9	1.8	1.7	1.6
12a. Taxes on production and imports	D2	1,020.5	2.0	1.9	1.8	1.7	1.6
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))		221.3	0.4	0.5	0.3	0.3	0.3
16 = 6. Total revenue	TR	1,241.8	2.4	2.4	2.1	2.0	1.9
p.m.: Tax burden (D2+D5+D61+D91-D995)		1,020.5	2.0	1.9	1.8	1.7	1.6
Selected components of expenditures							
17. Collective consumption	P32	1,079.6	2.1	2.1	2.1	2.0	2.0
18. Total social transfers	D62 + D63	21.2	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	21.2	0.0	0.0	0.0	0.0	0.0
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	0.7	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	53.5	0.1	0.2	0.1	0.1	0.1
22. Other (22 = 23-(17+18+19+20+21))		0.9	0.0	0.0	0.1	0.1	0.0
23=7. Total expenditures	TE	1,155.9	2.3	2.4	2.3	2.2	2.1
p.m. compensation of employees	D1	893.5	1.8	1.7	1.8	1.7	1.6

Source: MFT BiH

Table 2a: General government budgetary prospects – Federation of Bosnia and Herzegovina

	ESA Code	2023	2023	2024	2025	2026	2027
		mill. KM	% of GDP FBiH				
Net lending (B9) by sub-sectors							
1. General government	S13	53.4	0.2	-0.8	-0.2	0.4	0.5
2. Central government	S1311	-146.5	-0.5	-0.9	-0.7	-0.1	-0.1
3. State government	S1312	0.0	0.0	0.0	0.0	0.0	0.0
4. Local government	S1313	63.8	0.2	-0.2	-0.1	0.0	0.0
5. Social security funds	S1314	136.1	0.4	0.4	0.6	0.6	0.7
General government (S13)							
6. Total revenue	TR	12,263.6	38.5	39.5	40.2	41.2	42.4
7. Total expenditure	TE	12,210.1	38.3	40.3	40.4	40.8	41.9
8. Net borrowing/lending	EDP.B9	53.5	0.2	-0.8	-0.2	0.4	0.5
9. Interest expenditure	EDP.D41 incl. FISIM	236.7	0.7	0.9	1.0	0.8	0.7
10. Primary balance		290.2	0.9	0.1	0.8	1.2	1.3
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)		6,063.4	19.0	20.0	20.0	20.1	20.1
12a. Taxes on production and imports	D2	4,598.1	14.4	15.3	15.2	15.1	15.0
12b. Current taxes on income and wealth	D5	1,465.3	4.6	4.6	4.8	5.0	5.2
12c. Capital taxes	D91	0.0	0.0	0.0	0.0	0.0	0.0
13. Social contributions	D61	5,043.4	15.8	16.3	17.1	18.1	19.2
14. Property income	D4	42.6	0.1	0.1	0.1	0.1	0.1
15. Other (15 = 16-(12+13+14))		1,114.2	3.5	3.1	3.0	3.0	2.9
16 = 6. Total revenue	TR	12,263.6	38.5	39.5	40.2	41.2	42.4
p.m.: Tax burden (D2+D5+D61+D91-D995)		11,106.8	34.9	36.3	37.1	38.1	39.4
Selected components of expenditures							
17. Collective consumption	P32	5,380.3	16.9	18.0	18.2	18.3	18.4
18. Total social transfers	D62 + D63	4,592.0	14.4	15.0	15.2	16.8	18.0
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	4,592.0	14.4	15.0	15.2	16.8	18.0
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	236.7	0.7	0.9	1.0	0.8	0.7
20. Subsidies	D3	554.5	1.7	1.9	2.7	1.8	1.7
21. Gross fixed capital formation	P51	1,044.9	3.3	3.6	3.6	3.6	3.6
22. Other (22 = 23-(17+18+19+20+21))		401.7	1.3	0.9	-0.4	-0.4	-0.6
23=7. Total expenditures	TE	12,210.1	38.3	40.3	40.4	40.8	41.9
p.m. compensation of employees	D1	2,846.5	8.9	9.7	9.7	9.6	9.5

Source: FMF

Table 2a: General government budgetary prospects – Republika Srpska

	ESA Code	2023	2023	2024	2025	2026	2027
		mill. KM	% of GDP RS				
Net lending (B9) by sub-sectors							
1. General government	S13	-505.6	-3.1	-2.4	-1.1	-0.2	1.6
2. Central government	S1311	-461.4	-2.9	-1.8	-1.8	-0.9	0.8
3. State government	S1312	0.0	0.0	0.0	0.0	0.0	0.0
4. Local government	S1313	-34.3	-0.2	-0.3	0.3	0.3	0.3
5. Social security funds	S1314	-9.9	-0.1	-0.3	0.4	0.4	0.4
General government (S13)							
6. Total revenue	TR	6,384.6	39.7	42.5	44.9	44.9	45.0
7. Total expenditure	TE	6,890.3	42.8	44.9	46.0	45.1	43.5
8. Net borrowing/lending	EDP.B9	-505.7	-3.1	-2.4	-1.1	-0.2	1.6
9. Interest expenditure	EDP.D41 incl. FISIM	217.2	1.4	1.5	1.7	1.7	1.7
10. Primary balance		-288.5	-1.8	-0.9	0.5	1.5	3.3
11. One-off and other temporary measures		-23.4	-0.1	-0.1	-0.1	-0.1	-0.1
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		3,509.1	21.8	23.8	24.8	24.7	24.7
12a. Taxes on production and imports	D2	2,762.4	17.2	18.3	19.0	18.8	18.8
12b. Current taxes on income and wealth	D5	745.3	4.6	5.4	5.7	5.8	5.9
12c. Capital taxes	D91	1.4	0.0	0.0	0.0	0.0	0.0
13. Social contributions	D61	2,282.6	14.2	15.0	15.8	16.0	16.1
14. Property income	D4	115.1	0.7	0.8	0.8	0.8	0.8
15. Other (15 = 16-(12+13+14))		477.8	3.0	2.9	3.5	3.4	3.4
16 = 6. Total revenue	TR	6,384.6	39.7	42.5	44.9	44.9	45.0
p.m.: Tax burden (D2+D5+D61+D91-D995)		5,791.7	36.0	38.8	40.6	40.7	40.8
Selected components of expenditures							
17. Collective consumption	P32	1,763.9	11.0	11.5	11.8	11.5	11.1
18. Total social transfers	D62 + D63	3,274.7	20.4	21.6	21.9	21.8	21.6
18a. Social transfers in kind	P31=D63	956.2	5.9	6.5	6.6	6.5	6.5
18b. Social transfers other than in kind	D62	2,318.5	14.4	15.1	15.3	15.3	15.1
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	217.2	1.4	1.5	1.7	1.7	1.7
20. Subsidies	D3	288.3	1.8	2.0	1.6	1.4	1.3
21. Gross fixed capital formation	P51	793.5	4.9	4.8	5.3	5.3	4.5
22. Other (22 = 23-(17+18+19+20+21))		552.7	3.4	3.5	3.7	3.3	3.2
23=7. Total expenditures	TE	6,890.3	42.8	44.9	46.0	45.1	43.5
p.m. compensation of employees	D1	1,493.5	9.3	9.4	10.1	9.8	9.4

Source: MFRS

Table 2a: General government budgetary prospects – Brčko District

	ESA Code	2023	2023	2024	2025	2026	2027
		mill. KM	% of GDP BD				
Net lending (B9) by sub-sectors							
1. General government	S13	37.5	3.1	0.0	0.0	0.0	0.0
2. Central government	S1311	37.5	3.1	0.0	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	363.9	29.8	41.5	32.4	30.9	29.9
7. Total expenditure	TE	326.5	26.7	41.5	32.4	30.9	29.9
8. Net borrowing/lending	EDP.B9	37.5	3.1	0.0	0.0	0.0	0.0
9. Interest expenditure	EDP.D41 incl. FISIM	0.9	0.1	0.2	0.3	0.2	0.2
10. Primary balance		38.3	3.1	0.2	0.2	0.2	0.2
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)		275.7	22.6	23.6	25.3	24.3	24.1
12a. Taxes on production and imports	D2	241.05	19.7	20.5	22.0	21.4	21.3
12b. Current taxes on income and wealth	D5	34.64	2.8	3.0	3.3	2.9	2.8
12c. Capital taxes	D91	0.0	0.0	0.0	0.0	0.0	0.0
13. Social contributions	D61	44.59	3.7	3.9	3.9	3.7	3.6
14. Property income	D4	0.0	0.0	0.0	0.0	0.0	0.0
15. Other (15 = 16-(12+13+14))		43.6	3.6	14.1	3.2	2.8	2.3
16 = 6. Total revenue	TR	363.9	29.8	41.5	32.4	30.9	29.9
p.m.: Tax burden (D2+D5+D61+D91-D995)		320.3	26.2	27.5	29.2	28.1	27.6
Selected components of expenditures							
17. Collective consumption	P32	206.8	16.9	19.7	20.1	18.7	17.8
18. Total social transfers	D62 + D63	71.9	5.9	7.4	6.5	8.5	8.5
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	71.9	5.9	7.4	6.5	8.5	8.5
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	0.87	0.1	0.2	0.2	0.2	0.2
20. Subsidies	D3	27.05	2.2	2.4	2.1	0.0	0.0
21. Gross fixed capital formation	P51	9.43	0.8	10.8	2.4	2.7	3.0
22. Other (22 = 23-(17+18+19+20+21))		10.4	0.9	1.1	1.0	0.8	0.3
23=7. Total expenditures	TE	326.46	26.7	41.5	32.4	30.9	29.9
p.m. compensation of employees	D1	103.63	8.5	10.4	11.1	10.3	9.9

Source: Finance Directorate of Brčko District

Table 2b: General government budgetary prospects – Bosnia and Herzegovina

	ESA Code	2023	2024	2025	2026	2027
		mill. KM				
Net lending (B9) by sub-sectors						
1. General government	S13	-328.9	-683.5	-380.7	32.3	415.4
2. Central government	S1311	-484.6	-628.9	-674.5	-283.7	21.8
3. State government	S1312	0.0	0.0	0.0	0.0	0.0
4. Local government	S1313	29.5	-131.6	11.7	40.1	46.7
5. Social security funds	S1314	126.2	77.0	282.1	275.9	346.9
General government (S13)						
6. Total revenue	TR	20,253.9	22,176.0	23,706.2	25,226.2	26,975.4
7. Total expenditure	TE	20,582.8	22,859.6	24,086.9	25,194.0	26,560.0
8. Net borrowing/lending	EDP.B9	-328.9	-683.6	-380.7	32.2	415.4
9. Interest expenditure	EDP.D41 incl. FISIM	455.5	549.1	647.9	608.1	621.4
10. Primary balance		126.6	-134.5	267.2	640.3	1,036.8
11. One-off and other temporary measures		-23.4	-36.7	-12.5	-26.2	-12.7
Components of revenues						
12. Total taxes (12 = 12a+12b+12c)		10,868.7	12,001.9	12,758.9	13,355.4	14,039.4
12a. Taxes on production and imports	D2	8,622.1	9,494.7	10,017.8	10,395.9	10,825.8
12b. Current taxes on income and wealth	D5	2,245.2	2,501.2	2,735.7	2,954.1	3,207.9
12c. Capital taxes	D91	1.4	6.0	5.4	5.5	5.7
13. Social contributions	D61	7,370.6	8,040.7	8,860.0	9,710.7	10,707.2
14. Property income	D4	157.7	180.9	186.5	194.0	202.4
15. Other (15 = 16-(12+13+14))		1,856.9	1,952.5	1,900.9	1,966.1	2,026.5
16 = 6. Total revenue	TR	20,253.9	22,176.0	23,706.2	25,226.2	2,975.4
p.m.: Tax burden (D2+D5+D61+D91-D995)		18,239.3	20,042.6	21,618.9	23,066.1	24,746.5
Selected components of expenditures						
17. Collective consumption	P32	8,430.6	9,350.6	9,960.1	10,373.3	10,856.0
18. Total social transfers	D62 + D63	7,959.8	8,763.5	9,325.9	10,398.5	11,360.6
18a. Social transfers in kind	P31=D63	956.2	1,088.5	1,155.6	1,204.6	1,249.1
18b. Social transfers other than in kind	D62	7,003.6	7,675.1	8,170.3	9,193.9	10,111.5
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	455.5	549.1	647.9	608.2	621.3
20. Subsidies	D3	869.9	1,014.2	1,280.0	938.7	939.0
21. Gross fixed capital formation	P51	1,901.3	2,253.4	2,303.3	2,379.5	2,361.8
22. Other (22 = 23- (17+18+19+20+21))		965.7	928.7	569.7	495.8	421.3
23=7. Total expenditures	TE	20,582.7	22,859.6	24,086.9	25,194.0	26,560.0
p.m. compensation of employees	D1	5,337.1	5,903.6	6,346.0	6,511.6	6,703.5

Source: MFT BiH, FMF, MFRS and Finance Directorate of Brčko District

Table 2b: General government budgetary prospects – Institutions of Bosnia and Herzegovina

	ESA Code	2023	2024	2025	2026	2027
		mill. KM				
Net lending (B9) by sub-sectors						
1. General government	S13	85.9	-20.9	-111.0	-97.1	-97.1
2. Central government	S1311	85.9	-20.9	-111.0	-97.1	-97.1
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	1,241.8	1,276.3	1,200.4	1,213.9	1,213.9
7. Total expenditure	TE	1,155.9	1,297.2	1,311.4	1,311.0	1,311.0
8. Net borrowing/lending	EDP.B9	85.9	-20.9	-111.0	-97.1	-97.1
9. Interest expenditure	EDP.D41 incl. FISIM	0.7	0.6	0.5	0.4	0.4
10. Primary balance		86.6	-20.3	-110.5	-96.7	-96.7
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)		1,020.5	1,020.5	1,020.5	1,020.5	1,020.5
12a. Taxes on production and imports	D2	1,020.5	1,020.5	1,020.5	1,020.5	1,020.5
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))		221.3	255.8	179.9	193.4	193.4
16 = 6. Total revenue	TR	1,241.8	1,276.3	1,200.4	1,213.9	1,213.9
p.m.: Tax burden (D2+D5+D61+D91-D995)		1,020.5	1,020.5	1,020.5	1,020.5	1,020.5
Selected components of expenditures						
17. Collective consumption	P32	1,079.6	1,150.4	1,207.2	1,207.2	1,228.2
18. Total social transfers	D62 + D63	21.2	20.4	18.1	18.3	18.9
18a. Social transfers in kind	P31=D63	0.0	0.0	0.0	0.0	0.0
18b. Social transfers other than in kind	D62	21.2	20.4	18.1	18.3	18.9
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	0.7	0.6	0.5	0.5	0.4
20. Subsidies	D3	0.0	0.0	0.0	0.0	0.0
21. Gross fixed capital formation	P51	53.5	105.2	52.5	52.0	45.1
22. Other (22 = 23-(17+18+19+20+21))		0.9	20.6	33.1	33.0	18.4
23=7. Total expenditures	TE	1,155.9	1,297.2	1,311.4	1,311.0	1,311.0
p.m. compensation of employees	D1	893.5	935.3	993.9	993.9	1,004.6

Source: MFT BiH

Table 2b: General government budgetary prospects – Federation of Bosnia and Herzegovina

Table 2b: General government budgetary prospects – Federation of Bosnia and Herzegovina

	ESA Code	2023	2024	2025	2026	2027
		mill. KM				
Net lending (B9) by sub-sectors						
1. General government	S13	53.4	-259.4	-70.1	164.3	212.5
2. Central government	S1311	-146.5	-311.3	-241.3	-25.6	-37.5
3. State government	S1312	0.0	0.0	0.0	0.0	0.0
4. Local government	S1313	63.8	-75.9	-40.5	-14.4	-19.5
5. Social security funds	S1314	136.1	127.8	211.7	204.3	269.5
General government (S13)						
6. Total revenue	TR	12,263.6	13,237.2	14,188.2	15,317.6	16,630.4
7. Total expenditure	TE	12,210.1	13,496.7	14,258.3	15,153.4	16,417.9
8. Net borrowing/lending	EDP.B9	53.5	-259.5	-70.1	164.2	212.5
9. Interest expenditure	EDP.D41 incl. FISIM	236.7	292.5	352.6	289.8	284.1
10. Primary balance		290.2	33.0	282.5	454.0	496.6
11. One-off and other temporary measures		0.0	-11.6	0.0	-13.4	0.0
Components of revenues						
12. Total taxes (12 = 12a+12b+12c)		6,063.4	6,690.6	7,047.4	7,447.6	7,891.1
12a. Taxes on production and imports	D2	4,598.1	5,135.7	5,361.5	5,604.3	5,861.8
12b. Current taxes on income and wealth	D5	1,465.3	1,554.9	1,685.9	1,843.3	2,029.3
12c. Capital taxes	D91	0.0	0.0	0.0	0.0	0.0
13. Social contributions	D61	5,043.4	5,464.8	6,028.1	6,716.3	7,541.9
14. Property income	D4	42.6	44.5	45.3	46.2	47.1
15. Other (15 = 16-(12+13+14))		1,114.2	1,037.3	1,067.4	1,107.5	1,150.3
16 = 6. Total revenue	TR	12,263.6	13,237.2	14,188.2	15,317.6	16,630.4
p.m.: Tax burden (D2+D5+D61+D91-D995)		11,106.8	12,155.4	13,075.5	14,163.9	15,433.0
Selected components of expenditures						
17. Collective consumption	P32	5,380.3	6,019.6	6,413.9	6,779.9	7,216.4
18. Total social transfers	D62 + D63	4,592.0	5,020.9	5,368.1	6,245.1	7,051.9
18a. Social transfers in kind	P31=D63	0.0	0.0	0.0	0.0	0.0
18b. Social transfers other than in kind	D62	4,592	5,021	5,368	6,245	7,052
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	236.7	292.5	352.6	289.8	284.1
20. Subsidies	D3	554.5	650.9	963.8	672.6	682.9
21. Gross fixed capital formation	P51	1,044.90	1,200.90	1,285.70	1,319.00	1,399.30
22. Other (22 = 23-(17+18+19+20+21))		401.7	311.9	-125.8	-153.0	-216.7
23=7. Total expenditures	TE	12,210.1	13,496.7	14,258.3	15,153.4	16,417.9
p.m. compensation of employees	D1	2,846.5	3,249.3	3,428.8	3,571.4	3,730.4

Source: FMF

Table 2b: General government budgetary prospects – Republika Srpska

	ESA Code	2023	2024	2025	2026	2027
		mill. KM				
Net lending (B9) by sub-sectors						
1. General government	S13	-505.6	-403.2	-199.6	-34.9	300.0
2. Central government	S1311	-461.4	-296.7	-322.2	-161.0	156.4
3. State government	S1312	0.0	0.0	0.0	0.0	0.0
4. Local government	S1313	-34.3	-55.7	52.2	54.5	66.2
5. Social security funds	S1314	-9.9	-50.8	70.4	71.6	77.4
General government (S13)						
6. Total revenue	TR	6,384.6	7,133.6	7,884.1	8,260.4	8,688.5
7. Total expenditure	TE	6,890.3	7,536.8	8,083.7	8,295.3	8,388.5
8. Net borrowing/lending	EDP.B9	-505.7	-403.2	-199.6	-34.9	300.0
9. Interest expenditure	EDP.D41 incl. FISIM	217.2	253.9	291.5	314.8	333.6
10. Primary balance		-288.5	-149.3	91.9	279.9	633.6
11. One-off and other temporary measures		-23.4	-25.1	-12.5	-12.8	-12.7
Components of revenues						
12. Total taxes (12 = 12a+12b+12c)		3,509.1	3,990.4	4,352.4	4,544.9	4,771.3
12a. Taxes on production and imports	D2	2,762.4	3,076.9	3,341.2	3,469.9	3,628.4
12b. Current taxes on income and wealth	D5	745.3	907.5	1,005.8	1,069.5	1,137.2
12c. Capital taxes	D91	1.4	6.0	5.4	5.5	5.7
13. Social contributions	D61	2,282.6	2,526.7	2,780.1	2,941.7	3,112.5
14. Property income	D4	115.1	136.4	141.2	147.8	155.3
15. Other (15 = 16-(12+13+14))		477.8	480.1	610.4	626.0	649.4
16 = 6. Total revenue	TR	6,384.6	7,133.6	7,884.1	8,260.4	8,688.5
p.m.: Tax burden (D2+D5+D61+D91-D995)		5,791.7	6,517.1	7,132.5	7,486.6	7,883.8
Selected components of expenditures						
17. Collective consumption	P32	1,763.9	1,929.4	2,069.4	2,123.6	2,147.5
18. Total social transfers	D62 + D63	3,274.7	3,628.2	3,852.1	4,015.3	4,163.6
18a. Social transfers in kind	P31=D63	956.2	1,088.5	1,155.6	1,204.6	1,249.1
18b. Social transfers other than in kind	D62	2,318.5	2,539.7	2,696.4	2,810.7	2,914.5
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	217.2	253.9	291.5	314.8	333.6
20. Subsidies	D3	288.3	332.3	288.2	266.1	256.1
21. Gross fixed capital formation	P51	793.5	810.3	933.3	971.1	873.4
22. Other (22 = 23- (17+18+19+20+21))		552.7	582.7	649.2	604.4	614.5
23=7. Total expenditures	TE	6,890.3	7,536.8	8,083.7	8,295.3	8,388.5
p.m. compensation of employees	D1	1,493.5	1,587.0	1,775.1	1,800.6	1,822.4

Source: MFRS

Table 2b: General government budgetary prospects – Brčko District

	ESA Code	2023	2024	2025	2026	2027
		mill. KM				
Net lending (B9) by sub-sectors						
1. General government	S13	37.5	0.0	0.0	0.0	0.0
2. Central government	S1311	37.5	0.0	0.0	0.0	0.0
3. State government	S1312	0.0	0.0	0.0	0.0	0.0
4. Local government	S1313	0.0	0.0	0.0	0.0	0.0
5. Social security funds	S1314	0.0	0.0	0.0	0.0	0.0
General government (S13)						
6. Total revenue	TR	363.9	528.9	433.5	434.3	442.6
7. Total expenditure	TE	326.5	528.9	433.5	434.3	442.6
8. Net borrowing/lending	EDP.B9	37.5	0.0	0.0	0.0	0.0
9. Interest expenditure	EDP.D41 incl. FISIM	0.9	2.1	3.3	3.1	3.3
10. Primary balance		38.3	2.1	3.3	3.1	3.3
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)		275.7	300.4	338.6	342.4	356.5
12a. Taxes on production and imports	D2	241.05	261.60	294.64	301.19	315.10
12b. Current taxes on income and wealth	D5	34.64	38.79	43.95	41.25	41.35
12c. Capital taxes	D91	0.0	0.0	0.0	0.0	0.0
13. Social contributions	D61	44.59	49.20	51.77	52.66	52.78
14. Property income	D4	0.0	0.0	0.0	0.0	0.0
15. Other (15 = 16-(12+13+14))		43.6	179.3	43.2	39.2	33.4
16 = 6. Total revenue	TR	363.9	528.9	433.5	434.3	442.6
p.m.: Tax burden (D2+D5+D61+D91- D995)		320.3	349.6	390.4	395.1	409.2
Selected components of expenditures						
17. Collective consumption	P32	206.8	251.2	269.5	262.7	263.9
18. Total social transfers	D62 + D63	71.9	94.1	87.6	119.8	126.3
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	71.9	94.1	87.6	119.8	126.3
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	0.87	2.10	3.31	3.12	3.25
20. Subsidies	D3	27.05	30.94	28.00		
21. Gross fixed capital formation	P51	9.43	137.07	31.82	37.34	44.03
22. Other (22 = 23-(17+18+19+20+21))		10.4	13.5	13.2	11.4	5.2
23=7. Total expenditures	TE	326.46	528.87	433.52	434.28	442.63
p.m. compensation of employees	D1	103.63	132.03	148.22	145.66	146.10

Source: Finance Directorate of Brčko District

Table 3: General government expenditure by function**Bosnia and Herzegovina**

% of GDP BiH	COFOG Code	2023	2024	2025	2026	2027
1. General public services	1	6.9	7.7	7.5	7.2	7.1
2. Defence	2	0.8	0.8	0.8	0.8	0.7
3. Public order and safety	3	2.9	3.0	3.0	2.8	2.8
4. Economic affairs	4	3.2	3.3	3.5	3.3	3.1
5. Environmental protection	5	0.3	0.3	0.3	0.3	0.3
6. Housing and community amenities	6	0.8	0.9	0.9	0.8	0.8
7. Health	7	6.6	6.9	6.9	6.7	6.6
8. Recreation, culture and religion	8	1.0	0.9	0.9	0.9	0.9
9. Education	9	4.1	4.3	4.2	4.0	3.8
10. Social protection	10	13.9	14.6	14.8	15.6	16.3
11. Total expenditure (item 7 = 23 in Table 2)	TE	40.4	42.7	42.8	42.5	42.6

in mill. KM	COFOG Code	2023	2024	2025	2026	2027
1. General public services	1	3,518.7	4,100.4	4,245.9	4,267.8	4,419.9
2. Defence	2	399.9	428.1	445.3	447.3	450.9
3. Public order and safety	3	1,472.4	1,620.0	1,668.8	1,672.1	1,734.7
4. Economic affairs	4	1,640.8	1,776.4	1,942.5	1,973.4	1,960.4
5. Environmental protection	5	166.1	178.9	187.8	189.5	202.5
6. Housing and community amenities	6	413.0	503.2	484.3	491.6	524.9
7. Health	7	3,345.5	3,673.9	3,896.2	3,972.5	4,118.7
8. Recreation, culture and religion	8	495.8	505.8	534.0	557.6	575.1
9. Education	9	2,070.0	2,283.6	2,362.0	2,368.4	2,400.0
10. Social protection	10	7,060.5	7,789.6	8,320.3	9,253.6	10,172.8
11. Total expenditure (item 7 = 23 in Table 2)	TE	20,582.8	22,859.6	24,086.9	25,194.0	26,560.0

Source: MFT BiH, FMF, MFRS and Finance Directorate of Brčko District

Institutions of Bosnia and Herzegovina

% of GDP BiH	COFOG Code	2023	2024	2025	2026	2027
1. General public services	1	0.7	0.8	0.8	0.7	0.7
2. Defence	2	0.7	0.7	0.7	0.7	0.6
3. Public order and safety	3	0.7	0.7	0.7	0.6	0.6
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	2.3	2.2	2.1

in mill. KM	COFOG Code	2023	2024	2025	2026	2027
1. General public services	1	342.1	423.1	428.3	421.7	421.7
2. Defence	2	363.1	387.5	402.5	404.4	404.4
3. Public order and safety	3	344.9	371.4	372.5	375.8	375.8
4. Economic affairs	4	56.6	72.6	65.8	66.1	66.1
5. Environmental protection	5	8.4	9.1	9.2	9.2	9.2
6. Housing and community amenities	6	0.0	0.0	0.0	0.0	0.0
7. Health	7	7.1	8.5	8.4	8.9	8.9
8. Recreation, culture and religion	8	16.9	9.9	9.8	10.0	10.0
9. Education	9	3.6	3.7	3.8	3.8	3.8
10. Social protection	10	13.3	11.4	11.1	11.1	11.1
11. Total expenditure (item 7 = 23 in Table 2)	TE	1,155.9	1,297.2	1,311.4	1,311.0	1,311.0

Source: MFT BiH

Federation of Bosnia and Herzegovina

% of GDP FBiH	COFOG Code	2023	2024	2025	2026	2027
1. General public services	1	7.2	7.5	7.5	7.2	7.1
2. Defence	2	0.1	0.1	0.1	0.1	0.1
3. Public order and safety	3	2.0	2.1	2.2	2.0	2.1
4. Economic affairs	4	2.5	2.6	2.6	2.5	2.5
5. Environmental protection	5	0.4	0.4	0.4	0.4	0.4
6. Housing and community amenities	6	0.8	0.8	0.8	0.8	0.8
7. Health	7	6.1	6.5	6.5	6.2	6.1
8. Recreation, culture and religion	8	0.7	0.8	0.8	0.7	0.7
9. Education	9	4.1	4.4	4.3	4.1	4.0
10. Social protection	10	14.4	15.0	15.2	16.8	18.0
11. Total expenditure (item 7 = 23 in Table 2)	TE	38.3	40.3	40.4	40.8	41.9

in mill. KM	COFOG Code	2023	2024	2025	2026	2027
1. General public services	1	2,278.6	2,517.9	2,658.9	2,664.2	2,785.3
2. Defence	2	36.7	40.6	42.8	42.9	46.5
3. Public order and safety	3	650.2	718.5	758.7	760.2	823.3
4. Economic affairs	4	787.0	869.6	918.3	920.2	996.5
5. Environmental protection	5	125.4	138.6	146.3	146.6	158.8
6. Housing and community amenities	6	243.0	268.5	283.6	284.1	307.7
7. Health	7	1,956.2	2,189.4	2,281.8	2,286.4	2,404.4
8. Recreation, culture and religion	8	236.6	261.4	276.1	276.6	289.6
9. Education	9	1,304.4	1,471.4	1,523.8	1,527.1	1,553.9
10. Social protection	10	4,592.0	5,020.9	5,368.1	6,245.1	7,051.9
11. Total expenditure (item 7 = 23 in Table 2)	TE	12,210.1	13,496.7	14,258.3	15,153.4	16,417.9

Source: FMF

Republika Srpska

% of GDP RS	COFOG Code	2023	2024	2025	2026	2027
1. General public services	1	5.2	5.9	6.0	5.9	5.8
2. Defence	2	0.0	0.0	0.0	0.0	0.0
3. Public order and safety	3	2.8	2.9	2.8	2.6	2.5
4. Economic affairs	4	4.7	4.7	5.2	5.2	4.5
5. Environmental protection	5	0.2	0.2	0.2	0.2	0.2
6. Housing and community amenities	6	1.0	1.1	1.1	1.1	1.0
7. Health	7	8.0	8.1	8.5	8.2	8.0
8. Recreation, culture and religion	8	1.5	1.4	1.4	1.3	1.3
9. Education	9	4.4	4.4	4.4	4.2	4.0
10. Social protection	10	15.1	16.2	16.5	16.3	16.1
11. Total expenditure (item 7 = 23 in Table 2)	TE	42.8	44.9	46.0	45.1	43.5

in mill. KM	COFOG Code	2023	2024	2025	2026	2027
1. General public services	1	830.9	993.4	1,062.7	1,092.2	1,122.2
2. Defence	2	0.1	0.0	0.0	0.0	0.0
3. Public order and safety	3	444.2	479.1	484.4	485.6	488.1
4. Economic affairs	4	756.5	786.7	911.9	952.5	864.2
5. Environmental protection	5	32.3	31.2	32.3	33.7	34.5
6. Housing and community amenities	6	159.6	192.7	190.4	197.7	201.9
7. Health	7	1,292.1	1,362.9	1,493.7	1,518.9	1,541.3
8. Recreation, culture and religion	8	237.9	227.8	241.7	247.7	252.2
9. Education	9	714.7	741.5	765.0	769.5	774.3
10. Social protection	10	2,422.00	2,721.6	2,901.7	2,997.4	3,109.8
11. Total expenditure (item 7 = 23 in Table 2)	TE	6,890.3	7,536.8	8,083.7	8,295.3	8,388.5

Izvor: MFRS

Brčko District

% of GDP BD	COFOG Code	2023	2024	2025	2026	2027
1. General public services	1	5.5	13.0	7.2	6.4	6.1
2. Defence	2	0.0	0.0	0.0	0.0	0.0
3. Public order and safety	3	2.7	4.0	4.0	3.6	3.2
4. Economic affairs	4	3.3	3.7	3.5	2.5	2.3
5. Environmental protection	5	0.0	0.0	0.0	0.0	0.0
6. Housing and community amenities	6	0.9	3.3	0.8	0.7	1.0
7. Health	7	7.4	8.9	8.4	11.2	11.1
8. Recreation, culture and religion	8	0.4	0.5	0.5	1.7	1.6
9. Education	9	3.9	5.3	5.2	4.8	4.6
10. Social protection	10	2.7	2.8	2.9	0.0	0.0
11. Total expenditure (item 7 = 23 in Table 2)	TE	26.7	41.5	32.4	30.9	29.9

in mill. KM	COFOG Code	2023	2024	2025	2026	2027
1. General public services	1	67.1	166.0	96.0	89.7	90.7
2. Defence	2	0.0	0.0	0.0	0.0	0.0
3. Public order and safety	3	33.1	50.9	53.2	50.5	47.5
4. Economic affairs	4	40.7	47.4	46.5	34.6	33.6
5. Environmental protection	5	0.0	0.0	0.0	0.0	0.0
6. Housing and community amenities	6	10.4	42.0	10.3	9.8	15.3
7. Health	7	90.1	113.1	112.3	158.3	164.2
8. Recreation, culture and religion	8	4.5	6.7	6.4	23.3	23.4
9. Education	9	47.3	67.1	69.4	68.1	68.1
10. Social protection	10	33.3	35.8	39.4		
11. Total expenditure (item 7 = 23 in Table 2)	TE	326.5	528.9	433.5	434.3	442.6

Source: Finance Directorate of Brčko District

Table 4: General government debt developments

% of GDP	ESA Code	2023	2024	2025	2026	2027
1. Gross debt		25.4	24.5	26.4	24.6	22.8
2. Change in gross debt ratio		-3.0	-0.9	1.9	-1.8	-1.8
Contributions to change in gross debt						
3. Primary balance		-0.2	0.3	-0.5	-1.1	-1.7
4. Interest expenditure		0.9	1.0	1.2	1.0	1.0
5. Real growth effect		-0.5	-0.6	-0.7	-0.8	-0.8
6. Inflation effect		-2.4	-0.6	-0.5	-0.5	-0.4
7. Stock-flow adjustment		-0.7	-1.0	2.4	-0.4	0.1
<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		3.5	4.2	4.9	4.1	4.3
Other relevant variables						
8. Liquid financial assets		:	:	:	:	:
9. Net financial debt (9 = 1 - 8)		:	:	:	:	:

Source: MFT BiH, FMF, MFRS and Finance Directorate of Brčko District

Table 5: Cyclical developments

% of GDP	ESA Code	2023	2024	2025	2026	2027
1. Real GDP growth (%. yoy)	B1g	1.9	2.4	2.8	3.1	3.3
2. Net lending of general government	EDP. B.9	-0.6	-1.3	-0.7	0.1	0.7
3. Interest expenditure	EDP. D.41	0.9	1.0	1.2	1.0	1.0
4. One-off and other temporary measures		0.0	-0.1	0.0	0.0	0.0
5. Potential GDP growth (%)		3.0	2.9	2.9	2.9	2.9
Contributions:						
- labour		:	:	:	:	:
- capital		:	:	:	:	:
- total factor productivity		:	:	:	:	:
6. Output gap		0.2	-0.2	-0.3	-0.1	0.3
7. Cyclical budgetary component		0.1	-0.1	-0.1	0.0	0.1
8. Cyclically-adjusted balance (2-7)		-0.7	-1.2	-0.6	0.1	0.6
9. Cyclically-adjusted primary balance (8+3)		0.2	-0.2	0.6	1.1	1.6
10. Structural balance (8-4)		-0.7	-1.1	-0.6	0.1	0.6

Source: MFT BiH

Table 6: Divergence from previous programme

	2023	2024	2025	2026	2027
1. GDP growth (% , yoy)					
Previous programme	2.0	2.9	3.0	3.4	:
Latest update	1.9	2.4	2.8	3.1	3.3
Difference (percentage points)	-0.1	-0.5	-0.1	-0.3	:
2. General government net lending (% of GDP)					
Previous programme	-0.4	-0.6	-0.1	0.3	:
Latest update	-0.6	-1.3	-0.7	0.1	0.7
Difference	-0.3	-0.7	-0.6	-0.2	:
3. General government gross debt (% of GDP)					
Previous programme	26.7	25.6	24.6	23.0	:
Latest update	25.4	24.5	26.4	24.6	22.8
Difference	-1.3	-1.1	1.8	1.6	:

Source: DEP, MFT BiH, FMF, MFRS 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: Contingent liabilities - 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)
			2024	2024
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	2023	2024	2025	2026	2027
1. Short-term interest rate	Annual average	0.34167	3.43308	3.59275	2.675	2.225
2. Long-term interest rate	Annual average	:	:	:	:	:
3. USD/EUR exchange rate	Annual average	94.9765	97.4736	97.7860	97.6306	98.5618
4. Nominal effective exchange rate	Annual average	108.938	111.2936	113.0829	:	:
5. Exchange rate vis-à-vis the EUR	Annual average	1.95583	1.95583	1.95583	1.95583	1.95583
6. Global GDP growth, excluding EU	Annual average	3.7	3.5	3.6	3.6	:
7. EU GDP growth	Annual average	0.4	0.9	1.5	1.8	:
8. Growth of relevant foreign markets	Annual average	:	:	:	:	:
9. World import volumes, excluding EU	Annual average	1.3	3.2	3.3	3.3	:
10. Oil prices (Brent, USD/barrel)	Annual average	82.5	80.7	73.1	71.5	:

Source for items 6, 7, 9 and 10:

https://economy-finance.ec.europa.eu/document/download/7173e7c9-3841-4660-8d6a-a80712932f81_en?filename=ip296_en.pdf