



**BOSNIA AND HERZEGOVINA**

**Economic Reform Programme 2017-2019**

**(ERP BiH 2017-2019)**

**Sarajevo, January 2017**



## Table of Contents

<b>1. OVERALL POLICY FRAMEWORK AND OBJECTIVES</b>	<b>2</b>
<b>2. MACROECONOMIC FRAMEWORK</b>	<b>4</b>
<b>2.1. RECENT ECONOMIC DEVELOPMENTS</b>	<b>5</b>
<b>2.2. MEDIUM-TERM MACROECONOMIC SCENARIO</b>	<b>8</b>
<b>2.3. ALTERNATIVE SCENARIOS AND RISKS</b>	<b>14</b>
<b>3. FISCAL FRAMEWORK</b>	<b>17</b>
<b>3.1. POLICY, STRATEGY AND MEDIUM-TERM OBJECTIVES</b>	<b>17</b>
<b>3.2. BUDGET IMPLEMENTATION IN 2016</b>	<b>22</b>
<b>3.3. MEDIUM-TERM BUDGETARY OUTLOOK</b>	<b>27</b>
<b>3.4. STRUCTURAL BALANCE (CYCLICAL COMPONENT OF THE DEFICIT, ONE-OFF AND TEMPORARY MEASURES, FISCAL STANCE)</b>	<b>39</b>
<b>3.5. DEBT LEVELS AND DEVELOPMENTS, ANALYSIS OF BELOW-THE-LINE OPERATIONS AND STOCK-FLOW ADJUSTMENTS</b>	<b>41</b>
<b>3.6. SENSITIVITY ANALYSIS AND COMPARISON WITH THE PREVIOUS PROGRAMME</b>	<b>53</b>
<b>3.7. FISCAL GOVERNANCE AND BUDGETARY FRAMEWORKS</b>	<b>57</b>
<b>3.8 SUSTAINABILITY OF PUBLIC FINANCES</b>	<b>59</b>
<b>4. STRUCTURAL REFORM PRIORITIES IN 2017-2019</b>	<b>61</b>
<b>4.1. IDENTIFICATION OF KEY OBSTACLES TO COMPETITIVENESS AND INCLUSIVE GROWTH</b>	<b>61</b>
<b>4.2. SUMMARY OF REFORM PRIORITIES</b>	<b>63</b>
<b>4.3. ANALYSIS BY AREA AND STRUCTURAL REFORM PRIORITIES</b>	<b>64</b>
<b>4.3.1. Public finance management (PFM)</b>	<b>66</b>
<b>4.3.2. Energy, transport and telecoms markets</b>	<b>75</b>
<b>4.3.3. Sectoral development</b>	<b>83</b>
<b>4.3.4. Business environment and reduction of the informal economy</b>	<b>92</b>
<b>4.3.5. Research and innovation</b>	<b>95</b>
<b>4.3.6. External trade and investment facilitation</b>	<b>97</b>
<b>4.3.7. Education and skills</b>	<b>99</b>
<b>4.3.8. Employment and labour market</b>	<b>103</b>
<b>4.3.9. Social inclusion, poverty reduction and equal opportunities</b>	<b>107</b>
<b>5. BUDGETARY IMPLICATIONS OF STRUCTURAL REFORMS</b>	<b>113</b>
<b>6. INSTITUTIONAL ISSUES AND STAKEHOLDER INVOLVEMENT</b>	<b>114</b>
<b>ANNEX 1:</b>	<b>116</b>
<b>ANNEX 2:</b>	<b>234</b>



## 1. OVERALL POLICY FRAMEWORK AND OBJECTIVES

The strategic commitment of the Bosnia and Herzegovina authorities towards joining the European Union was reiterated on 15 February 2016 when the Chairman of the Presidency of Bosnia and Herzegovina, Mr. Dragan Čović, submitted the application for EU membership.

On 20 September 2016, the Council of the European Union requested the European Commission to submit its opinion on the application of BiH for membership of the European Union. On 9 December 2016, the Commissioner for European Neighbourhood Policy and Enlargement Negotiations, Mr. Johannes Hahn, handed the Chairmen of the BiH Council of Ministers, Dr. Denis Zvizdić, the Questionnaire of the European Commission to prepare the opinion on the application for membership of BiH in the EU.

Also, on 18 July 2016, the initialling of the Protocol on the adaptation of the Stabilisation and the Association Agreement to take account of the Croatia's accession to the European Union enabled the full implementation of the SAA, including its adaptation, and represents an important element of the commitment of Bosnia and Herzegovina to the EU integration process.

Over 2016, the BiH Council of Ministers, the Government of the Federation BiH and the Government of Republika Srpska agreed on establishing a coordination mechanism on the EU matters process in Bosnia and Herzegovina.

In 2016, all levels of government in Bosnia and Herzegovina continued to implement the reform measures of the Reform Agenda 2015-2018, which was welcomed by the Conclusions of the General Affairs Council of the European Union of 20 September 2016. The Reform Agenda foresees the implementation of activities in the following areas: public finances, taxation and fiscal sustainability; the business climate and competitiveness; the labour market; social welfare and pension reform; rule of law and good governance; public administration reform. Therefore, the Economic Reform Programme 2017-2019 is in its most part in conformity with the Reform Agenda measures.

On 24 May 2016, the BiH Fiscal Council adopted the Global Framework of Fiscal Balance and Policies in BiH 2017-2019, which ensures the compliance of the fundamental macroeconomic and fiscal assumptions used in developing the indicative budget documents at all levels of government. The set fiscal targets are defined as the primary fiscal balance; projections of the total indirect taxes based on macroeconomic projections and their allocation for the next fiscal year; and the defined ceiling of the borrowing. All these elements and their harmonisation make the basic assumption for budget planning of all fiscal policy makers in BiH and thereby determine the essence of fiscal coordination in BiH. Without their compliance, it would be impossible to coordinate fiscal policies and implement the preservation of fiscal stability of individual fiscal sovereignties, as well as BiH as a whole.

In September 2016, Bosnia and Herzegovina signed a three-year Extended Fund Facility with the IMF in the amount equivalent to SDR 443,042 million (about EUR 550 million) in order to support the country's economic reform programme. This arrangement supports the BiH medium-term balance of payments needs. The availability of the IMF funds will allow maintaining capital spending, support policies to strengthen the economic potential and maintain macroeconomic stability.

Following the *Guidance for the Economic Reform Programmes*, the relevant institutions in Bosnia and Herzegovina have prepared the 2017-2019 Economic Reform Programme (ERP). This year's programme is the third one to be submitted to the European Commission. The Economic Reform Programme contains a medium-term macroeconomic and fiscal policy framework, including the fiscal measures, as well as a comprehensive programme of structural reforms aimed at boosting growth and competitiveness of the country.

The 2017-2019 Economic Reform Programme has been designed based on the *Guidance for the Economic Reform Programmes* submitted by the European Commission for the purpose of easier comparability with other countries.

Based on the last year's experience and intensive efforts, the Directorate for Economic Planning has tried to strengthen its coordinating role in terms of expanding the scope of coordination in the preparation of the Economic Reform Programme. These efforts contributed to the result that, in this year's final document, we have 11 common out of 18 priority structural reforms.

The Directorate for Economic Planning, in cooperation with the coordinators for the development of the Economic Reform Programme appointed by the governments of the entities, devised the Activity

Plan for Development of ERP 2017-2019, comprising specific activities to be undertaken with deadlines for each activity. The BiH Council of Ministers, at its 67<sup>th</sup> session held on 1 August 2016, considered and adopted the Information on the Development of ERP 2017-2019 and the Activity Plan proposed by the Directorate for Economic Planning.

The Activity Plan for Development of the Economic Reform Programme is the basic document that governs the process of development of the Economic Reform Programme and cooperation among different levels of government, the BiH Council of Ministers, the Government of the Federation BiH and the Government of Republika Srpska. The Directorate for Economic Planning introduced new steps in the Activity Plan, aimed at improving the consolidation of the 2017-2019 Economic Reform Programme and expanding the cooperation of all institutions involved in the development of the Programme.

The 2017-2019 Economic Reform Programme has been prepared on the basis of contributions submitted by competent institutions according to the adopted Activity Plan by deadlines and implementers of activities. The preparation of this document included the participation of representatives of the ministries of the BiH Council of Ministers; the BiH Central Bank; the coordinators appointed by the Government of the Federation BiH and the Government of Republika Srpska, together with representatives of the entity-level ministries and the Directorate for Economic Planning.

In cooperation with the European Commission and the OECD, meetings/workshops on the development of the Economic Reform Programme were held both in Brussels and in Bosnia and Herzegovina. The first drafts of the Economic Reform Programme were presented at the workshop held on 26 October 2016, when suggestions were given to the prepared drafts of the document. In order to better define the reform measures, representatives of the OECD have made comments and suggestions on the prepared material in Chapter 4 – structural reforms. Through the TAIEX Mission, representatives of the European Commission provided their technical assistance in the assessment of the fiscal effects of the reform measures in Chapter 5. In the period 8-10 November 2016, the European Commission has organised workshops in Banja Luka and Sarajevo in which they presented techniques to calculate the budgetary implications of the reform priorities.

The entity-level coordinators submitted to the Directorate for Economic Planning their contributions to the 2017-2019 Economic Reform Programme adopted by the entity governments. DEP, in consultations with the state-level institutions and entity coordinators, which participated in preparation of ERP, compiled and harmonised the final document of the 2017-2019 Economic Reform Programme. Finally, the BiH Economic Reform Programme 2017-2019 was adopted by the BiH Council of Ministers at its 89<sup>th</sup> session held on January 25, 2017.

## 2. MACROECONOMIC FRAMEWORK

**Table 1: Main macroeconomic indicators**

Indicator	Official data	Projections				
	2014	2015	2016	2017	2018	2019
Nominal GDP in million KM	28,217	29,329	30,264	31,644	33,279	35,016
Nominal growth in %	0.1	3.9	3.2	4.6	5.2	5.2
GDP deflator (previous year = 100)	99.7	100.9	100.1	101.2	101.3	101.2
Real GDP in million KM (previous year = 100)	28,302	29,057	30,226	31,282	32,844	34,602
Real growth in %	0.4	3.0	3.1	3.4	3.8	4.0
Inflation measured by consumer price index in %	-0.9	-1	-1	0.5	1	1.2
Consumption in million KM	29,401	29,911	30,548	31,756	33,115	34,551
Real growth in %	1.9	1.9	2.5	2.7	2.9	2.9
Government consumption in million KM	6,078	6,187	6,311	6,437	6,566	6,697
Real growth in %	0.9	1.0	1.2	0.5	0.8	0.5
Private consumption in million KM	23,324	23,724	24,238	25,319	26,549	27,854
Real growth in %	2.2	2.2	2.9	3.2	3.5	3.5
Investment (gross) fixed capital formation in million KM	5,234	4,785	4,843	5,318	5,871	6,532
Real growth in %	11.7	-9.2	0.6	9.5	10.1	10.9
Government investment in million KM	1,155	543	516	645	870	1,131
Real growth in %	11.6	-53.4	-5.8	23.2	33.4	28.1
Private investment in million KM	4,079	4,243	4,327	4,674	5,001	5,401
Real growth in %	11.8	3.3	1.5	7.9	6.9	7.9
Imports in million KM	15,536	15,306	15,352	16,328	17,442	18,706
Nominal growth in %	7.1	-1.5	0.3	6.4	6.8	7.2
Real growth in %	8.1	0.5	2.3	4.8	5.3	5.2
Exports in million KM	9,257	9,798	10,071	10,791	11,638	12,552
Nominal growth in %	3.0	5.8	2.8	7.1	7.9	7.9
Real growth in %	4.2	6.1	4.7	5.3	5.6	5.5
National gross savings in % of GDP	10.5	11.1	11.8	11.9	12.1	12.4
Current account balance in million KM	-2,127	-1,679	-1,427	-1,670	-1,938	-2,278
Growth in %	44.3	-21.1	-15.0	17.1	16.0	17.5
Current account balance in % of GDP	-7.5	-5.7	-4.7	-5.3	-5.8	-6.5

**Note:**

In September 2016, according to the Activity Plan for Development of ERP, the Directorate for Economic Planning has prepared the macroeconomic framework (Section II, Economic Growth Outlook). In November 2016, the Agency for Statistics of Bosnia and Herzegovina has revised data on GDP and prepared the preliminary data on gross domestic product (expenditure approach) for 2015. According to the most recent data, gross domestic product in BiH in 2015 increased by 3.7% y-o-y (real growth). Furthermore, DEP has taken into account the published projections of the European Commission (European Economic Forecast, autumn 2016). However, since the assumptions for the projected period (2017-2019) have not been changing significantly, the projections presented in ERP are those from September 2016.

*Comparative overview of projections:*

	2014	2015	2016	2017	2018	2019
GDP real growth (projections 09/2016)	0.4	3.0	3.1	3.4	3.8	4.0
GDP real growth (projections 11/2016)	0.1	3.7	3.0	3.3	3.8	4.0

## 2.1. RECENT ECONOMIC DEVELOPMENTS

In the first half of the year, BiH economy, by all accounts, records a modest real growth of over 2%. Namely, after the economic activity in the first quarter saw a 2.1% increase relative to the same period of the previous year, this trend appears to have somewhat accelerated in the second quarter. The indication of this is primarily a significantly faster growth of exports as well as imports of goods compared to the first quarter. In addition, it appears that the downward trend in investments from the first quarter was put to a stop in the second quarter. Namely, the 5.4% annual decrease in construction works from the first quarter was reduced to a negative rate of as little as 1.4% in the second quarter, whereas increase in imports of capital goods accelerated from 0.3% in the first to 3.3% (y-o-y) in the second quarter. Given the slight decrease in investments in the first half of the year, growth in imports apparently resulted from developments in final consumption, as well as increasingly more intensive growth in exports. In other words, economic growth in the first half of the year, according to the available indicators, was driven by growing rates of exports and final consumption, with negligible negative contribution of investments. In parallel, given the significant decline of export and import prices, foreign trade deficit in real terms stagnated (and possibly mildly grew) despite a nominal 2.1% decrease in the first half of the year).

According to the EU forecasts for the second half of the year, mild acceleration of economic growth in our environment at the annual level should gradually pick up in the second and third quarter. The most important acceleration is expected to be seen in Austria and Italy while Croatia is set to face a mild annual slowdown. Given the improvement in its environment, BiH is also expected to see a gradual strengthening of economic growth, which is set to reach a rate of 3.1% at the end of 2016. This implies a modest real increase in investments of 0.8% at annual level, as well as significant real growth in exports of 4.7% under the assumption of the absence of major problems in electricity generation. Private consumption should also be an important growth factor in 2016, with the projected real rate of 2.9%, driven by rise in employment of 1.5% and real wage growth of approximately 1.6%. On the other hand, the contribution of fiscal policy to economic growth in 2016 should be negligible, given the modest rise in budget revenues with limited possibilities of external borrowing. This particularly reflected in a very low level of public works estimated at only 1.7% of GDP in 2016. Namely, the available data suggest that public works, after a decline of over 50% in 2015, continued at a subdued pace in the first half of 2016. Furthermore, a modest real growth of public consumption of 1.2% is expected in 2016.

### ***Industrial production***

Economic developments in Bosnia and Herzegovina are largely related to its external environment, primarily economic developments in the Euro area and the region. Thus, a gradual economic recovery in the Euro area and the countries in the region that manifested through a somewhat higher level of economic growth relative to the previous year had a positive impact on Bosnia and Herzegovina. In the course of 2015, Bosnia and Herzegovina recorded a 2.6% increase in physical volume of industrial output relative to the previous year<sup>1</sup>, simultaneously followed by a rise in employment by 1.5%. The main determinants of the achieved growth were the higher level of export demand, movements in global prices, especially of energy and food, and partially the base effect from the previous year.

According to the available publications of relevant international institutions such as DG ECFIN and the IFO Institute, the most recent surveys of business confidence indicate to a mild weakening of the business confidence index in the Euro area during the third quarter of 2016.<sup>2</sup> However, business confidence indicators are still above the multi-year average, while short-term indicators do not display signs of significant weakening relative to the previous year. Despite weakening of business confidence and challenges like Brexit and the refugee crisis, medium-term forecasts of DG ECFIN and IMF for 2016 point to continued trend of economic growth in the Euro area set at a rate of 1.6%<sup>3</sup>, as well as higher growth rates in all countries in the region as compared to the previous year<sup>4</sup>. Consequently, the trend of strengthening economic growth and increased level of economic activity relative to the previous year has continued in Bosnia and Herzegovina too. Thus, in the course of the first half of 2016, BiH has recorded a 4.6% increase in physical volume of industrial output relative to the same

---

<sup>1</sup> Agency for Statistics of Bosnia and Herzegovina, Release "Index of Industrial Production Volume in Bosnia and Herzegovina for December 2015", 25 January 2016

<sup>2</sup> CESifo, World Economic Survey, Volume 15, No. 3, August 2016

<sup>3</sup> IMF, "World Economic Outlook Update", July 2016

<sup>4</sup> Projected economic growth rates in the region for 2016: Albania 3.2%, Montenegro 4%, Croatia 2.1% FYR Macedonia 3.3%, Serbia 1.6%.

period of the previous year, which was simultaneously followed by the rise in employment.<sup>5</sup> Despite some challenges such as low cost of traded goods, a continued trend of industrial output growth in BiH has been achieved primarily due to export demand in our main trading partners. This is, in a way, supported by the fact that industrial output growth was achieved mainly due to export-oriented manufacturing industries, where the recorded semi-annual production growth stands at 6.3%. In addition to the manufacturing industry, the first half of 2016 saw a slight 2.6% increase in production registered in the mining sector, while any significant contribution of the electricity generation sector was absent due to stagnation of production. Under the assumption of continued positive trend in the external environment and the additional contribution of internal developments during 2016, BiH can expect a rise in industrial output of over 4%.<sup>6</sup>

### ***Labour market***

In the period January-June 2016, the average number of employed persons in the labour market of BiH amounted to 720.5 thousand, which is by 1.5% more compared to the same period of 2015.<sup>7</sup> At the same time, increased employment has contributed to a reduction of the average number of the unemployed persons (-3.1% y-o-y), with a decrease in the total workforce in BiH (-0.5% y-o-y). Thus, the administrative unemployment rate in BiH in the period January-June 2016 dropped by 1.1 percentage points to stand at 42.3%, while, according to the labour force survey it stands at 25.4%. The highest contribution to the overall growth of employment has been recorded in the field of manufacturing industry, wholesale and retail trade, repair of motor vehicles and motorcycles, and accommodation providers, catering and food services. With the increase in the number of employed persons, the average net salary in BiH in the period January-June 2016 amounted to KM 834 and increased by 0.6% y-o-y with a somewhat faster real growth (around 2%) due to deflation. Similar developments in the BiH labour market are expected by the end of the year, i.e. in 2016, BiH can expect a rise in employment of 1.5% with an increase in average net salary by around 0.6% (nominal growth).

### ***Monetary sector***

Total money supply (M2) at the end of the period January – June 2016 amounted to KM 19.4 billion, thus exceeding the previous year's level by 7.8%. The M2 growth was mostly contributed by transferable deposits in domestic currency, while other deposits in foreign currency contributed negatively to M2 growth. The average balance on the required reserve account at the end of the period January – June 2016 stood at KM 4.0 billion, and recorded a 6.5% y-o-y growth. The required reserve rate stood at 10% while the implicit rate of required reserve amounted to 20.6%. Gross foreign currency reserves rose by 8.9% relative to the same period of 2015, and stood at KM 8.9 billion. In the structure of foreign currency reserves, deposits with non-resident banks record accelerated annual growth, while investments in securities record negative growth. Although investments in securities still dominate in the structure of foreign currency reserves, their share has decreased from 84.7% (end of 2015) to 66.4% (end of the period January – July 2016). In the same period, the share of deposits with non-resident banks has increased from 11.7% to 29.4%. The coverage of reserve money by the foreign currency reserves reached 115.8%, which means that the currency board rules have been complied with.

### ***Inflation***

In the period January – July 2016, the downward trend of the general price level in BiH has continued (deflation 1.3%). The level of prices in BiH was mainly determined by lower prices of energy (primarily oil) and food on the global market. The price of crude oil on the global market was around \$ 40 per barrel, which is by 30% lower compared to the same period of 2015, while prices of food dropped by 1.1% y-o-y.<sup>8</sup> Deflation in BiH was mainly contributed by the sections of transport, clothing and footwear, food and non-alcoholic beverages.

According to forecasts of the European Commission (European Economic Forecast, Spring 2016) the price of crude oil in 2016 is expected to fall compared to the previous year but the reduction rate should be considerably slower. At the same time, food price on the global market should also record a much

---

<sup>5</sup> Agency for Statistics of Bosnia and Herzegovina, Release “Index of Industrial Production Volume in Bosnia and Herzegovina for June 2016“, 25/07/2016

<sup>6</sup> DEP Projection, September 2016.

<sup>7</sup> Administrative data. Source: BHAS.

<sup>8</sup> Source: IMF database.

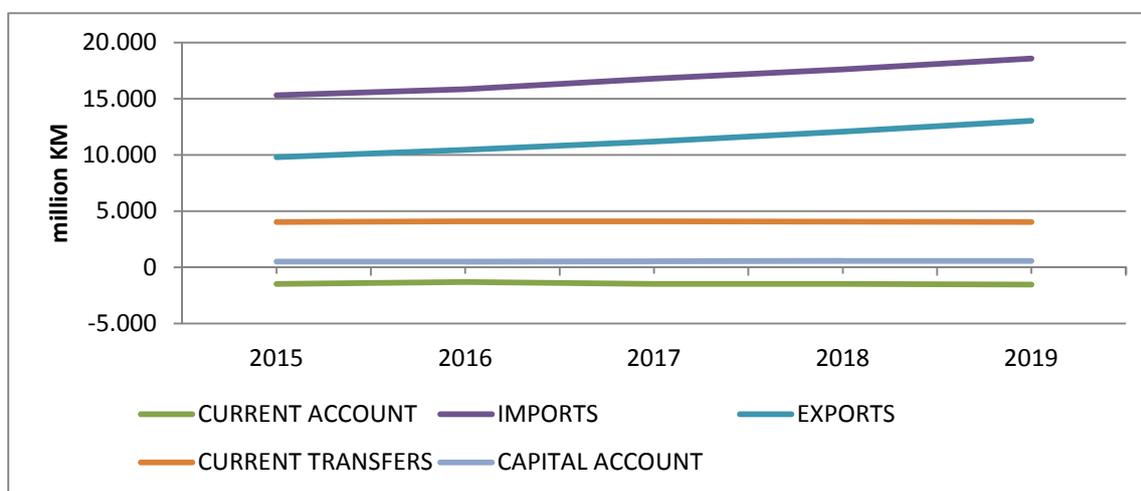
slower negative growth (Table below). Based on these assumptions, a slight 0.3% y-o-y increase in prices is expected in the EU. In making forecasts of BiH inflation, of the domestic factors contributing to change in prices, a gradual increase in excise duties on cigarettes and tobacco was taken into account (a continuation of harmonisation of excise duties on cigarettes and tobacco in BiH with the EU legislation).<sup>9</sup> Taking into account the developments over the first half of 2016, the expected deflation in BiH is set at up to 1%.

### ***Balance of payments in Bosnia and Herzegovina***

According to data available for the first quarter and DEP forecasts for the remaining three quarters of 2016, the current account deficit within balance of payments of Bosnia and Herzegovina amounts to KM 1.427 billion, which is a 15% decrease relative to 2015. For the most part, this decrease in the current account deficit has occurred due to the continuing downturn of trade deficit from 2015, which moved on, as such, in 2016. In 2015, the share of the current account deficit in GDP stood at 5.7% while the rate expected in 2016 is set at 4.7%.

The first quarter of 2016 saw a significant annual increase in the current account deficit of 65% due to the reduction of the foreign trade deficit of goods and services of around 2.3% and a sharp decline in net current cash inflows (17%)<sup>10</sup>. A 10% drop in current cash inflows from abroad (Q1 2016/Q1 2015) was mainly caused by a decline in social benefits from abroad by KM 80 million (Q1 2016/Q1 2015)<sup>11</sup>.

**Graph 1: Balance of payments –trends for the period 2015-2019**



Source: DEP projections

### ***Foreign trade***

Over the past year, Bosnia and Herzegovina managed to improve nearly all parameters in foreign trade exchange with the world. Thus, the volume of foreign trade, exports and imports registered growth while a foreign trade commodity deficit was significantly reduced. Ultimately, the result of these developments was that the external sector contributed to more than half (1.7 pp.) of economic growth in BiH. Key determinants of these developments in BiH foreign trade balance were the strengthening of export demand, the increased production in BiH manufacturing industry by around 5%, the developments in global commodity prices (energy and food), a base effect from the past year, as well as the measures undertaken by the competent institutions by concluding bilateral trade agreements, which enabled BiH companies to enter new markets and considerably strengthened BiH export of goods.

This positive growth trend in foreign trade balance has continued over 2016 as well. Namely, according to BHAS data for the first half of 2016, BiH has achieved an increase in foreign trade exchange, exports and imports, and a decrease in commodity deficit, while coverage of imports by

<sup>9</sup> The increase in excise duties on cigarettes and tobacco as of 1 January 2016. The minimum excise duty per pack of cigarettes for a pack of 20 pieces is KM 2.23, while a special excise tax for the same package is KM 1.20. The excise on tobacco amounts to KM 89.20 per kilogram. Source: Decision on establishing special and the minimum excise duty on cigarettes and the amount of excise tax on tobacco for smoking in 2016.

<sup>10</sup> Source of data: CBBiH

<sup>11</sup> In the period of developing these projections, only data for Q1 were available

exports improved relative to the same period of the previous year. This is a result of rise in export demand and, to a lesser extent, in domestic demand. It should be pointed out that the real rates of foreign trade parameters are somewhat higher than the nominal rates since global prices in the traded commodities dropped in the observed period.<sup>12</sup>

Over the first half of 2016, there was an improvement of the export demand and increase in production in the BiH manufacturing industry, which is highly export-oriented, ultimately resulting in expansion of BiH commodity exports. Thus, BiH recorded the total export of goods in the said period of over KM 4.5 billion, which represents an increase of almost 3% in nominal terms relative to the same period of the previous year.<sup>13</sup> However, if we take into account a drop in global prices of traded goods and semi-annual 9.3% fall in export prices, it can be concluded that BiH commodity exports achieved significantly higher growth rate in real terms.<sup>14</sup> On the other hand, domestic demand expanded during the observed period and production in manufacturing industry rose, which, to some extent, reflected in the developments in BiH imports of goods. Thus the total BiH import of goods in the first half of 2016 stood at around KM 7.7 billion, which represents a 0.8% increase relative to the same period of the previous year in nominal terms. However, if we take into account a significant 10.3% fall in import prices, it can safely be concluded that BiH imports in real terms achieved more significant growth. Higher export rate over imports of goods resulted in a contraction of a foreign trade deficit, and improvement in coverage of imports by exports in the first six months of 2016. Under the assumption of continued positive trend in the external environment, Bosnia and Herzegovina can expect a continuation of the expansion trend in foreign trade exchange by the end of the year. According to DEP projections, at the end of 2016, Bosnia and Herzegovina can expect to see a 4.7% real growth in exports (goods 4.7%, services 4.5%) compared to the previous year. On the other hand, additional strengthening of domestic demand by the end of the year is expected to bring a real increase in overall exports of 2.3% (goods 2.2%, services 3%), which will ultimately result in slight contraction of the foreign trade deficit. Therefore, a final conclusion can be made that external sector in 2016 should bring a positive contribution to BiH economic growth, but still not to the extent as was the case in 2015, when external sector contributed positively to more than half of the achieved economic growth.

### ***Foreign direct investment***

According to UNCTAD's data, there is evident contraction of foreign direct investments to the transition countries of 54%<sup>15</sup>. This negative trend affected BiH as well. After the fall of investments in 2015, undoubtedly influenced by postponing the onset of implementation of several announced large projects<sup>16</sup> (and partly by completion of construction of TPP Stanari), FDI should, in the coming years, increase their share in GDP (although not reach the share they took in 2008). It is encouraging that, according to data of the Central Bank published in the Balance of Payments for the first quarter, FDI reached KM 130.4 million and recorded an increase by 114.1% relative to the same period of the previous year.

## **2.2. MEDIUM-TERM MACROECONOMIC SCENARIO**

A slight strengthening of economic growth in the region and signing a credit arrangement with the IMF should further strengthen the economic growth of BiH in 2017 to a real rate of 3.4%. In DG ECFIN's Spring forecast, the expected acceleration of growth in the Euro area is set to range from 1.6% in 2016 to 1.8% in 2017. This acceleration in Slovenia should be much more pronounced from 1.7% in 2016 to 2.3% in 2017, with similar expected improvement in Croatia in the same period, from 1.8% to 2.1%. This should lead to stronger growth of BiH exports to the real rate of 5.3% and also give impetus to private investment and employment. In addition, the signing of the arrangement with the IMF should significantly support public investments, primarily through favourable external borrowing. Namely, the arrangement with the IMF, in addition to credit funds of this institution, also opens access to the funds of other international financial institutions, namely targeted at infrastructure. In this regard, and given the low base from the previous years, the real growth of public works in 2017 is set to 23%. At the same time, expansion of exports and better business environment as a result of the initial effects of the

---

<sup>12</sup> IMF, International Commodity Prices, "compared to the same period of the previous year, a price decrease was registered in almost all categories. Registered reductions amounted to: the overall index 21.9%; food 2.4%; industrial outputs and metal 16.5%; oil around 31%; aluminium 13.6%.

<sup>13</sup> Agency for Statistics of Bosnia and Herzegovina, Release "Foreign Trade Statistics January – June 2016", 20/07/2016

<sup>14</sup> BHAS, Release, Economic Statistics, Export and Import Price Indices in BiH, 22/08/2016

<sup>15</sup> UNCTAD, Global Investment Trend Monitor No.22.

<sup>16</sup> HTPP Zenica, TPP Ugljevik, HPP Ulog, HPP Mrsovo.

reform process, as well as a positive message that the existence of the arrangement with the IMF sends to investors, should encourage growth of public investment to the real rate of 7.9%. Strengthening of investment could boost additional employment, which would spur further expansion of private consumption. On the other hand, growth of public consumption is expected to be halted (conditioned by the arrangement) to an insignificant real rate of 0.5% in order to reduce the importance of public sector in the economy. The expansion of domestic demand as a result of stronger growth of investment in 2017 should be followed by strengthening of imports growth to the real rate of 4.8%. Despite the strengthening of the exports growth, this could lead to the real expansion of the foreign trade deficit by 3.9%.

The implementation of economic reforms, supported by credit arrangements with the international financial creditors, as well as further strengthening of economic growth in the region, should mark the economic developments in the period 2018-2019. This should bring further expansion of growth of the economic activity in BiH to the real rate of 3.8% in 2018 and 4% in 2019. Growth in external environment should encourage higher growth rates of BiH exports and investments. Furthermore, private investments should be spurred by further improvement of the business environment resulting from progress in the reform processes, which would also encourage foreign investments. The period 2018-2019 is also expected to see more intensive use of available credit funds from international creditors, thus the expected annual growth of public works is set to approximately 30% per year, which means that the level of works from 2014 would only be reached in 2019. Finally, more favourable external environment and expansion of investments could bring strengthening of public consumption growth to an annual rate of 3.5%.

### ***Industrial production***

The IMF forecasts for 2017 foreshadow growth of global economy by 3.4% while the anticipated growth in the Euro area is set to 1.4%. These developments in the international economic environment should have positive impact on economic situation in the region and eventually the economic activity in Bosnia and Herzegovina as well. This is especially true for the industrial production in BiH, particularly manufacturing industry and its export-oriented branches that almost entirely depend on foreign demand developments. Thus, positive trend in the BiH manufacturing industry output growth is expected in the observed period, which should be followed by gradual increase in employment too. Export-oriented industries such as furniture manufacturing, chemical industry, spare parts for automobiles, along with somewhat lower contribution of metal industry and the rising contribution of the food industry are expected to be the key pillar of expansion in production in the observed period. In addition to export demand, a significant contribution to strengthening of manufacturing industry should be given by concrete measures and legislative solutions that the competent institutions in BiH have already undertaken in order to improve business environment in BiH. The consistent and timely implementation of the "Reform Agenda" should enable improvement in business operations of BiH companies and consequently result in expansion of investment and production volume in manufacturing industry. In addition to manufacturing industry, the energy sector, which accounts for 1/3 of the overall industrial output in BiH, is also expected to give a significant contribution to growth in 2017. Namely, putting into operation new thermal energy plants will significantly improve the energy balance and overall industrial production in BiH. On the assumption of continuation of positive trends in external environment, with further contribution of internal developments throughout 2017, BiH can expect steady growth of industrial production of around 5%<sup>17</sup>.

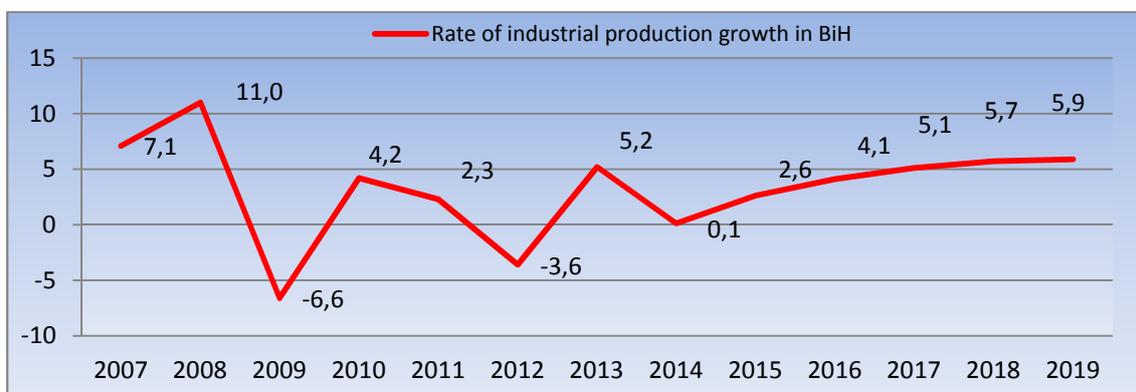
In the period 2018-2019, in addition to continuation of positive external developments, the increasing impact of internal momentum of structural reforms is expected to strengthen the overall industrial production in BiH. Thus, the Euro area is expected to see recovery of private consumption by 1.5%, increase in investment by 4.2%, and expansion of the overall exports and imports by 5% and 5.6% respectively, which will result in more intensive foreign trade intra EU and with the rest of the world. Such positive developments in our immediate vicinity, along with the timely and consistent implementation of structural reforms, should result in increased utilisation of industrial capacities in BiH, which reflects in larger production volume, higher level of investment – both foreign and domestic, and ultimately result in more visible rise in employment in BiH. The planned investment in infrastructure and energy should also significantly contribute to strengthening of construction sector in BiH as well as those branches of manufacturing industry that are closely related to construction.

---

<sup>17</sup> DEP Projection, September 2016

Moreover, the energy generation sector, which was one of the drivers of industrial production in the previous period, is expected to continue its positive growth trend in production and additionally strengthen industrial production in BiH in the observed period. According to DEP projections, this should result in annual increase in the BiH industrial production of over 5% relative to the previous year.

**Graph 2: Industrial production growth in BiH for the period 2007-2019**



Source: BHAS\* and DEP Projections, September 2016

### **Labour market**

Changes in the labour market are significantly determined by the business environment in BiH and the region, as well as the volume of investment and foreign trade. In 2017, the volume of investment and foreign trade is set to see a rise (DEP Projections), which would positively affect the employment and net wages. Furthermore, according to the EC forecasts (European Economic Forecast, Spring 2016) the European Union is also set to see an increase in employment in 2017, as well as a decrease in the unemployment rate from 8.9% to 8.5%.<sup>18</sup> With the assumed developments in the region and EU, BiH can expect to see a gradual continuation of the employment growth. Rise in demand, as well as better business environment in the private sector, would have a positive impact on operations of BiH companies and increase employment opportunities. This way, the number of employees in the public administration should not have a significant contribution to the overall growth of employment in BiH.<sup>19</sup> Bearing in mind the aforementioned developments, BiH can expect to see gradual decrease in the unemployment rate with the increase in employment by 1.6% and moderate growth of average net salary.

In 2018 and 2019, gradual decrease in the unemployment rate in BiH is expected to continue. It is assumed that an increase in volume of demand and rise in volume of investment, as well as gradual implementation of structural reforms would positively contribute to creation of new jobs. Thus the number of employed persons in BiH could increase by 1.9% in 2018 and by 2.1% in 2019. Along with these developments in the business environment, the average net salary can be expected to rise too (Table below).<sup>20</sup>

**Table 2: The main labour market indicators in BiH**

	2015	2016	2017	2018	2019
Employment in EU (y-o-y)	1.1%	1.0%	0.9%	n/a	n/a
Unemployment rate in EU	9.4%	8.9%	8.5%	n/a	n/a
Employment growth rates in BiH (y-o-y)	1.7%	1.5%	1.6%	1.9%	2.1%
Unemployment rate in BiH (administrative)	43.2%	42.1%	41.2%	40.2%	39.2%
Average net salary growth rates in BiH (nom. y-o-y)	0.0%	0.6%	1.9%	2.0%	2.3%

Source: European Economic Forecast, Spring 2016, BHAS, employment bureaus in BiH, DEP Projections 2016-2019

<sup>18</sup> Source: European Commission, European Economic Forecast, Spring 2016

<sup>19</sup> Budget restrictions were taken into account.

<sup>20</sup> Projection was made assuming that wages in the public administration will not significantly change (budget restrictions).

## **Monetary policy**

In 2016, the Governing Board of the CBBH has passed the Decision<sup>21</sup> on Determining and Maintaining Required Reserves and Defining the Compensation of the CBBH to Banks on the Amount of Reserves. According to this Decision, the base for the required reserve calculation includes deposits and borrowed funds, regardless of the currency in which they are denominated. The Decision determines the single rate of the required reserve of 10% which is applied by the CBBH on the base for the required reserve calculation. The Decision also defines that the CBBH does not calculate compensation on the amount of required reserve funds. On the amount of funds exceeding the required reserve, the CBBH calculates compensation at the rate which is equal to 50% of the rate applied by the European Central Bank on the deposits of commercial banks. By the Decision on introducing a negative interest rate of compensation on the amounts of excess funds above the required reserve in reserve accounts, the CBBH would like to stimulate commercial banks to use the mentioned funds to extend loans to households and companies.

## **Inflation**

As in previous years, the movement of global prices of oil, gas and food is expected to be the most important external factors in determining the level of inflation/deflation in BiH in 2017 as well. According to the EC forecast<sup>22</sup> the price of crude oil on the global market could reach \$ 45.9 per barrel and increase by 11.9% relative to the previous year. In addition, the assumed gradual stabilisation of food prices would lead to a moderate rise in general price level in the EU members and BiH. Thus, the level of inflation in EU should be slightly higher compared to the previous year and stand at 1.5%. Based on the above assumptions, BiH can expect, after years of deflation, to see an increase in the general level of prices (0.5%) in 2017. In addition to external factor, in developing the projections in BiH, we have taken into account the continuation of harmonisation of excise duties on cigarettes and tobacco with the EU legislation, without any significant oscillations in utility prices.

The level of inflation in the period 2018-2019 is expected to be affected by moderate growth of food and oil prices<sup>23</sup> on the global market. This could set the inflation in EU in 2018 to 1.6%.<sup>24</sup> On the assumption that there would be no major changes in prices of domestic factors that determine the price level, the expected inflation in the observed years can be set at 1%-1.2%.

**Table 3: Assumptions on movements in global prices of oil, food and inflation in EU**

	2015	2016	2017	2018	2019
Crude oil, (growth rate y-o-y)	-46.5%	-23.1%	11.9%	n/a	n/a
Food index (growth rate y-o-y)	-15.7%	-4.7%	-0.9%	n/a	n/a
CPI EU	0.0%	0.3%	1.5%	n/a	n/a

Source: European Economic Forecast, Spring 2016

## **Financial sector**

Negative growth in loans to general government, slowdown of growth in lending to households, as well as acceleration of growth in loans extended to non-financial companies, are the hallmarks of the credit activity in the first seven months of 2016.

The total loans for the first seven months amounted to KM 17.02 billion, which is by 2.2% more than in the observed period in 2015. The main feature of this period relative to the beginning of the year is that the growth rate of total loans fell from 2.9% y-o-y to 2.2% y-o-y. The growth rate of loans to non-financial companies of 3.6% y-o-y at the end of July 2016 would be much higher if the growth rate of loans to public non-financial companies had not achieved a negative growth rate of nearly 10% y-o-y. It is important to mention that, according to the classification of loans per risk, at the end of June 2016, the share of non-performing loans in the total loans to households and companies decreased by 2 percentage points compared to the same period of the previous year and amounts to 12.1%. As the coming period is anticipated to see moderate economic growth (accompanied by growth of foreign trade and investment), the need for new loans is expected to grow too. On the other hand, the employment is expected to rise (with decline in unemployment), which would also boost the demand

<sup>21</sup> This Decision shall take effect on the date of its publishing in the "Official Gazette of BiH" and it shall be applied as from 1 July 2016. Source: <http://www.cbbh.ba/press/ShowNews/1103>.

<sup>22</sup> European Economic Forecast, Spring 2016

<sup>23</sup> Source: The World Bank, Projections, July 2016, IMF Projections, August 2016

<sup>24</sup> ECB projections, June 2016

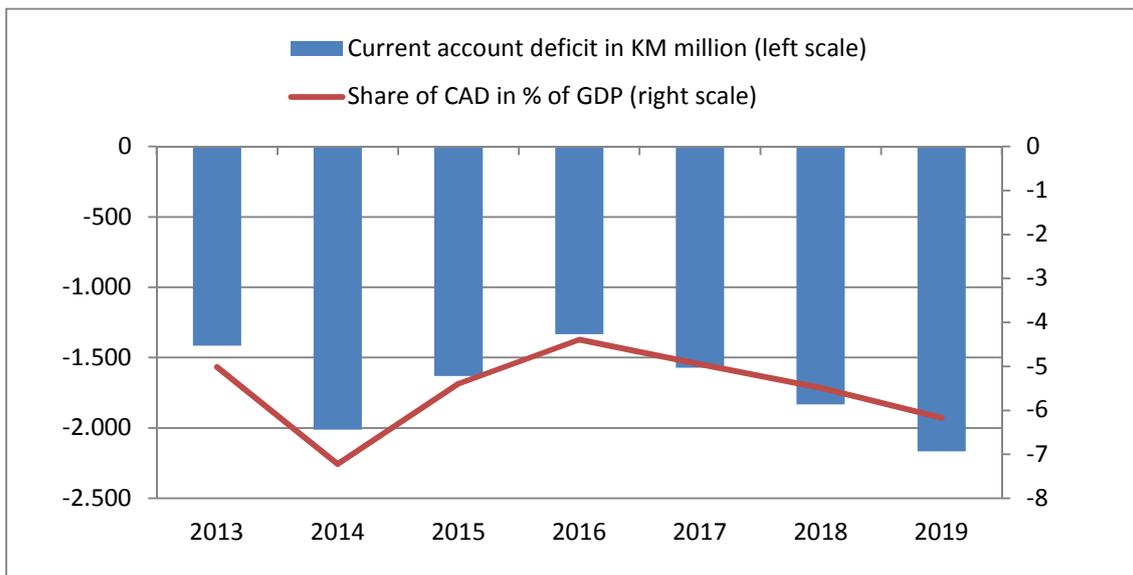
for bank loans. As loans placed on these two sectors account for over 90% of the total bank loans in BiH, increased demand of households and non-financial companies would lead to somewhat better credit activity in the period 2017-2019, with the loan rate ranging from 2% to 4.5% y-o-y.

The total deposits at the end of July 2016 amounted to KM 16.8 billion and increased by 7.1% y-o-y. Growth of deposits was achieved in almost all sectors. Thus, at the end of July, deposits of non-financial companies were growing at a rate of 8.9% y-o-y and the general government deposits at a rate of 8.3% y-o-y (although the entity governments' deposits that are part of the category of general government deposits, recorded a negative growth rate of 5.7% y-o-y). Confidence of population in the banking sector has been preserved so, at the end of July, this sector had the total amount of KM 10.1 billion of deposits, with growth of 6.2% y-o-y, which, at the same time, accounts for approximately 60.2% of the total deposits. It is expected that this trend continues with favourable economic conditions. The expansion of economic activity, the improvement of labour market conditions, along with the announced privatisation of strategic public companies, would reflect in further growth and stability of the total deposits in the coming period too, at a rate ranging from 6% to 8% y-o-y.

### ***Balance of payments in Bosnia and Herzegovina***

According to available data and DEP Projections for 2016, the foreign trade deficit would stand at -6.8% (y-o-y). DEP Projections foresee the expansion in volume of foreign trade in the period 2017-2019, with significant rates of nominal growth of imports (6.4 – 7.2%) and exports (7.1 – 7.9%), which would affect deepening of deficit in the BiH current account. In the period 2017-2019 the current account deficit would record the annual growth of around 16-17%, i.e. 5.3% of GDP in 2017, 5.8% of GDP in 2018, while in 2019 deficit would amount to 6.5% of GDP. Current net transfers from abroad in 2016 are set to grow at a rate of 0.7%, while the growth rate in the period 2017-2019 will range in the interval 0.2% - 0.3%. DEP foresees that in 2016 the needs for financing from abroad would record growth of -10% whereas in 2017, these needs would expand by 21% due to the increase in the current account deficit. In 2018, the ascend of the needs for financing from abroad would amount to 19% while in 2019 it could stand at 20%.

**Graph 3: Projections of the BiH current account deficit in % of GDP**



Source: DEP Projections

### ***Foreign trade***

Although global economy is facing major challenges, according to the most recent available forecasts of the international institutions, this has not drastically affected the economic growth outlook. Thus the IMF projections foresee continued economic growth in the EU members as well as a higher level of economic growth in the countries of the region. These developments in external environment would undoubtedly have a positive impact on the entire region and ultimately Bosnia and Herzegovina as well. In addition to positive external circumstances, the internal dynamics in Bosnia and Herzegovina in view of improving business environment is expected to strengthen the economic recovery. Furthermore, throughout 2016, BiH is expected to continue implementing the active foreign trade policy so that BiH export companies raise the level of competitiveness in the existing and gain access

to new markets. Thus, in 2017, the expected GDP growth in BiH is set at 3.4%, investments at 8.3% and industrial output growth at around 5%, which would result in more intensive overall foreign trade with the world. Looking in more detail, according to DEP projections, in 2017, the overall BiH exports are expected to see real growth of approximately 5.3% relative to the previous year, with the expected real growth of commodity exports reaching up to 5.4% and services up to 5.0%. On the other hand, acceleration of the investment activity would lead to somewhat higher real increase in the overall imports by 4.8% in real terms (goods 4.9%, services 3%). This would ultimately result in an increase in the overall foreign trade deficit at the end of 2017 by about 4%, so that the impact of the external sector on the overall economic growth would be negative and amount to 0.7 percentage points.<sup>25</sup>

The period 2018-2019 in Bosnia and Herzegovina is envisaged to see further normalisation of economic situation and steadier economic recovery, followed by GDP growth rates by over 3.5%. Thus, in this period, Bosnia and Herzegovina should record higher level of investment (both foreign and domestic), rise in employment and output, which would result in more intensive and greater diversification of foreign trade exchange in goods. Within BiH foreign trade exchange, the rising export trend is set to take a somewhat faster pace than the imports. The driver of the BiH exports in this period should be the manufacturing industry where, in addition to traditionally export-oriented branches, other activities that can implement their export potentials are set to make their contribution too. Furthermore, the reform processes and improvement of business environment, standardisation and greater diversification of export markets, should significantly strengthen the BiH exports. Taking into account the importance of electricity generation sector in the structure of BiH exports, we expect to see more significant continuous positive contribution of this sector too. According to DEP projections, over the period 2018 – 2019, annual real growth rates of total exports can be set at 5.6% and 5.5% respectively.<sup>26</sup> On the other hand, expansion of domestic demand, followed by rise in employment and wages, accompanied by ascend of overall investment in infrastructure and energy, should lead to expansion of imports. However, import growth rates are expected to be somewhat lower than the export rates, so the real growth rate of the total imports would range from 5.3% in 2018 to 5.2% in 2019. Thus, in the period 2018-2019, due to somewhat faster growth of exports and rise in its share in GDP relative to imports, we can expect stabilisation of the foreign trade balance and better coverage of imports by exports on the long run. According to DEP projections, as by the end of the observed period, the share of exports in GDP is expected to rise up to 35.8%, while the share of imports in GDP would maintain its current level of about 53.4% and the total coverage of imports by exports at the end of 2019 would amount to approximately 67%.<sup>27</sup>

### ***Foreign direct investment***

In the period 2016 – 2019, FDI could range from 2.3%, 2.4%, 2.5% to 2.7% of GDP respectively.<sup>28</sup>

**FDI in 2016 are set to around 2.3% of GDP.** Several construction projects have been announced in the field of electrical energy, tourism and development of residential buildings and recreational facilities. According to the adopted Privatisation Plan for 2016, there is a plan for the sale of the minority share of the state-owned capital in companies (according to the book value of KM 320 million). The first announced call is for the sale of the state-owned government share in Bosnalijek d.d. Sarajevo via stock exchange, Fabrika Duhana d.d. Sarajevo and Aluminij d.d. Mostar, which could provide significant foreign investment. The Italian company "Pyrox"<sup>29</sup> plans to invest around euro 150 million in combined heat and power plants using wood biomass in BiH.

A memorandum of understanding was signed for construction of wind park WP "Gradina" d.o.o. Cebara - Tomislavgrad with "CMEC" (China Machinery Engineering Corporation) and "CAIDC" (China-Africa Investment and Development Co.) with capacity of 112 MW, scheduled to be completed in 2017. The total investment is estimated to approximately euro 150 million. Thus, the average annual investment would range from euro 50 million to 100 million, depending on the intensity and final construction deadline.

---

<sup>25</sup> DEP Projection, September 2016

<sup>26</sup> Observed by years, real growth rates of commodity exports in 2018 are set at 5.9% and services at 5%, real growth rates of commodity imports are set at 5.4% and services at 3%. Throughout 2019, real growth rates of commodity exports are set at 5.7% and services 5.0% while real growth rates of commodity imports are set at 5.4% and services at 2.0%.

<sup>27</sup> DEP Projection, September 2016

<sup>28</sup> Around KM 600 mil. in 2016, KM 700 mil. in 2017, KM 820 mil. in 2018 and KM 930 mil. in 2019

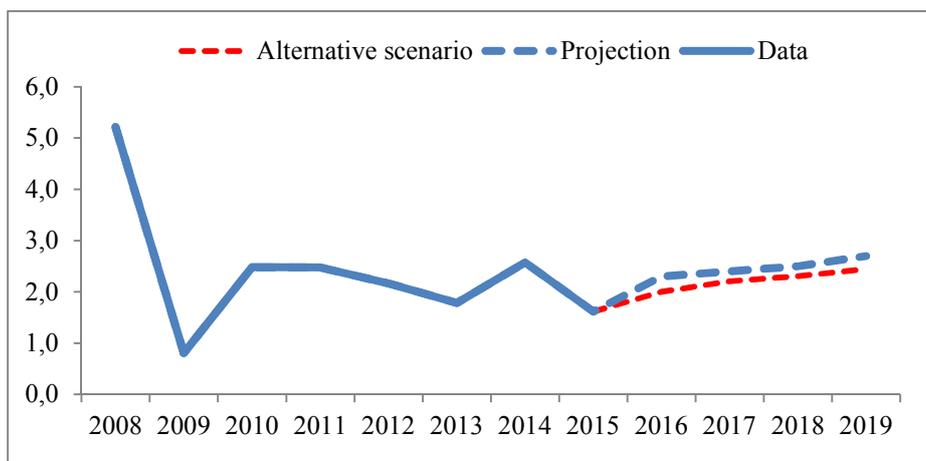
<sup>29</sup> <http://www.fipa.gov.ba/novosti/aktivnosti/default.aspx?id=9227&langTag=en-US>.

Investment in the tourism projects could bring significant funds on the long run. The beginning of construction of the tourist city "Buroj Ozone" was announced in September, which would comprise residential units, hotels and a shopping mall. In February 2015, the municipality of Trnovo signed the protocol on the use with the company "Buroj Property Development"<sup>30</sup>. The construction of the luxury residential complex is planned in the outskirts of Sarajevo "Green Valley City"<sup>31</sup> with the number of villas and residential units. Also, a Kuwait company "Compact Invest" is finishing construction of a housing complex in the settlement of Otes<sup>32</sup>, near Sarajevo. There is also a plan for the project "Eco zone Korican Vlasic" with foreseen construction of an airport, golf courses, luxury villas, a rehabilitation clinic, an artificial lake, aqua park, education centre, multiplex building with apartments and business offices<sup>33</sup>.

**Foreign direct investment in 2017 is set to range around 2.4% of GDP.** There is a possibility for the implementation of several previously postponed electricity generation projects to begin, such as "TPP Ugljevik 3"<sup>34</sup> (total value of over KM 1 billion), "HPP Ulog" and "HPP Mrsovo". Investment in highways could also bring some significant funds. There is a plan for the construction of the highway section "Doboj Jug-Žepče" where, on the basis of the awarded concession (according to the D-B system, Design and build) the needed funds should be secured, which would be successively paid in line with the construction of the sections in the coming period. The construction of the section of the highway "Doboj – Vukosavlje" has been planned too. The total needed funds are set to be secured on the principle of the public-private partnership. The possible privatisation of BH Telekom d.d. Sarajevo and HT Telekom d.d. Mostar has been announced, whose sale would significantly change the amount of investment in BiH.<sup>35</sup>

**The share of foreign direct investment in 2018 is set to increase to 2.5% of GDP and in 2019 to 2.7% of GDP.** The investment is set to be borne by the electricity generation sector, along with continued investment in highway construction. This projection did not take into account the possible privatisation of part of "BH Telekom" d.d. Sarajevo and „HT Telekom“ d.d. Mostar, as well as construction of projects "HPP Dabar" and "TPP Gacko 2", for which strategic partners are still sought.

**Graph 4: FDI Projection per year as a percentage of GDP**



Source: BHAS, CBBiH and DEP estimate

<sup>30</sup> The first phase would be the construction of the "Sports and Recreational Centre Bjelasnica-Donja Grkarica-Precko polje-Kolijevka" for which a contract was signed on designing a regulation plan between the municipality of Trnovo and the company "Buroj Property Development" from UAE. The first phase would be completed by 2018, in the amount of euro 930 million.

<sup>31</sup> <http://greenvalleyuae.com/projects.php?id=13&stat=about>

<sup>32</sup> <http://cic.ba/bs/compact-invest-ulaze-50-mil-km-u-izgradnju-kompleksa-sarajevo-waves-na-ilidzi-2/>

<sup>33</sup> Value of project is not included in the projection.

<sup>34</sup> "TPP Ugljevik 3" is to be constructed with the Chinese "China Power Engineering Consulting Group Corporation" (CPECC), while according to the plan, the full technological and engineering process of the construction will be managed by the American company "Black and Veatch".

<sup>35</sup> Value of project is not included in the projection.

## 2.3. ALTERNATIVE SCENARIOS AND RISKS

**Table 4: Main macroeconomic indicators**

Indicator	Official data	Projections				
	2014	2015	2016	2017	2018	2019
Nominal GDP in million KM	28,217	29,329	30,264	31,535	32,935	34,389
Nominal growth in %	0.1	3.9	3.2	4.2	4.4	4.4
GDP deflator (previous year = 100)	99.7	100.9	100.1	101.2	101.3	101.2
Real GDP in million KM (previous year = 100)	28,302	29,057	30,226	31,173	32,502	33,978
Real growth in %	0.4	3.0	3.1	3.0	3.1	3.2
Inflation measured by consumer price index in %	-0.9	-1	-1	0.5	1	1.2
Consumption in million KM	29,401	29,911	30,548	31,796	33,167	34,632
Real growth in %	1.9	1.9	2.5	2.8	3.0	3.0
Government consumption in million KM	6,078	6,187	6,311	6,500	6,728	6,997
Real growth in %	0.9	1.0	1.2	1.5	2.3	2.5
Private consumption in million KM	23,324	23,724	24,238	25,296	26,440	27,635
Real growth in %	2.2	2.2	2.9	3.1	3.1	3.1
(Gross) fixed capital formation in million KM	5,234	4,785	4,843	5,154	5,452	5,757
Real growth in %	11.7	-9.2	0.6	6.2	5.5	5.3
Government investment in million KM	1,155	543	516	567	635	724
Real growth in %	11.6	-53.4	-5.8	8.4	10.7	12.3
Private investments in million KM	4,079	4,243	4,327	4,587	4,816	5,033
Real growth in %	11.8	3.3	1.5	5.9	4.9	4.4
Imports in million KM	15,536	15,306	15,352	16,299	17,380	18,558
Nominal growth in %	7.1	-1.5	0.3	6.2	6.6	6.8
Real growth in %	8.1	0.5	2.3	4.6	5.1	4.7
Exports in million KM	9,257	9,798	10,071	10,776	11,600	12,470
Nominal growth in %	3.0	5.8	2.8	7.0	7.6	7.5
Real growth in %	4.2	6.1	4.7	5.2	5.4	5.1
National gross savings in % of GDP	10.5	11.1	11.8	11.4	11.0	10.6
Current account balance in million KM	-2,127	-1,679	-1,427	-1,656	-1,915	-2,212
Growth in %	44.3	-21.1	-15.0	16.1	15.7	15.5
Current account balance in % of GDP	-7.5	-5.7	-4.7	-5.3	-5.8	-6.4

An alternative scenario primarily relates to risks of the baseline scenario assumptions in terms of economic growth in our environment as well as meeting the conditions of the arrangement with the IMF regarding the planned reform processes. In case that these assumptions fail to be materialised, the expected growth in investment, exports and private consumption could be weaker, while public consumption would probably grow at a higher rate relative to the baseline scenario. This would result in considerably lower rates of economic growth of 3% in 2017, 3.1% in 2018 and 3.2% in 2019.

The main risks of projections relate to materialisation of the underlying assumptions in terms of external environment growth, implementation of the reform processes under the arrangement with the IMF, the absence of any significant problems in electricity generation, and the absence of natural disasters in terms of agricultural output.

The main stronghold in developing the projections of **industrial production** in the period 2016-2019 have been the developments in the international economic environment and the internal dynamics regarding the implementation of the activities from the Reform Agenda. Possible weakening of economic growth in our external environment and delays in implementing the RA measures would have a negative impact on developments in BiH industrial production in the observed period. In addition to this, cyclical risk, BiH industrial production is also faced with the structural risk. Namely, more than half of BiH industrial output is made up by intermediate and non-durable consumer goods, which are very sensitive to developments in global prices of traded goods, therefore possible further fall of global prices could have a negative impact on the expected growth of industrial production in BiH.

The main **risks for projections in the labour market** are related to the assumed economic growth and investment volume, foreign trade in BiH, EU and neighbouring countries. Less than favourable or unsatisfactory business environment could adversely affect the growth intensity of employment and wages, contrary to the assumptions of the baseline scenario. Moreover, the intensity of implementation of the economic reforms in BiH could have an impact on developments in the labour market.

As with previous years, the main **risks for projections of prices** in BiH have to do with external factors (primarily global prices of oil and food). If prices of oil and food continue to fall at the same pace as in 2016, this would reflect in the price level in BiH and, in extreme case lead to continuation of deflation. Domestic factors that could affect the price changes are the unforeseen changes in electricity prices, and introduction/increase in excise duties on certain products.

In case of reduced economic growth and market turmoil (caused by external or internal disturbances) there could be a **contraction of credit activity** of banks. The weakening of industrial production, exports, investments and final consumption would have a negative impact on the banking sector in the form of drop in demand for new loans, increasing rate of non-performing loans and inevitable increase in interest rates on loans. The crisis, accompanied by lack of confidence in the financial and banking system, would inevitably be manifested through increased withdrawal of domestic deposits from banks.

The main challenge for **foreign trade developments in BiH** stems from its structure characterised by a low level of exports in GDP and relatively high dependence on imports, resulting in a rather high commodity foreign trade deficit. Furthermore, BiH exports are also characterised by a low level of diversification of export products, as well as high concentration on a small number of markets (EU and countries in the region). Possible weakening of the export demand or problems in trade relations with some countries would negatively reflect on BiH foreign trade developments in the period 2016-2019.

According to current estimates, the risk would mostly reflect on **reduced investment** in the electricity generation sector and the lack of interest of foreign investors in the implementation of the process of privatisation of the remaining state-owned capital. Thus, the FDI participation would range from 2% in 2016, 2.2% in 2017, 2.3% in 2018, to 2.4% in 2019. The construction of "TPP Ugljevik 3" is the least certain (brought into questions due to the high cost of coal mining). The construction of "HPP Mrsovo" by the same company is currently at a standstill as well as the construction of "HPP Ulog" by the EFT Group. The partners, i.e. the concessionaire for the construction of highway sections on the "Corridor 5c" have not been found yet. Further economic slowdown of the PR China could also be reflected in reduced interest in additional investment in infrastructure projects. Deceleration of economic activity caused by changes in the market (as, for instance, "Brexit") could possibly bring a decline in needs for electricity in the region, namely the low price of electricity associated with the low price of other energy products in the global market would certainly have a negative impact on plans for realisation of new projects.



### 3. FISCAL FRAMEWORK

#### 3.1. POLICY, STRATEGY AND MEDIUM-TERM OBJECTIVES

The Reform Agenda, which was supported by all levels of government in Bosnia and Herzegovina, points out that the state of public finance of all levels of government in Bosnia and Herzegovina is such that it is necessary to carry out fiscal consolidation that will gradually lead to decreasing the budget deficit and to lower public debt level in the medium term.

**Table: Fiscal framework of the general government in Bosnia and Herzegovina for 2016-2019**

<b>Fiscal indicators (% of GDP)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Total income	40.9	42.3	40.1	38.8	37.5
Total spending	42.0	42.6	40.4	37.9	36.3
<b>Fiscal balance</b>	<b>-1.1</b>	<b>-0.3</b>	<b>-0.3</b>	<b>0.9</b>	<b>1.2</b>
Interest expenditures	0.8	1.0	0.9	0.9	0.9
<b>Primary fiscal balance</b>	<b>-0.3</b>	<b>0.7</b>	<b>0.6</b>	<b>1.8</b>	<b>2.1</b>

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

Fiscal consolidation will be performed through decreasing public spending and increasing public revenues. Increase in public revenues will be achieved through increase in tax revenues, widening of tax basis, decreasing of grey economy, decreasing tax exemptions and improvement of performance of tax administrations.

Between 2017 and 2019, in the area of indirect taxes, the process of aligning the policy of taxation of tobacco products with the EU standards will be continued. This alignment implies continuous increase of specific excise duty on cigarettes of at least KM 0.15 /per pack until total excise burden for all categories of cigarettes reaches the minimal excise duty on cigarettes applicable in EU (i.e. EUR 90/1000 pcs.); adjustment of excise duty on cigarettes to the growth of average weighted price of cigarettes; and adjustment of the specific cut tobacco price to the minimal excise duty on cigarettes. In the area of customs policy, implementation of the Free Trade Agreement between BiH and EFTA will be continued. The Agreement implies gradual removal of customs duties and other fees with a fiscal impact on the export of EFTA members in the period between 2015 and 2018.

In 2017, it is expected for the adaptation of the Stabilisation and Association Agreement (SAA) with the EU to be implemented, as well as for the amendments to the Law on Excise Duties in accordance with obligations assumed in the Reform Agenda and the EFF arrangement with IMF to be adopted. Since neither the time frame of the implementation nor the scope of amendments of stated policies is known, only initial estimates of the effects on indirect taxes (see 3.6) have been performed.

#### ***BiH Council of Ministers***

The Fiscal Framework of the Institutions of Bosnia and Herzegovina is established in the Agreement on Adoption of the Global Fiscal Balance and Policies in Bosnia and Herzegovina for the 2017-2019 period, concluded between the Council of Ministers of Bosnia and Herzegovina, Government of the Federation of Bosnia and Herzegovina and Republika Srpska at the session of the Fiscal Council held on 24 May 2016. This document defines the framework of the Institutions of Bosnia and Herzegovina in the total amount of KM 950 million, as well as apportionment of financing funds from the Single Account of the Indirect Taxation Authority in the amount of KM 750 million.

#### ***Government of the Federation of BiH***

Since fiscal stability is not only a precondition for the overall economic stability and long-term economic growth, because it also conditions the access to international financial markets, responsible management of fiscal policy has been and remains to be the strategic goal of the Federation of Bosnia and Herzegovina. Fiscal policy in the Federation of Bosnia and Herzegovina is particularly significant since it is the only one of a set of policies and the only available instrument of macroeconomic policy that can actively influence the achievement of defined goals, given that the monetary policy instruments are not available.

In the Federation of Bosnia and Herzegovina certain obstacles were identified, related to implementation of effective fiscal policy, but great efforts have been undertaken to remove these obstacles in the best possible manner. In order to overcome the problems, it is necessary to adjust the

fiscal policy with real capabilities and insure conditions in which the economy will reach the positive economic growth as soon as possible, thus laying foundations for faster economic growth in the following years. All of the above points to the significance of implementing the public finance reforms.

**Table: Fiscal framework of the Federation of Bosnia and Herzegovina for 2015-2019**

<b>Fiscal indicators (% of GDP)<sup>36</sup></b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Total income	38.2	40.6	38.0	36.8	35.4
Total spending	40.0	40.5	37.5	35.8	34.3
<b><i>Fiscal balance</i></b>	<b>-1.8</b>	<b>0.1</b>	<b>0.5</b>	<b>1.0</b>	<b>1.1</b>
Interest expenditures	0.7	0.9	0.8	0.9	0.9
<b><i>Primary fiscal balance</i></b>	<b>-1.1</b>	<b>1.0</b>	<b>1.3</b>	<b>1.9</b>	<b>2.0</b>

Public Finance Management Reform Strategy is currently being prepared with the aim of strengthening budget planning, execution and monitoring in order to strengthen fiscal discipline and accountability, simplify the allocation of funds in accordance with policy goals and improvement of public administration quality, increase transparency and promote economic development. The Strategy should provide a framework for removing identified irregularities and include the already existing partial strategies related to debt sector and internal control sector.

However, despite all efforts related to improvement of fiscal policy, the Federation of Bosnia and Herzegovina faces insufficient liquidity, lack of financial and fiscal discipline and tax evasion. Therefore, it is necessary to continue working on improving institutional frameworks, decreasing the share of public spending in GDP and decreasing financing public spending through borrowing, with simultaneous increase in the share of capital spending, that is initiating infrastructural projects, strengthening bodies responsible for inspection, etc.

Also, with the aim of decreasing the share of public spending in GDP, the Government of the Federation of Bosnia and Herzegovina adopted a policy document on limiting public spending on salaries and employees' costs. The same document reduces 150 employees in relation to the number planned in the Budget of the Federation of Bosnia and Herzegovina for 2016, finally resulting in savings in the approximate amount of KM 10 million on the position of salaries and costs of employees, employers' contribution and other contributions.

In addition, wanting to achieve better targeting within the framework of social contributions, the authorities in the Federation of Bosnia and Herzegovina started the procedure of adopting the Law on Single Registry of Non-Contributory Cash Benefit Users. The reason behind adoption of this Law lies primarily in creating necessary preconditions for establishing a single registry recording all payments of all types of cash benefits paid to individuals, either from the Budget of the Federation or from Cantonal or Municipal Budgets. Establishment of the Single Registry will ensure centralised information system and reporting on all payments under any basis, which will be useful to the competent institutions in the procedure of control of earmarked spending of budget funds, budget planning, quality and transparent financial reporting and creating economic and fiscal policy in the Federation of Bosnia and Herzegovina.

In recent years, fiscal policy tasks pertained to implementing rationalisation of budget expenditures, introduction of fiscal discipline and improved transparency. In the coming period, in addition to all of the above, it is also necessary to focus on decreasing the deficit and slowing down the growth of debt, especially foreign debt.

### ***Republika Srpska***

This section of the Document represents a consolidated budget framework of the general government<sup>37</sup> of Republika Srpska for 2017-2019. The general government sector encompasses consolidated budgets of sub-sectors: central government, local self-government units and extra-budgetary funds.

<sup>36</sup> Participation of revenues and expenditures in relation to GDP of the Federation of Bosnia and Herzegovina for 2015- KM 18.350 million, 2016- KM 19.377 million, 2017- KM 20,260 million, 2018- KM 21,307 million and 2019- KM 22,419 million.

<sup>37</sup> The terms "general government sector" and "general government subsectors" in this document refer to the institutions of Republika Srpska and their budget frameworks. According to the Guidance for the Economic Reform Programmes prepared by the European Commission in May 2016, to the extent currently possible, the concepts used should be in line with the standards established at the EU level, notably in the context of the European System of Accounts (ESA). According to the European System of National and Regional Accounts (ESA), the

Central Government sub-sector includes institutions financed from the Republika Srpska Budget: general fund (01) represents the budget of Republika Srpska in a narrower sense and is used for stating all funds and activities of budget users; revenues under special regulations (02) represents funds used only for special purposes in accordance with certain regulations, and activities financed from these funds (e.g. own revenues of institutions); grants fund (03) represents grant funds of budget users and all activities financed from these funds, which are not encompassed by a general fund; privatisation and succession fund (04) represents privatisation and succession funds and all activities financed from these funds, in case they are not encompassed by the general fund (e.g. Republika Srpska Development Program) and special projects fund (05) represents funds planned for special projects and all activities related to implementation of those projects which are not encompassed by the general fund (e.g. using pre-accession EU funds). Funds 02 through 05 are used for representing activities financed from associated funds in case these funds are not encompassed by the general fund (01).

On its session held on 30 June 2016, the Government of Republika Srpska adopted the Framework Budget Document of Republika Srpska for the period 2017-2019, defining the planned budget frameworks, financing and debt for all the levels of government in Republika Srpska. This document represents a basis for preparation of the Economic Reform Programme of Republika Srpska 2017-2019. Modifications are the result of subsequently determined and planned changes in policies and legal framework. Data for 2015 represent budget execution on all observed levels of government. Data for 2016 are corrected in accordance with adopted budgets, while the data for 2017 are in accordance with the planned budgets on all the levels of government. Data for 2018 and 2019 represent projections of the budgets on all levels of government in Republika Srpska.

In terms of Republika Srpska fiscal policy goals, the targeted consolidated deficit of the General Government amounts to up to 3 per cent of GDP. The consolidated deficit of the General Government of Republika Srpska in comparison with GDP of Republika Srpska in 2015 was -0.3 per cent. In accordance with the projections, in the analysed period, it is anticipated for the deficit/surplus to range between -1.0 per cent deficit to 2.3 per cent surplus.

**Table: Fiscal framework of Republika Srpska 2015-2019 in accordance with the baseline scenario**

<b>Fiscal indicators</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
<b>(% of GDP)<sup>38</sup></b>	<b>Performance</b>	<b>Rebalance</b>	<b>Plan</b>	<b>Plan</b>	<b>Plan</b>
Total income	41.9	40.4	39.6	38.9	38.2
Total spending	42.2	41.4	40.8	37.3	35.9
<b>Net borrowing/crediting</b>	<b>-0.3</b>	<b>-1.0</b>	<b>-1.2</b>	<b>1.7</b>	<b>2.3</b>
Interest expenditures	1.2	1.3	1.2	1.1	1.0
<b>Primary fiscal balance</b>	<b>0.8</b>	<b>0.3</b>	<b>0.0</b>	<b>2.8</b>	<b>3.3</b>

Source: Ministry of Finance of Republika Srpska

Republika Srpska remains dedicated to maintaining fiscal stability in order to avoid increase of total spending in GDP structure over the years. In the framework of the projected GDP of Republika Srpska, it is expected for the share of spending of the observed levels of government from 42.2% in 2015 to 35.9% in 2019. When it comes to debt policy, the key goal of Republika Srpska is certainly related to the process of joining the European Union, implying the long-term commitment of Republika Srpska to maintain the level of public debt below 60 per cent of GDP of Republika Srpska.

In observing the consolidated general government sector in the period 2016-2019, half of the total revenues are represented by tax revenues, i.e. revenues from indirect taxes (39.1% 40.6%) and revenues from direct taxes (11.1% to 11.2%). The significant part of revenues is represented by social security contributions (37.2% to 38.2%), while remaining revenues pertain to non-tax revenues (10.8% to 11.3%). Revenues from social security contributions in accordance to purpose are spent as allocations for social protection, despite the fact that social contributions exceed revenues on this basis.

---

general government sector (S,13) consists of institutional units which are non-market producers whose output is intended for individual and collective consumption, and are financed by compulsory payments made by units belonging to other sectors, and institutional units principally engaged in the redistribution of national income and wealth. The general government sector has four subsectors: central government (administrative institutions and agencies whose competence extends over the entire economic territory, except social security funds); state (regional) government; local government (local self-government units) and social security funds.

<sup>38</sup> Participation of revenues and expenditures in relation to GDP of RS for 2015- KM 9.153 million, 2016- KM 9.501 million, 2017- KM 9,890 million, 2018- KM 10,325 million and 2019- KM 10,790 million.

Distribution of total revenues from indirect taxes is prescribed so that, after the allocation of funds to the reserve account, with the purpose of indirect revenues refund, the first step is to allocate the previously determined funds for financing the Institutions of Bosnia and Herzegovina. After that, the amount of 3.55% or KM 124 million minimum is allocated from the remaining portion to finance Brčko District of BiH. The rest of the funds are then divided between the entities in accordance with the share in the final consumption of each entity, as shown in the VAT return. In accordance with the Law on Budget System of Republika Srpska, after the allocation of the amount for financing the foreign debt of Republika Srpska, 72% of the revenues from indirect taxes belonging to Republika Srpska, 24% to budgets of local self-government units and 4% cent to PC "Putevi Republike Srpske".

In line with the commitment to create favourable tax policy and further maintenance of social and fiscal stability, as well as implementing reforms with the aim of reducing the burden on labour and increasing economic activity in 2017-2019, the following is planned in the area of taxation:

When it comes to taxation of legal persons (enterprises), the Law on Corporate Income Tax ("Official Gazette of RS", No. 94/15) was adopted and it came into force on 1 January 2016. In comparison with the previous law, this Law contains norms which clearly define the status of related parties and it precisely determines taxation of transactions between related parties (the area of so-called transfer pricing). In addition, it more precisely determines the treatment of provisions for bank landing (general and special provisions) and insurance companies (technical and mathematical provisions). It also specifically regulates the manner of allocation of common (indirect) costs of the company (enterprise) to the business units and aligns the method of taxation of non-residents (withholding tax) with solutions already in place in the region. Also, this Law affects the reduction in the difference between the tax balance and the income statement, thus contributing to easier and simpler determination of tax basis of the tax payer, increase the efficiency of tax procedures, increase the quality of financial reporting and more precise definition of revenues and expenditures recognised in the tax balance.

In the period between 2017 and 2019, amendments are planned to the Law on Corporate Income Tax aiming at re-defining the treatment of expenditures based on provisions for bank landing (general and special provisions), a simpler method of calculating amortisation for the needs of tax balance, a clearer definition of residency and sources of taxable income in Bosnia and Herzegovina. The aim of this law is to create a recognisable and acceptable business environment in Republika Srpska, but also to adjust the method of taxation of corporations to international taxation principles and advanced tax systems.

In 2015, the Law on Personal Income Tax was adopted ("Official Gazette of Republika Srpska", No. 60/15) with the aim of decreasing the tax burden, primarily through removal of taxation of income derived from shares in equity of legal persons, more precise defining and determining tax incentives, encouraging investment into life insurance premiums in the form of a new tax relief, separating taxation of personal income (income from employment) from other forms of income to be considered as other income (income from different contractual relations, income from membership in management, supervisory or audit boards, income derived from parliamentary and assembly engagements and alike).

It is planned for the Law on Amendments to the Law on Personal Income Tax to be adopted in the period between 2017 and 2019 with the aim of re-defining taxation of capital gains and widening the taxable tax base of income tax through re-defining taxation of income from employment, as well as capital gains. Also, these Amendments will simplify and re-define taxation and determining taxable base for income from self-employment services in accordance with the economic power of tax payers.

The Law on Amendments to the Law on Contributions passed in December 2015 and in force since 1 January 2016, decreases the basis of mandatory contributions for bearers of non-commercial family agricultural holdings for health insurance (20% of average gross salary; it was 30% cent of average gross salary), introduces the basis for enterpreneurs (60% of average gross salary in Republika Srpska) and persons who perform independent professional activities (gross salary in Republika Srpska). Also, this Law removes the obligation of paying contributions to payment of pension contribution to KM 1.200 annually in case the pension contribution is paid by the payer of contribution. The aim of the said relief is to encourage employers in Republika Srpska to pay for their employees certain amounts which would be exempted from payment of contributions and to establish and maintain this type of savings in Republika Srpska. The benefit for each employee is, in essence, the pension realised after the end of the period of investing into the voluntary pension fund, achieved in addition to the pension paid from the mandatory pension insurance in Republika Srpska.

When it comes to tax policies in the area of mandatory contributions, it is planned for the amendment to the Law on Contributions to be adopted so as to decrease the aggregate contribution rate in order to

reduce the tax burden on labour and employment. Decreasing the aggregate contribution rate will happen after the detailed analysis of effects of previous amendments (income, contributions, parafiscal charges) which will help to determine whether it is necessary to additionally reduce the burden on labour and employment, while the missing funds would be secured through previously adopted amendments to the Law on Corporate Income Tax and the Law on Personal Income Tax. If it is established that these funds are not sufficient to maintain the stability of the social protection systems (pension and disability insurance, health insurance, child protection and unemployment protection), the additional missing funds will be secured through modifications of indirect taxation policies. Likewise, amendments to the Law on Contributions will re-define tax payers and the obligation of paying contributions for bearers of commercial agricultural holdings with the aim of more balanced burden of these businesses.

In 2015, the Law on Tax on Immovable Property ("Official Gazette of RS", No. 91/15) was passed. It entered into force on 1 January 2016 with the aim of further improvement of taxation of immovable property in accordance with market value. This Law decreases the span of tax basis of tax on immovable property (0% 0.2%) in relation to the span in the previous law (0.05% to 0.55) and introduces a separate rate for immovable property to be used in production (0% 0.10%). Local communities, in addition to the rate, are obliged to determine the initial value of immovable property. Immovable properties recorded in business books as inventories are exempted from taxes, while the Tax Administration and local-self government units are given access to records of the Republic Administration for Geodetic and Property Affairs for the needs of completing the fiscal cadastre of immovable property. The primary aim of the Law is to stabilise the budget of local communities.

In the period between 2017 and 2019, the change of regulations governing the area of taxation of concessions is not planned, but adjusting the by-laws in this area is planned in order to try to increase the benefits for Republika Srpska and local communities derived from natural resources. This will also contribute to sustainability of the budget of Republika Srpska and the budgets of local communities.

In 2016, the Law on Amendments to the Law on Tax Procedure of Republika Srpska within the framework of conducting reforms of the economic system of Republika Srpska and decreasing the scope of grey economy in Republika Srpska. The stated Law contains amendments enabling controls of non-registered activities and control of recording the employees in the Single System for Registration, Control and Collection of Contributions by all bodies responsible for inspection in Republika Srpska, whether on the level of the Republika Srpska or the local level, as well as amendments disabling registration with the Tax Administration of Republika Srpska of those tax payers whose founders have outstanding tax liabilities and tax payers whose founders are at the same time founders of payers who have outstanding tax liabilities.

Moreover, strengthening of inspection activities in the Tax Administration of Republika Srpska is planned in the following period with the aim of decreasing tax evasion and narrowing the scope of "gray economy" in Republika Srpska. The Law on amendments to the Law on Tax Procedure enables submission of tax returns in electronic form which will significantly improve the performance of Tax Administration of Republika Srpska and decrease the costs of administration. Active work is planned when it comes to increasing the numbers of tax payers who submit their returns in electronic form. It is also expected for the implementation of the new information system of the Tax Administration of Republika Srpska to be completed. It will significantly contribute to decreasing cost of administering taxes, as well to improvement of services of the Tax Administration offered to all tax payers. At the same time, improving performance of all bodies responsible for inspection in view of increasing the degree of responsibility, removing different approaches to control and interpretation of regulations by certain inspectors represents the continuation of commenced activities with the aim of mitigating grey economy.

No changes of regulations related to fiscal cash registers were planned in the period between 2017 and 2019. Rather, it is planned for the tax controls related to implementation of the Law on Fiscal Cash Registers to be strengthened, thus contributing to the higher level of compliance with the Law.

In the following period, it is planned for the Law on the Tax System of Republika Srpska to be adopted, which will serve to perform inventory of all tax types. Upon its adoption, the Law will prevent both the bodies of the Republika Srpska and local bodies from imposing new taxes outside the framework of this Law, which will contribute to establishing a recognisable and desirable tax environment. The stated Law will ensure a legal basis for establishing the Registry of tax and non-tax charges of Republika Srpska, on the basis of which detailed analysis will be performed in view of justifiability and levels of certain tax and non-tax fees with the ultimate goal of their reduction or abolition. It is possible to expect interventions in certain tax-related regulations. These interventions will result in administrative

unburdening of business activities in Republika Srpska and decreasing the number of procedures and filings necessary for settling tax and non-tax liabilities of business entities in Republika Srpska, as well as tax unburdening of legal and private persons.

In the area of indirect taxation, it is planned for the amendments to the Law on Excise Duties of Bosnia and Herzegovina to be adopted in view of removing pay tolls in the amount of KM 0.15/l. However, the excise duty on oil derivatives (diesel and other gas fuels, petrol-including lead-free petrol, fuel oil-extra light, light and special light EL and LS). Increasing excise duties on heating oil would decrease the price gap between different categories of oil derivatives. The above mentioned amendments would also introduce excise duty on bio-fuels and bio-liquids in the amount of KM 0.45 /l. Likewise, it is planned for the pay toll to be increased from KM 0.10/l to KM 0.25/l of oil derivatives in addition to introducing the said pay toll to bio-fuels and liquid oil gas. Additional revenues from pay tolls would be designated to spending on construction of motorways and roads.

With the aim of securing additional funds for financing healthcare, it is planned for a special excise duty to be introduced on beer and non-alcoholic beverages in the amount of KM 0.15 per litre, as well as on alcohol and alcoholic beverages in the amount of KM 5, and on natural fruit brandy in the amount of KM 2.5 per litre of pure alcohol. Special excise duty would represent designated revenues of the health insurance fund.

In projections of tax and non-tax revenues for the general government, effects of the adopted amendments to the legal provisions mentioned in this part have been taken into account, while planned amendments to the legal regulations will be taken into account after adoption of the laws in the National Assembly of Republika Srpska and the Parliamentary Assembly of Bosnia and Herzegovina when it comes to indirect taxes.

Within the framework of planned spending between 2016 and 2019, allocations for social protection (50.8% to 53.1%) and allocations for personal income of employees (23.8% to 25.1%) defined by legal framework. Allocations for expenditures under usage of goods and services (7.4% to 7.7%) is somewhat dependent on available funds, while net expenditures for non-financial assets are planned in the range between 4.5 % and 7.9% of total spending. Within the structure of the planned spending, allocations for interest expenditures and other financing expenditures (2.8% to 3.1%) are also not negligible.

Budget spending reflects the priority policies in accordance with the overall level of available funds. It is directed toward securing realistic framework within which the competent ministries and budget users can function, while taking into account the fulfilment of the assumed legal obligations and in line with principles of rationality and savings.

### **3.2. BUDGET IMPLEMENTATION IN 2016**

In accordance with the preliminary report of the Indirect Taxation Authority on cash flow for the first nine months of 2016, the amount of KM 4.063 billion of gross revenues was collected, representing increase of KM 155.8 million or 4% in comparison with the same period of 2015. Negative trends in collection of revenues from customs duties in 2015 continued in 2016 while cumulative collection of customs duties reached the level of collection recorded in the same period of 2015 only after eight months. VAT collection increased at the rate of 2.9% in the stated period. VAT on imports grew by modest 1%, while the domestic VAT grew by as much as 5.7% in comparison with the same period of 2015. Since the non-adjusted revenues also include a significant portion of domestic VAT after final adjustment for nine months, even higher growth rates of domestic VAT were recorded, thus also implying the growth of total collection of net VAT. Returns paid to tax payers decreased by 1.2%, while returns to international organisations and projects remained at the level of the same period of 2015. Revenues from excise duties on tobacco which generated excise growth in 2015 decreased by 1.5% in nine months. As the result of high growth of excise duties on oil derivatives at the rate of 8.6%, total revenues from excise duties increased by 2%. Pay toll revenues from oil derivatives prices grew by 11.2% in comparison with the nine months in 2015. Revenues from excise duties on alcohol and alcoholic beverages recorded a negative growth, while excise duties on beer recorded a positive growth of 3.15%, thus resulting in decrease of excise duties on imported beer by 1.9% and growth of excise duties on domestic beer by 14.6%.

#### ***BiH Council of Ministers***

In accordance with the Report on Execution of Budget of the Institutions of Bosnia and Herzegovina and International Obligations of Bosnia and Herzegovina for the first six months of 2016, total

revenues, financing and proceeds available to the Institutions of Bosnia and Herzegovina in the period between January and September of 2016 amount to KM 749.4 million or 79% in relation to planned revenues, proceeds and financing in the Budget for 2016.

Out of the stated amount, the realised income in the reporting period amount to KM 699.7 million or 78%, while financing and proceeds amount to KM 49.7 million or 99%. If revenues paid on a one-time basis (revenues from the profit of the Central Bank of Bosnia and Herzegovina) are disregarded, it is possible to say that total revenues are realised slightly above (2%) the level of  $\frac{3}{4}$  of planned revenues. Financing and proceeds imply the assigned excess of revenues from previous years in the amount of KM 48.9 million and realised proceeds from disposal of fixed assets in the amount of KM 0.8 million.

In the period January-September 2016, the Institutions of BiH realised the following revenues, receipts and funding:

- KM 561.8 million of revenues from the Single Account of the Indirect Taxation Authority (ITA SA);
- KM 126.4 million of non-tax revenues (including the income from profit of the Central Bank BiH in the amount of about KM 18,8 million, which represents a decrease by KM 2.4 million compared to the previous year, that is a drop from KM 21.3 million in 2015 to KM 18.8 million in 2016);
- KM 10.9 million of donations (earmarked);
- KM 0.6 million of earmarked transfers from other levels of government;
- KM 0.8 million of receipts based on sales of fixed assets;
- KM 49 million of transferred surplus of funds from previous years;

Budget expenditures of BiH Institutions in the period January-September 2016 were as follows:

- KM 483.1 million for wages and compensations of employees;
- KM 96.5 million for material expenses;
- KM 0.9 million KM on transfers for the Return Fund for financing the rights under Annex VII of the Dayton Peace Agreement;
- KM 3.2 million of transfers to other levels of government;
- KM 0.5 million for foreign interest based on credit for micro-financial assistance of the European Commission and the CEB loans for construction of the state prison;
- KM 18.6 million of other expenses for direct transfers and reserve;
- KM 29.4 million of net expenses for non-financial assets, i.e. capital expenditure of KM 30.2 million net of realised income from assets in the amount of KM 0.8 million, represent a net increase in non-financial assets in the amount of KM 29.4 million.

Payment of revenues from indirect taxes for financing the institutions of Bosnia and Herzegovina was performed on every business day of the ITA in accordance with applicable provisions of the Law on Payments into the Single Account and Allocation of Revenues ("Official Gazette of Bosnia and Herzegovina", No. 55/04").

Realisation of non-tax revenues in the reporting period of 2016 amounts to 85% in comparison with planned revenues in the budget for the current year. This procedure is the result of revenues from profit of the Central Bank of Bosnia and Herzegovina within the framework of revenues from financial public institutions, which are collected on a one-time basis (generally in April) being realised in the first half of the year (and will not exist in the second half), thus increasing the percentage of realisations of total non-tax income in the reporting period. This procedure is also affected by the fact that all other types of non-tax revenues, nominally participating in total non-tax revenues roughly exceeded 75% as the percentage of realisation. If planned and realised revenues in this year resulting from the profit of the Central Bank of Bosnia and Herzegovina are disregarded, the actual realisation of non-tax income in the first three quarters of the current year amounts to approximately 82%. Within the framework of non-tax revenues in the reporting period, revenues from fees in the procedure of indirect taxation realised at the rate of 84%, revenues from administrative fees at the rate of 93%, revenues from special fees and taxes at the rate of 79%, revenues from performing individual services at the rate of 81% and other revenues at the rate of 20%.

Current support in cash includes all designated donations remitted from abroad by foreign governments and organisations to support specific institutions of Bosnia and Herzegovina. The rate of current support in cash is 180% in comparison with what was planned.

In the reporting period of 2016, proceeds from disposal of fixed assets in the amount of KM 0,8 million or 80% of the planned amount are evident, mostly pertaining to sale of motor vehicles of budget users.

In the reporting period between January and September 2016, no proceeds from succession are realised. Transferred excess of funds from previous years in the amount of KM 49 million will be used for covering public spending of the Institutions of Bosnia and Herzegovina for the current year. In the reporting period, there was no new borrowing of the Institutions of Bosnia and Herzegovina.

Total realised expenditures and costs of the Budget of the Institutions of Bosnia and Herzegovina between 1 January and 30 September 2016 amount to KM 633 million or 67% in comparison with the 2016 Budget.

Realisation of expenditure of BiH institutions in the first nine months of 2016 was lower, namely 67% compared to 2016 Budget due to the implementation of the public procurement with expenditure for non-financial assets and material expenses, as well as public calls for allocation of current grants by the Ministry of Civil Affairs of Bosnia and Herzegovina and the Ministry of Human Rights and Refugees of Bosnia and Herzegovina. The biggest execution of these expenditures is expected in the fourth quarter of 2016.

On the expenditures side, Institutions of Bosnia and Herzegovina continued with savings on salaries and material costs in 2016 in order not to jeopardise the macro-economic stability of the country. The Decision of the Council of Ministers on lowering the salary basis by 4.5 per cent (from KM 498.10 to KM 475.69) is still being implemented, as is the case with decreasing the daily meal allowance from KM 8 to KM 6 and with decreasing the amount of daily allowance for travelling abroad by 10%. These came into force on 1 May 2012. In addition, there are decreases in vacation bonus allowance by about 50% (from KM 586 to 300), housing allowance of officials and family allowance by about 25% which came into force on 1 July 2012, with the exception of certain categories of experts in judiciary institutions and employees of diplomatic and consular posts whose salaries are calculated in accordance with the Rulebook on salaries, bonuses and compensations of the employees in diplomatic and consular posts.

In addition, the Law on Budget of the Institutions of Bosnia and Herzegovina and International Obligations of Bosnia and Herzegovina for 2016 prescribes moratorium on employment in the Institutions of Bosnia and Herzegovina up to the total number of employees in accordance with the Law on Budget of the Institutions of Bosnia and Herzegovina and International Obligations of Bosnia and Herzegovina for 2015 and employment dynamics for 2016, except in extraordinary circumstances (newly established institutions and alike) when new employment above the projection may be approved by the Council of Ministers of Bosnia and Herzegovina.

Additional savings on material costs are also realised due to implementation of single rulebooks of the Council of Ministers of Bosnia and Herzegovina resulting in limiting the rights of employees in view of entertainment allowance, expenditures for telephones and mobile phones and other items as of 1 January 2015.

### ***Government of the Federation of BiH***

Total realised revenues, proceeds and financing of the Federal Budget in the first half of 2016 amount to KM 997.6 million, i.e. 38% of what was planned in the Budget of the Federation of Bosnia and Herzegovina for 2016. In the stated amount, tax revenues (corporate income tax and taxes from indirect taxes) are realised in the amount of KM 658.1 million, non-tax revenues (fees, duties, penalties and other non-tax revenues) in the amount of KM 119.5 million, while the proceeds from financing are realised in the amount of KM 220.0 million.

If we observe the plan on the  $\frac{1}{2}$  basis, the ideal realisation of revenues would be represented by the amount of KM 1,299.4 million. This would mean that the collection of revenues in the first six months is significantly different from the planned dynamics of the revenues inflow, i.e. the amount of collected revenues is KM 301.8 million or 23.2% lower than the planned amount. In addition to other factors, the reason behind this realisation is that the planned IMF tranche was not paid. Also, the planned revenues arising from privatisation were not realised either.

Unlike the aforementioned shortfall in revenues compared to the plan, the total realised revenues increased by 7% or in absolute terms by KM 67.4 million relative to the same period of 2015. The

biggest increase was recorded in the corporate income tax (42% or KM 8.7 million), indirect taxes revenues (4% or KM 25.5 million), fees, duties and revenues from provision of public services (52% or KM 16 million), and penalties (22% or KM 1.6 million). Furthermore, proceeds from financing are by 11% or KM 21.3 million higher than in the same period of 2015.

In analysing the accounts of the generated revenues, it can easily be observed that in 2016 we recorded realisation in certain categories of revenues which were not present in the previous year. These account for a significant share of total revenues. Thus, on the analytical account 722481-Fees from games of chance pertaining to the Budget of the Federation of Bosnia and Herzegovina, revenues in the amount of KM 5.3 million were realised, while on the analytical account 722599-Monthly fee from games of chance we have revenues in the amount of KM 6.5 million. These financial effects are the result of adoption and implementation of the new Law on Games of Chance which came into force in the second half of 2015. The adoption of the new Law on Games of Chance establishes a legal framework for improvement of financial discipline of the entities operating in this field. This resulted in significant increase of inflow of funds based on the payment of public revenues in the part of mandatory fees from certain legally permitted games of chance. In comparison with the previous Law, in addition to the obligations of payment of lump sums for obtaining approval for organising the games of chance, this Law prescribes the obligation of payment of monthly fees in the determined percentage of realised turnover.

Total calculated expenditures and costs, for the period between January and June 2016 amount to KM 949.7 million, representing 37% of the amount planned in the Budget of the Federation of Bosnia and Herzegovina for 2016.

Expenditures and costs on cash basis amount to KM 850.8 million, i.e. 90% of total calculated expenditures and costs in the current period.

It is important to note that, in the first half of the year, approximately KM 188 million of obligations from the previous year were paid. Therefore, the current state of outstanding liabilities from previous year amounts to approximately 19 million. Execution of expenditures by main categories is as follows:

- current expenditures (salaries and remunerations, contributions, material expenditures, current transfers, expenditures for interest) KM 609.1 million;
- total capital expenditures (expenditures for procurement of fixed assets and capital grants) KM 4.8 million; total capital expenditures (expenditures for procurement of fixed assets and capital grants) - 4.0 million
- expenditures for financial assets KM 2.0 million and
- expenditures for debt repayment of debt KM 333.8 million.

In comparison with execution in the same period of the previous year, total expenditures and costs record the same level of execution. However, observed by main categories, growth of 34% was recorded in expenditures for material, small inventory and services (costs arising from lawsuits, interest on court verdicts and lawyers' fees), growth of 14% in current transfers and current expenditures. Also, expenditures for interest and other fees recorded an 11% increase relative to the execution in the period between January and June 2015.

Taking into account the above stated facts related to underperformance of revenues due to delays in signing the Letter of Intent for the IMF, which affected realisation of the tranche of planned funds in 2016, as well as due to failure to fulfil conditions envisaged in the DPL of the World Bank, in accordance with the FBiH Law of the Budgets, the Government of the Federation initiated activities related to amendments to the Budget of the Federation of BiH in 2016. In addition to planned savings in the positions where it is possible, these amendments to the Budget focus on the source of funding when it comes to borrowing. In essence, the Government of the Federation of BiH plans to replace foreign sources of financing (IMF, SB) with domestic sources, i.e. by issuing the securities on the domestic capital market.

### ***Government of Republika Srpska***

The largest part of the fiscal framework of the General Government of Republika Srpska is comprised of the budget of Republika Srpska. Budget of Republika Srpska for 2016 was adopted by the National Assembly of Republika Srpska on 23 December 2015, in the amount of the budget framework of KM 3,127 million. The most important innovation in the Budget of Republika Srpska for 2016, in comparison with earlier years, is introducing the Pension and Disability Fund in the treasury system, as user of the budget of Republika Srpska. The biggest discrepancies in revenues and expenditures of the

Budget are the result of this modification. If consolidated budgets at the level of General Government of Republika Srpska are observed, this modification will not be evident, since in the previous period, the Pension and Disability Fund was included into the sub-sector of social security funds.

The Budget of Republika Srpska for 2016 plans surplus in the amount of KM 2 million, while at the level of the Central Government and the General Government, the planned deficit amounts to KM 115.9 million and KM 94.9 million, respectively. The planned deficit at the level of General Government in 2017 amounts to KM 114.8 million, while at the level of General Government in 2018 and 2019, the anticipated surplus amounts to KM 172.7 million and KM 251.5 million, respectively.

Total revenues of the Budget of Republika Srpska in 2016 amount to KM 2,486.9 million and their structure comprise the following:

- Tax revenues in the amount of KM 1,509.9 million, encompassing revenues from indirect taxes, revenues from income tax and tax on profit, and revenues from taxes on property;
- Social security contributions in the amount of KM 779 million representing, at the same time, the reason behind significant differences in budget revenues. Introduction of the Pension and Disability Fund into the treasury system as of 1 January 2016, revenues from contributions for pension and disability insurance planned within the framework of the Budget of Republika Srpska;
- Revenues from property in the amount of KM 54.9 million;
- Other revenues in the amount of KM 143 million.

Total expenditures of Republika Srpska in 2016 amount to KM 2,484.9 million, while their structure is comprised by the following:

- Gross salaries and remunerations of employees planned in the amount of KM 722.7 million, in accordance with the Law on Salaries of Employees in the Administrative Bodies of Republika Srpska, the Law on Salaries of Employees in the Judicial Institutions of Republika Srpska, the Law on Salaries of Employees in the Ministry of the Interior of Republika Srpska, the Law on Salaries and Remunerations of Judges and Prosecutors in Republika Srpska and the Law on Salaries of Employees in Public Services of Republika Srpska, and in accordance with the Decision on determining the price of work and other laws and by-laws regulating this area;
- Expenditures for goods and services are planned in the amount of KM 103.3 million ;
- Social protection contributions are planned in the amount of KM 1,248.4 million, of which the majority is represented by contributions is planned in accordance with the laws regulating budget contributions to pensioners, war veterans, refugees and displaced persons; Social protection contributions are planned in the amount of KM 1,258.1 million in 2017, KM 1,250.2 million in 2018 and KM 1,251.2 million in 2019, of which the biggest amount is planned in accordance with laws regulating budget contributions related to retired persons, war veterans, refugees and displaced persons.
- Expenditures for interests in the amount of KM 104.8 million in accordance with the plan of repayment of foreign and domestic debt, the upgraded plan of withdrawing under investment credits, planned budget financing and the calendar of issuance of treasury notes and long-term bonds;
- Subsidies are planned in the amount of KM 98.7 million and are planned for producers of goods and services and have the aim of influencing the volume of production, the sale price of outputs or producers' compensation on other basis;
- Donations in the amount of KM 128.8 million, the majority of which pertains to health insurance of unemployed persons, social protection (in accordance with the Law on Social Protection), transfers to local self-government units and action plans and employment projects;
- Net expenditures for non-financial assets in the amount of KM 52.2 million as the result of securing funds for purchasing a building in East Sarajevo for the needs of housing the representatives of Republika Srpska in the Institutions of Bosnia and Herzegovina and funds planned within the framework of Public Investments;
- Other expenditures planned in the amount of KM 25.9 million are represented by current budget reserve and grants.

In accordance with reports on execution of the budget of Republika Srpska for the first six months of 2016, in comparison with the half of the plan for 2016, total revenues are realised at the level of 97%, of which tax revenues are realised at the level of 98%, social security contributions at the level of 93%, revenues from property at the level of 92% and other revenues at the level of 106%.

On the expenditures side, realisation of total expenditures amounts to 89%, current expenditures to 90% and expenditures for non-financial assets to 70%. Within the framework of current expenditures, expenditures for personal income are realised 100%, while the expenditures for using goods and services are realised at the rate of 53%. Expenditures for financing and other financial costs are realised at the rate of 90%, social contribution allocations at the rate of 96% and transfers between budget units at the rate of 58%. It is obvious that in executing the Budget, debt repayment remains a priority, while current spending is adjusted to realised revenues. This ensures control of public spending through restricting current expenditures (expenditures for using goods and services, grants, subsidies and transfers).

### 3.3. MEDIUM-TERM BUDGETARY OUTLOOK

Revised projections<sup>39</sup> of revenues from indirect taxes for the period between 2016 and 2019 are based on the revised forecasts of macro-economic indicators (Directorate for Economic Planning, September 2016) for the same period, on the effects of the medium-term policies in the area of excise duties on tobacco and customs and current trends in collection of indirect tax revenues. For 2016, the collection is planned in the amount of KM 5,461.8 million, i.e. 3.9% more than in 2015 (Table 1). It is expected for VAT to grow at the rate of 4% in 2016, mainly because of the positive current trend in collection of domestic VAT. It is expected for the VAT on import to grow slightly and for the refunds to decrease. On the basis of current trends in collection and export projections, it is expected for the revenues from customs to slightly increase in the fourth quarter of 2016, thus resulting in growth of 1.3%<sup>40</sup> at the annual level. Moderate increase of excise duties on petroleum products and road tolls is planned in the last quarter of 2016 since no substantial changes in external factors influencing the increase of spending petroleum products is expected in the short-term. Projections of revenues from excise duties on tobacco products are significantly revised i.e. lowered due to unfavourable current trends on the tobacco market in 2016. However, it is possible to expect collection of revenues close to the level in 2015, given the previous practice of stocking of cigarettes before regular increase of specific excise duties as of 1 January 2017.

#### Revised projections of revenues from indirect taxes, October 2016

Type of revenues (net)	in million KM					Projected growth rate			
	Performance	Projection				(in %)			
	2015	2016	2017	2018	2019	2016	2017	2018	2019
VAT	3,255.9	3,385.6	3,520.8	3,669.1	3,834.0	4.0%	4.0%	4.2%	4.5%
Excise duties	1,408.1	1,448.8	1,469.5	1,495.6	1,522.9	2.9%	1.4%	1.8%	1.8%
Custom duties	239.9	242.9	256.2	272.7	291.4	1.3%	5.5%	6.5%	6.8%
Road tax	319.8	355.2	364.8	375.4	386.3	11.1%	2.7%	2.9%	2.9%
Other	35.1	29.2	29.4	29.6	29.8	-16.8%	0.7%	0.7%	0.7%
<b>Total</b>	<b>5,258.7</b>	<b>5,461.8</b>	<b>5,640.6</b>	<b>5,842.4</b>	<b>6,064.3</b>	<b>3.9%</b>	<b>3.3%</b>	<b>3.6%</b>	<b>3.8%</b>
Road tax 0.10 KM/per litre	-127.6	-142.1	-145.9	-150.2	-154.5	11.4	2.7	2.9	2.9
<b>For distribution</b>	<b>5,131.1</b>	<b>5,319.7</b>	<b>5,494.7</b>	<b>5,692.2</b>	<b>5,909.8</b>	<b>3.7</b>	<b>3.3</b>	<b>3.6</b>	<b>3.8</b>

The projected rates of growth of revenues for 2017, 2018 and 2019 are 3.3%, 3.6% and 3.8% respectively (Table 1). The largest generators of surplus revenues from indirect taxes in this period are VAT, excise duties on petroleum products and road tolls from the price of petroleum products. VAT

<sup>39</sup> Projections were revised by the Unit for Macroeconomic Analysis of the Management Board of ITA in October 2016.

<sup>40</sup> Projections include the effects of implementation of the Free Trade Agreement between BiH and EFTA members in the period between 2016 and 2018.

projections follow the developments of macro-economic aggregates, and it is expected that the domestic VAT growth rates will be more moderate. The growth planned in terms of economy and export should generate faster VAT growth on imports and consequently the growth of gross VAT. Consequently, it is expected for the VAT refunds to grow gradually, especially in view of planned export and investments growth. Projections of custom duties were prepared in accordance with the planned import growth rates. Effects of the Agreement with EFTA members are not fiscally significant since import from EFTA members in 2014<sup>41</sup> represented only 0.6% of BiH imports<sup>42</sup>, and the share of revenues from custom duties collected in view of that import was only 3.3% of total revenues from custom duties. Projections of excise duties on tobacco between 2017 and 2019 are utterly conservative and are based on current 2016 trends and with expected negative effects of continued increase of tax on cigarettes and cut tobacco on spending, market and revenues. In circumstances of strengthening black market and in expectation of improvement of the relative competitive position of the price of cigarettes and tobacco from the neighbouring countries due to growth of excise burden, the best possible scenario for the regular of the tobacco products market in Bosnia and Herzegovina is for it to grow in accordance with increase in private consumption. Along with the growing tax burden and fall in consumption corresponding to the elasticity of consumption of cigarettes in developing countries, this should result in the minimal growth of revenues from excise duties on tobacco products. Projections of excise duties on petroleum products and road tolls between 2017 and 2019 have been prepared on the assumptions of stopping the trend of strong consumption growth rates. Very high growth rates of revenues from excise duties on petroleum products and road pay tolls which were recorded in 2015 and in 2016<sup>43</sup>, so far are the result of (i) global political crisis generating turbulences on the global oil market, (ii) the transit position and fiscal competitiveness of BiH in relation to the surrounding countries and (iii) the policy of stockpiling petroleum products by importers and companies in anticipation of the announced increase of excise duties on petroleum products. In the coming years, it is expected for the consumption of petroleum products to be stabilised bearing in mind announcements of oil prices in the global market and weakening the competitive position of BiH in relation to its neighbourhood due to announced decreases of fiscal burden on petroleum products and other goods in the region, especially if excise duties on petroleum products in BiH are increased. The above mentioned developments on petroleum products market should result in stabilisation of revenues from excise duties on petroleum products, while the growth rates should develop in accordance with the growth of the economy and consumption in Bosnia and Herzegovina.

### ***The Council of Ministers of Bosnia and Herzegovina***

#### *Medium-term budgetary outlook of the Institutions of Bosnia and Herzegovina*

The baseline for the preparation of the Draft Budget of the Institutions of BiH:

- Provisions of the Law on Financing the Institutions of Bosnia and Herzegovina related to drafting, content and adoption of the budget;
- austerity measures of the institutions of BiH agreed by the Fiscal Council of BiH within the framework of the Stand-by arrangement with the IMF;
- priorities and activities in accordance with obligations assumed by signing the Reform Agenda;
- Agreement on Adoption of the Global Framework of Fiscal Balance and Policies in Bosnia and Herzegovina concluded between the Council of Ministers of Bosnia and Herzegovina, the Government of the Federation of Bosnia and Herzegovina and Republika Srpska during the Fiscal Council session held on 24 May 2016. The Agreement determines the framework of the Institutions of Bosnia and Herzegovina in the total amount of KM 950 million, as well as allocation of financing funds from the Single Account of the Indirect Taxation Authority in the amount of KM 750 million.
- Upper ceiling of expenditures derived from the Framework Budget Document adopted by the Council of Ministers of BiH at its 66th session held on 28 July 2016;
- Operational instructions for preparation of requests for allocation of funds from the budget given in the instructions for preparation of budget requests for 2017 provided to all Institutions of Bosnia and Herzegovina in June 2016 by the Ministry of Finance and Treasury;

---

<sup>41</sup> These are the years preceding the beginning of implementation of the Agreement with EFTA members.

<sup>42</sup> Source: Agency for Statistics of Bosnia and Herzegovina, [www.bhas.ba](http://www.bhas.ba).

<sup>43</sup> In accordance with current developments, the growth of revenues from excise duties on oil derivatives for the first three quarters of 2016 is almost 20 per cent higher than in the same period of 2014.

- Expenditures of budget users in accordance with the Law on the Budget of the Institutions of Bosnia and Herzegovina and International Obligations of Bosnia and Herzegovina for 2016;
- Submitted requests of budget users for 2017 budget;
- Calculation of salaries in accordance with the basis in the amount of KM 475.69 to all employees in diplomatic and consular posts whose salaries are calculated in accordance with the Rulebook on salaries, bonuses and compensations of persons in diplomatic and consular posts of Bosnia and Herzegovina, calculation of daily meal allowance in the amount of KM 6 daily, calculation of vacation bonus in the amount of KM 300 for all employees, calculation of housing allowance and family allowance in accordance with applicable decisions of the Council of Ministers, etc.
- the planned number of employees as of 31 December 2017. The number includes certain number of employees in the 2016 Budget and employees in accordance with the decisions of the Council of Ministers approving employment in 2016 to the Presidency of Bosnia and Herzegovina (6 employees), to the General Secretariat of the Council of Ministers (2 employees), the Commission for preservation of national monuments (6 employees including 3 Commission members who, in accordance with the new Rulebook on internal organisation receive the status of appointed persons, while, in accordance with previous regulations, these employees were engaged as external associates and received remuneration as members of management boards), in accordance with the decision which is currently being adopted, to the Directorate for Economic Planning (1 employee) in accordance with the Decision of the Civil Service Agency on external transfer and appointment of excess numbers of employees as of 27 June 2016. In addition to the above stated, the total number of employees as of 31 December 2017 includes 12 employees of the Intelligence-Security Agency of Bosnia and Herzegovina. Their employment was approved by the Decision of the Council of Ministers of Bosnia and Herzegovina adopted at its 73rd session.

During 2017, new employment is planned in the Ministry of Justice due to which the number of employees will remain at the level of approved number of employees in the 2016 Budget because of prolonged realisation of construction and putting into operation of the State Prison-the dynamics of employment is prolonged from October 2016 to 2017.

On the other hand, in the Unit for Implementation of the Project of construction of the State Prison, the planned number of employees as of 31 December 2017 is by 5 employees smaller because the Unit will cease to exist after the State Prison becomes operable.

Revenues, proceeds and financing for 2017 include the following:

- KM 750 million from indirect taxes, at the level of 2016,
- KM 137.9 million of non-tax revenues, representing decrease of KM 1.06 million or 7 per cent in comparison with 2016. Decrease in this category of revenues is primarily the result of planning the amount of profit of the Central Bank of Bosnia and Herzegovina which is by KM 10.5 million or 58 per cent smaller than the one stated in accordance with the projection of the Central Bank of Bosnia and Herzegovina (the planned amount is KM 7.5 million). In addition, the decrease in revenues from passports and vehicles registration by KM 1,7 million (5 per cent) is evident. These are projected in accordance with the planned dynamics of issuing and replacement of personal documents by the Agency for Identification Documents, Records and Exchange of Information;
- KM 0.6 million from current donation (Donation to the Ministry of Foreign Affairs) at the level of 2016 Budget;
- KM 0.4 million of funds for financing the Institutions of Bosnia and Herzegovina pertaining also to a transfer of Brčko District for functioning of the Agency for Statistics of Bosnia and Herzegovina and the transfer of the Federation of Bosnia and Herzegovina and Republika Srpska for functioning of the State Aid Council;

In the Budget for 2017, under the item Financing and Proceeds, funds in the amount of KM 61.1 million have been planned, while the structure pertains to:

- KM 60.3 million of funds transferred from the previous period; in comparison with 2016, this represents an increase of 21% related to transferred excess of revenues over expenditures in accordance with the report on financial operations of the Institutions of Bosnia and Herzegovina and international obligations of Bosnia and Herzegovina for 2015;
- KM 0.8 million of proceeds from selling fixed assets, representing a decrease by KM 0.2 million or 18%.

In preparation of the Draft Budget for 2017, the Ministry of Finance and Treasury was guided by these priorities:

- I. Development of state functions related to fulfilling the European Partnership requirements
- II. Securing funds for implementation of the Stabilisation and Association Agreement
- III. Adjusting the programme and activities of the Ministry of Defence and other Ministries participating in the procedure of accepting BiH into the Partnership for Peace (PfP) and joining NATO;
- IV. Securing part of funds for multiannual projects of budget users
- V. Securing funds for designing the new generation of passports with thin polycarbonate flexible identification other side in accordance with the dynamics of replacement of these documents;
- VII. Securing funds for commencement of operations of the BiH State Institute for execution of criminal sanctions, detention and other measures
- VIII. Securing funds for strengthening capacities of agencies responsible for foreign trade and European integrations with the aim of implementing activities in the process of accession of BiH to the European Union.

Total expenditures of the Institutions of BiH amount to KM 950 million and are at the level of 2016, while servicing of foreign debt of BiH amounts to KM 1 billion and represent an increase by KM 245.9 million or 31% per cent in comparison with 2016.

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

- Gross salaries and remuneration of costs of employees are planned in the total amount of KM 668.1 million (gross salaries in the amount of KM 550.6 million and employees' remunerations KM 117.5 million), which, in comparison with the 2016 Budget, represent an increase in the amount of KM 1.7 million or 0.5% as the result of planned employment in 2016 and 2017 in accordance with the adopted decisions and decisions pending adoption by the Council of Ministers, completion of putting into operation of the State Prison, modifications of coefficients for calculation of salaries in the Intelligence-Security Agency, planned admissions of cadets who will acquire the status of police officers during 2017, as well as decrease of total amount of remunerations and costs of employees, primarily because of the planned smaller amount for payments of the jubilee awards;
- Total material costs in the Budget for 2017 amount to KM 182.3 million, and are lower by KM 4.9 million or 3% in comparison with 2016.

Increase in this category of expenditures is evident in the Ministry of Transport and Communications of Bosnia and Herzegovina in the amount of KM 6.6 million due to modifications of the method of recording Microsoft licences, of the Ministry of Justice of Bosnia and Herzegovina in the amount of KM 1.5 million due to the planned putting into operation of the State Prison, of the Directorate for coordination of police bodies in the amount of KM 0.6 million, primarily due to increase in travelling costs and VIP escort, of the Court of Bosnia and Herzegovina in the amount of KM 0.6 million of which the main part relates to legal services which are planned in accordance with the increased number of cases, of the Office of Attorney General of Bosnia and Herzegovina in the amount of KM 0.5 million due to participation of the Office in the international arbitration for settling investment disputes in Washington, the costs relate to contracts with offices of attorneys representing Bosnia and Herzegovina, of the Ministry of Security of Bosnia and Herzegovina in the amount of KM 0.4 million due to organising NATO EADRCC exercise "Disaster management in BiH" in accordance with the Conclusion of the Presidency of Bosnia and Herzegovina, etc.

On the other hand, more significant decrease of material costs is present in the Agency for Identification Documents, Records and Exchange of Information in the amount of KM 2.1 million due to the planned issuance of personal documents in accordance with the planned dynamics, of the Central Electoral Commission in the amount of KM 3.4 million due to completion of local elections in 2016;

- Transfers under social protection (planned in the Budget under current grants and transfers) are planned in the amount of KM 2.1 million pertaining to the current grant for Financing rights from Annex VII of the Dayton Peace Agreement and the Grant for the award of financial prizes for admirable and top international class athletes;
- Transfers to other budget units (planned in the Budget under current grants and transfers) are planned in the amount of KM 7 million, representing an increase of 0,6 million or 10% in comparison with 2016 and pertaining to current grants to entities for costs of detainees of the Court of Bosnia and Herzegovina in the amount of KM 3.9 million, Grant of settling problems of Roma in terms of housing and employment and Support Grant to municipalities, NGOs and associations for implementation of 2016-2010 migration and asylum strategy, grant funds for support to the municipalities included into the system of acceptance and integration of BiH returnees on the basis of the agreement on re-admission, in the total amount of KM 2.35 million, current transfer to the Municipality of Srebrenica for observation of the 20th anniversary of events in Srebrenica, the "Safe UN Zone" in the amount of KM 0.15 million and Grant for co-financing the European Winter Olympic Youth Festival 2019 (EYOWF) in the amount of KM 0.5 million;
- Expenditures for non-financial assets are planned in the amount of KM 56.5 million (including the funds for multiannual projects in the amount of KM 19.6 million) and are lower by KM 10.2 million in comparison with 2016 ;
- Expenditures for interest are planned in the amount of KM 1.1 million and pertain to the macro-financial aid credit in the amount of KM 0.4 million and the CEB credit for construction of the BiH State Institute for execution of for criminal sanctions, detention and other measures in the amount of KM 0.7 million;
- Other expenditures are planned in the amount of KM 32.9 million (planned in the budget under the current and capital grants and transfers and reserves).

Basic assumptions/expenditures policies for 2018 and 2019 from the Framework Budget Document of the Institutions of Bosnia and Herzegovina 2017-2019

In 2018 and 2019, in accordance with the adopted Global Framework of Fiscal Balance and Policies in BiH, the framework for financing the Institutions of Bosnia and Herzegovina was defined in the amount of KM 950 million, while the assignment of funds from the Single Account of ITA is determined in the amount of KM 750 million in each year.

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

- Tax revenues in 2018 and 2018 in the amount of KM 750 million,
- Non-tax revenues in 2018 in the amount of KM 131.4 million, and KM 122.4 million in 2019,
- Transfers from other levels of government in 2018 and 2019 in the amount of KM 0.4 million,
- Current subsidies in cash in 2018 and 2019 in the amount of KM 0.6 million,
- Financing and proceeds in 2018 in the amount of KM 67.6 million, and KM 76.6 million in 2019.

Structure of expenditures of the Institutions of BiH derived from the Framework Budget Document in 2018 and 2019 is the following:

- In 2018, gross salaries and remunerations of costs of employees are projected in the amount of KM 672.3 million (of which gross salaries KM 522.2 million, costs of employees KM 120.1 million) and in 2019 the amount of KM 675.8 million (of which gross salaries KM 554.04 million, costs of employees KM 121.74 million),
- Material costs for 2018 are projected in the amount of KM 191.6 million, and for 2019 KM 179.4 million.

- Allocations under social protection (planned in the Budget under current grants and transfers) in 2018 and 2019 are planned in the amount of KM 2 million pertaining to the current grant for Financing rights from Annex VII of the Dayton Peace Agreement.
- Transfers to other budget units (planned in the Framework Budget Document under current grants and transfers) in 2018 are planned in the amount of KM 3 million annually, of which Grant for settling the issue of Roma people in the housing sector and employment and Support Grant to Municipalities, NGOs and associations for implementation of migration and asylum strategy 2016-2015 in the total amount of KM 2.35 million, current transfer to the Municipality of Srebrenica for observation of the 20th anniversary of events in Srebrenica, the "Safe UN Zone" in the amount of KM 0.15 million and Grant for co-financing the European Winter Olympic Youth Festival 2019 (EYOWF) in the amount of KM 0.5 million, and in 2019 in the amount of KM 2.5 million (Grant for settling the issue of Roma people in the housing sector and employment and Support Grant to Municipalities, NGOs and associations for implementation of migration and asylum strategy 2016-2015 in the total amount of KM 2.35 million, current transfer to the Municipality of Srebrenica for observation of the 20th anniversary of events in Srebrenica, the "Safe UN Zone" in the amount of KM 0.15 million).
- Expenditures for non-financial assets in 2018 are planned in the amount of KM 50.6 million, and in 2019 in the amount of KM 50.4 million,
- Expenditures for foreign interest in 2018 and 2019 are planned in the amount of KM 1.1 million annually.
- Other expenditures in 2018 are planned in the amount of KM 29.4 million, while those in 2019 are planned in the amount of KM 38.8 million (planned in the Framework Budget Document under the item Current and capital grants and transfers, and reservations).

### ***Government of the Federation of BiH***

The Framework Budget Document is prepared in accordance with the Law on Budgets in the Federation of BiH, while a baseline for its development for the period 2017-2019 were medium-term macroeconomic projections and assumptions and the Reform Agenda of the Government of the Federation BiH as a basic roadmap of future necessary structural reforms, with the aim of encouraging sustainable, efficient, socially just and steady economic growth, new job creation and to make the social assistance targeting more adequate, and create more favourable and equitable social environment.

In accordance with the data and projections of authorised institutions, the projected GDP for 2016 amounts to 3.2% for BiH, while the same indicator for the same period in the Federation of BiH is 3.9%. In the coming years, GDP in BiH is expected to grow by 3.5% in 2017, 3.7% in 2018 and 3.8 % in 2019. Forecasts for the Federation of BiH are somewhat more optimistic, and GDP growth is set to range from 4.9% in 2017, 6.5% in 2018 and 4.6% cent in 2019.

Strengthening of the economic growth should inevitably lead to increase in collection of public revenues, i.e. tax revenues at all levels of government in Bosnia and Herzegovina. In accordance with projections for 2017, total public revenues will amount to KM 7,869 million for 2018, KM 8,108 million for 2018 and KM 8,306 million for 2019 and will participate in GDP at the approximate rate of 25%.

The projected rates of growth of revenues from indirect taxes for 2017, 2018 and 2019 are 3.2%, 3.2% and 3.1% respectively. Projections of revenues in the stated period are based on the projected relevant macroeconomic indicators, historical seasonal scheme of collection and projections for certain categories of revenues for 2016, and effects of modifications of policies in view of custom duties and excise duties on tobacco. The largest generator of the surplus revenues from indirect taxes in this period is VAT, given its significant share in revenues and projected stable growth rates in line with with projected growth rates of consumption. In all three stated years, VAT revenues generate over 65% of absolute annual projected growth of revenues.

The implementation of the fiscal consolidation policy and focus on balancing the budget revenues and expenditures will be one of the main features of fiscal policy in the conditions of the recovery of the domestic economy. To maintain a sound fiscal system and control of spending requires implementation of restrictive measures of public spending at all levels. The fiscal policy of the Government of the Federation of BiH in the period 2017 - 2019 will be oriented towards activities contributing to economic and social strengthening of the Federation of BiH, i.e. BiH.

In terms of overall spending which, in addition to public expenditures, includes repayment of domestic and foreign debt, it was projected in 2017 in the amount of KM 2,626.7 million or 13.2% of GDP of the Federation of BiH. In 2018, total spending is set at the level of KM 2,630.5 million or 12.4% of GDP of the Federation of BiH, while in 2019 it is set at the level of KM 2,582.3 million or 11.7% cent of GDP in the Federation of BiH.

#### Public revenues in the Federation of Bosnia and Herzegovina

In this period, activities in the area of public revenues policy were directed toward improvement of the situation in view of collection of all public revenues, especially to improvement of collection of tax debts, modernisation of the Tax Administration of the Federation of BiH, exchange of information on tax payers and tax debtors between the ITA, entity Tax Administrations and Tax Administration of Brčko District, fiscal reporting, upgrading and improvement of tax system in the area of direct taxes.

In the medium-term, collection and allocation of public revenues should be at the top of priorities with special emphasis on improving the existing vertical and horizontal system of allocation of public revenues and improving the efficiency of the Tax Administration of FBiH in accordance with the adopted Strategic plan of the Tax Administration of FBiH 2014-2018 .

In 2016 the new Law on Corporate Income Tax and the Rulebook on transfer prices and the Rulebook on the implementation of the Law on Corporate Income Tax were adopted. The results of amendments to regulations will be visible in the following periods, starting in 2017 when their implementation begins. Implementation of corporate income tax regulation may be monitored in several ways. Firstly, their impact on increase or decrease of revenues from corporate income tax may be traced by analysing and comparing data from the period before the adoption of the new regulation and the period after its adoption, by taking into account the number of tax payers, the amount of tax liability, the impact of certain provisions of the regulation on the amount of tax and alike. Secondly, measuring the clarity and transparency of the regulation will be determined through a number of requests for opinion submitted by foreign tax payers and FBiH TA for the purpose of interpreting the provisions.

Collection and distribution of tax revenues, revenues in accordance with fees and duties, contributions and other public revenues will be performed in accordance with applicable provisions in the territory of Bosnia and Herzegovina. The collected public revenues will be used for financing functions of the Federation of BiH, cantons, local self-government units, extra-budgetary funds, and authorities for roads and other users of public revenues in the Federation of BiH.

#### Planned revenues for the medium-term in the Federation of BiH

In accordance with medium-term macroeconomic indicators by the Directorate for Economic Planning, the trend of mild growth of the economic activity recorded in the first half of 2016 will be continued in the 2017-2019 period. This will primarily depend on further reform activities on improving the business environment. Better business environment in this period should be the main driver of private investment and foreign investment which will directly affect the labour market and overall growth.

In this view, it is expected for revenues from indirect and direct taxes, as well as other non-tax revenues to grow in 2017-2019. However, limited fiscal capacities of budgets at all levels of government in the Federation of BiH should be taken into account. Consolidated revenues plan in the Federation BiH, which includes the budget of the Federation BiH, cantonal budgets, budgets of local self-government units, authorities for roads and extrabudgetary funds, in 2016 amount to KM 7,634 million, recording a growth by 4.8% in comparison with 2015 and participation at the rate of 25% in the projected GDP of Bosnia and Herzegovina and 39% in projected GDP in the Federation of BiH, calculated on the basis of final spending. Growth trend at the average rate of 3.5% annually is expected in the following period as well. This amount does not fully reflect the overall fiscal framework, given that it does not include revenues of public companies in the Federation BiH, while it includes the amount of revenues earmarked for repayment of foreign debt.

The revised projections of revenues derived from indirect taxes for the Federation of BiH, cantons, local self-government units and authorities for roads for 2016 and the 2017-2019 period are prepared in accordance with the planned indirect tax revenues on the Single Account taken from the Unit for macroeconomic analysis of the ITA in October 2016. They are based on the projections of macroeconomic indicators development in the stated period, as well as on historical trend of collection of these revenues. Planned indirect tax revenues also include the effects of the Free Trade Agreement between Bosnia and Herzegovina and EFTA and the effects of the continued harmonisation of excise duties on tobacco with the EU standards and implementation of the new taxation policy.

It should be noted that the stated plan did not include possible modifications of the customs policy in the coming medium-term period, which primarily relates to the effects of adaptation of the Stabilisation and Association Agreement with the EU which could result in decreased collection of customs revenues and consequently to somewhat decreased available revenues from indirect taxes for budgets of all levels of government.

Execution of available revenues from indirect taxes for budget users in the Federation of Bosnia and Herzegovina will directly depend on the amount and level of foreign debt repayment, since the total amount of revenues from the Single Account belonging to the Federation of Bosnia and Herzegovina in accordance with Article 21 of the Law on the Indirect Taxation System ("Official Gazette of Bosnia and Herzegovina", No. 44/03) is decreased by the amount of funds needed for servicing the foreign debt of the Federation of Bosnia and Herzegovina.

Effects of foreign debt repayment on limiting the capacities of available revenues from indirect taxes will especially be visible in 2018 when repayment of foreign debt will be significantly bigger than in the previous years.

Also, collection of revenues from indirect taxes will depend on quality coordination of all users, the Institutions of Bosnia and Herzegovina, Entities and Brčko District on one hand, and all users of indirect tax revenues within the Federation on the other hand, with emphasis on continued adjustment of coefficients for allocation of these revenues to users.

Amendments to the Law on Allocation of Public Revenues in the Federation of BiH to be adopted in this period in line with requests of users and recommendations of the International Monetary Fund might have different effects on the method of allocation of indirect tax revenues to users in the Federation of BiH, while the consolidated fiscal capacity of all budgets in the Federation of BiH will remain unchanged when it comes to the new type of revenues.

#### **Planned revenues derived from indirect taxes for the Government of Federation of BiH in 2016-2019**

	<b>PROJECTION</b>			
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
<b>1. Total revenues from the SA for the Federation of BiH</b>	<b>2,925,750,425</b>	<b>3,037,794,175</b>	<b>3,164,243,550</b>	<b>3,303,561,950</b>
1.1 External debt of the Federation of BiH	472,104,180	649,302,903	697,179,160	610,938,440
<b>1.2 Available funds of the Federation of BiH for allocation</b>	<b>2,453,646,245</b>	<b>2,388,491,272</b>	<b>2,467,064,390</b>	<b>2,692,623,510</b>
1.2.1 Budget of the Federation of BiH	888,219,941	864,633,841	893,077,309	974,729,711
1.2.2 Cantons	1,257,002,972	1,223,624,079	1,263,877,087	1,379,431,024
1.2.3 Municipalities	206,597,014	201,110,965	207,726,822	226,718,900
1.2.4 Road Directorate	95,692,204	93,151,160	96,215,511	105,012,317
1.2.5 City of Sarajevo	6,134,116	5,971,228	6,167,661	6,731,559

*Projections made based on data from the Macroeconomic Analysis Unit of the Indirect Taxation Authority (ITA) – October 2016*

The new Law on Corporate Income Tax ("Official Gazette of the Federation of BiH", No.: 15/16), the implementation of which began in 2016, widens the coverage of tax payers and the scope of taxable revenues through a reduction in tax deductible costs and limitations to recognition of expenditures in tax purposes. The Law was prepared in accordance with the IMF recommendations and it supports fight against erosion of the tax base. It also provides alignment and adaptation to other regulations on the state level and on the level of the EU, thus creating preconditions for improvement of growth and collection of this type of revenues.

Therefore, total planned revenues from corporate income tax in 2016, including the effects of the first year of implementation of the new Law on budget revenues, amount to KM 229 million, representing 22% or about KM 40 million more than the previous year. In the following medium-term period, the planned growth of this category of revenues is 2% in average for each year.

Planned revenues from income tax are based on historical trends in collection and forecasts of macroeconomic indicators, without the effects of possible modifications of tax policy in this area. In 2016, these revenues are planned in the amount of KM 303 million, with 5% growth rate compared to 2015, while the plan for 2017-2019 is cautious, with the expected 2% growth each year.

In 2017-2019, the growth in collection of non-tax revenues is expected to resume, primarily from fees for games of chance determined in the new Law on Games of Chance ("Official Gazette of the Federation of BiH", No. 48/15 and 60/15) in force as of July 2015. The new Law more closely regulates the market and control of organisers of games of chance in the Federation of BiH, resulting, after being implemented for under a year, in increase in this category of revenues by 46% compared to

the same period of 2014. The growth trend is included in the 2016 plan, as well as in the coming medium-term period.

Since projections of public revenues are, among other things, based on forecasts of macroeconomic indicators, which are closely related to developments of economic growth, there is a possibility of different development of public revenues if the growth of macroeconomic indicators is recorded below the estimate. Realisation of the planned level of public revenues directly depends on changes in tax policies, as well as on the outcome of other parameters, such as changes in the level of indebtedness from planned, increase in VAT returns and lack of stable coefficients of distribution of revenues from indirect taxes, performance of the tax administration and other possible unforeseen developments.

### Planned total revenues in the Federation of BiH in 2016-2019

in KM million

Name of Revenue	Implementation 2015	PROJECTION			
		2016	2017	2018	2019
<b>1. Tax revenues</b>	<b>3,446</b>	<b>3,634</b>	<b>3,762</b>	<b>3,906</b>	<b>4,064</b>
Revenues from indirect taxes from the Single Account	2,816	2,926	3,038	3,164	3,304
Revenues from tolls KM 0.10	68	75	77	80	82
Corporate income tax	187	229	234	238	243
Other taxes	1	1	1	1	1
Personal income tax	289	303	309	316	323
Citizens' taxes	85	100	103	107	112
<b>2. Non-tax revenues</b>	<b>978</b>	<b>991</b>	<b>1,023</b>	<b>1,120</b>	<b>1,153</b>
<i>Fees and charges, fines and other non-tax revenues</i>	<i>488</i>	<i>485</i>	<i>502</i>	<i>521</i>	<i>541</i>
Special fees	193	206	213	220	228
Federal road usage fees	25	29	29	30	31
<i>Other non-tax revenues:</i>	<i>271</i>	<i>272</i>	<i>279</i>	<i>349</i>	<i>353</i>
<i>of which dividends</i>	<i>88</i>	<i>90</i>	<i>93</i>	<i>95</i>	<i>96</i>
<i>revenues from end users</i>	<i>148</i>	<i>145</i>	<i>147</i>	<i>215</i>	<i>217</i>
<i>grants for budget spending</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
<i>other</i>	<i>36</i>	<i>37</i>	<i>38</i>	<i>39</i>	<i>39</i>
<b>TOTAL TAX AND NON-TAX REVENUES (1 + 2):</b>	<b>4,423</b>	<b>4,625</b>	<b>4,785</b>	<b>5,025</b>	<b>5,217</b>
<b>3. Extrabudgetary funds</b>					
Health Insurance Fund	1,140	1,245	1,278	1,312	1,343
PDI (Pension and Disability Insurance) Fund	1,589	1,632	1,676	1,721	1,761
Employment Fund	129	132	136	139	143
<b>Total extrabudgetary funds:</b>	<b>2,858</b>	<b>3,009</b>	<b>3,090</b>	<b>3,172</b>	<b>3,246</b>
<b>TOTAL REVENUES (1 + 2 + 3):</b>	<b>7,281</b>	<b>7,634</b>	<b>7,875</b>	<b>8,198</b>	<b>8,463</b>
<b>4. Financing</b>					
ESCROW account	0	0	0		
GSM license (50%)	0	0	0		
Loans, receipts	0	0	0	0	0
<b>Total financing:</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>TOTAL REVENUES AND FINANCING (1 + 2 + 3 + 4):</b>	<b>7,281</b>	<b>7,634</b>	<b>7,875</b>	<b>8,198</b>	<b>8,463</b>
<b>GDP FBiH</b>	<b>18,350</b>	<b>19,377</b>	<b>20,260</b>	<b>21,307</b>	<b>22,419</b>
% share in GDP of FBiH	40%	39%	39%	38%	38%
<b>GDP BiH *</b>	<b>29,277</b>	<b>30,264</b>	<b>31,644</b>	<b>33,279</b>	<b>35,016</b>
% share in GDP of BiH	25%	25%	25%	25%	24%

**Note:** The total planned revenues do not include revenues from privatisation and grants clearly shown in budget implementation.

GDP of the Federation of BiH was calculated based on coefficients of final consumption

Total expenditures of the budget of the consolidated General Government of the Federation of BiH (Budget of the Federation of BiH, budgets of Federal Cantons, budgets of Federal Municipalities, financial schemes of extra-budgetary funds of the Federation and business plans of public enterprises of the Federation) in 2016 are planned at the level of 39.64% of GDP, including repayment of debts,

borrowing and interest expenditures. This planned amount represents growth of 1.06% in comparison with the execution of the General Federal Government Budget for 2015.

In 2017, total spending of the consolidated General Government of the Federation of BiH is planned at the level of 37.12% of GDP of the Federation of BiH, in 2018 at the level of 35.48% and in 2019 it is planned at the level of 33.93% GDP of the Federation of BiH.

Salaries, remunerations and contributions in the public sector record the level of 9.14% of GDP of the Federation of BiH in 2016. Similarly, further restrictions to new employment are still in force; only employment related to vacant positions is allowed.

Expenditures for material, small inventory and services in 2016 record realisation at the level of 8.54% of GDP in the Federation of BiH. Expenditures for subsidies in 2016 are planned at the level of 1.39% of GDP of the Federation of BiH.

Social transfers represent the most important category of total expenditures of the budget of the consolidated General Government in 2016 and are planned in the amount of KM 2,707.9 million, and record the level of 13.8% of GDP of the Federation of BiH. Developments of these expenditures are largely defined by movements of expenditures for pensions, health care, maternity allowances, social protection and unemployment.

Other expenditures, mostly pertaining to investment in fixed assets, are planned at the level of 1.88% of GDP of the Federation of BiH in 2016.

Salaries, remunerations and contributions in the public sector in the period 2017-2019, with average participation of 25.6% of total expenditures, make the second largest category of expenditures of the consolidated General Government budget, mostly determined by developments in the number of state and public servants. In 2017, these are envisaged at the level of 8.83% of GDP in the Federation of BiH with an increase by 0.005% in the two subsequent years. This increase represents increase of the basic salary for past employment.

Expenditures for material, small inventory and services record decrease of participation in the value of gross domestic product, from 8.3% in 2017 to 7.68% in 2018 and .35% in 2019. It is expected for the measures of rationalisation and savings under all items to be continued.

Expenditures for subsidies in 2016 will be at the level of 1.3% of GDP of the Federation of BiH; in the following two years, it is expected for the level of expenditures for subsidies to remain the same.

### **Government of Republika Srpska**

In Tables 2a and 2b, Outlook of the general government represent consolidated data on planned budget funds of general government for Republika Srpska. Medium term projections of revenues for the general government sector amount to KM 3,921.1 million in 2017, KM 4,019.1 million in 2018 and KM 4,126.6 million in 2019. Revenues for general government sector are composed of the following:

- Revenues from indirect taxes planned in the amount of KM 1,564 million in 2017, KM 1,624.1 million in 2018 and KM 1,674.9 million in 2019;
- Revenues from indirect taxes planned in the amount of KM 437 million in 2017, KM 1,624.1 million in 2018 and KM 1,674.9 million in 2019;
- Social security contributions are planned in the amount of KM 1,480,9 million in 2017, KM 1,500.5 million in 2018 and KM 1,535.8 million in 2019;
- Revenues from indirect taxes planned in the amount of KM 77.7 million in 2017, KM 1,624.1 million in 2018 and KM 1,674.9 million in 2019;
- Other revenues, including revenues from duties, fees, revenues from public services and other non-tax revenues are planned in the amount of KM 361.6 million in 2017, KM 371.3 million in 2018 and KM 379.9 million in 2018.

In accordance with the developed forecast, revenues of the central government sub-sector amount to KM 2,697.6 million in 2017, KM 2,761.4 million in 2018 and KM 2,815.7 million in 2019.

Since majority of the fiscal framework of the central government sub-sector is comprised by the budget of Republika Srpska, this part of the document presents revenues of the budget of Republika Srpska expected in the following medium-term period. Total expected budget revenues amount to KM 2,590.1 million in 2017, KM 2,655.3 million in 2018 and KM 2,708.4 million in 2019. Medium-term revenues structure of Republika Srpska:

- Projection of tax revenues amounts to KM 1,582.6 million in 2017 and are higher by 4.8% in comparison with the funds planned in the Budget for 2016, of which the majority pertains to increase of revenues from indirect taxes. Tax revenues amount to KM 1,637.8 million in 2018 and KM 1,668.9 million in 2019.
- Expected revenues from direct taxes amount to KM 360.4 million in 2017, KM 370 million in 2018 and KM 380.6 million in 2019. Projections of revenues from corporate income tax takes into account trends in corporate tax developments in the previous period, as well as the expected economic growth in the following period. The Law on Income Tax ("Official Gazette of Republika Srpska", No. 60/15 and 5/16) stipulates taxation of income of private persons in Republika Srpska. The key innovation in comparison with the previous Law is removal of taxation of income from dividends and shares in profit of private persons, resulting in significant decrease of revenues from income tax on annual level. Projection of revenues from income tax takes into account effects of the new Law on Income Tax and is in line with developments of income tax revenues in the previous period, as well as with the expected growth of salaries and employment in the observed period. The framework of projection of revenues from direct taxes includes projection of revenues from property tax adjusted to the expected economic growth in the medium-term.
- In accordance with the assumption of net revenues from indirect taxes pertaining to Republika Srpska and the Law on Budget System of Republika Srpska, it is expected for the Budget of Republika Srpska in 2017 to receive the amount of KM 1,197.2 million of the projected net revenues from indirect taxes (with foreign debt in the amount of KM 330.2 million), representing the growth of 4.9% in comparison with funds planned in the 2016 budget. Likewise, it is estimated that in 2018 and 2019 the Budget of Republika Srpska will receive the amount of KM 1,242.8 million out of projected net revenues from indirect taxes appertaining to Republika Srpska (with foreign debt in the amount of KM 341.5 million), that is KM 1,276.3 million (with foreign debt amounting to KM 291.4 million), respectively.
- Projection of revenues from other taxes (outstanding liabilities) amounts to KM 25 million in 2017, KM 25 million in 2018 and KM 12 million in 2019. This projection is aligned with the expected payments under previously approved reprograms.
- The Law on Contributions ("Official Gazette of Republika Srpska", No. 116/12 and 103/15) prescribes the obligation of calculation and payment of pension and disability insurance contributions. Pursuant to the Law on the Budget System of Republika Srpska, revenues from contributions to pension and disability insurance appertain to the budget of Republika Srpska as of 1 January 2016. Projection of revenues on this basis amounts to KM 787.1 million in 2017, KM 796.5 million in 2018 and KM 816.2 million in 2019. The stated projection was prepared on the basis of development of revenues from this contribution in the previous period, the existing legal regulations in this area and the expected developments of gross salaries and the number of insured persons in the following period.
- Revenues from property, i.e. revenues from financial and non-financial assets and positive exchange rate differences are estimated in the amount of KM 70.8 million in 2017, KM 66.6 million in 2018 and KM 64.3 million in 2019. Reasons behind this significant growth of non-tax revenues in 2017 are expectedly higher revenues from dividends and share in profit of public companies and financial institutions in comparison with funds planned in the 2016 budget.
- Other expected revenues amount to KM 149.7 million in 2017, KM 154.5 million in 2018 and KM 159.1 million in 2019. Projection of other revenues is prepared on the basis of the projection of real GDP growth in the observed period and previous trends in collection of other revenues.

Medium-term projections of total expenditures in the 2017-2019 period for the general government sector amount to KM 4,036.0 million, KM 3,846.4 million and KM 3,875.1 million, respectively. In the framework of gross salaries and remunerations of employees range from KM 962.1 million in 2017 to KM 969.3 million in 2019. Expenditures for material and services in the observed period are slightly decreasing from KM 300.9 million to KM 296.3 million. Social security contribution are planned at the level of: KM 2,052.0 million, KM 2,044.1 million and KM 2,047.6 million, respectively. Expenditures for interest range from KM 117.8 million in 2017 to KM 108.6 million in 2019. Subsidies from KM

115.5 million decrease to KM 107.7 million. Net expenditures for non-financial assets range from KM 317.1 million in 2017 to KM 203.9 million in 2019.

Medium-term projections of total expenditures in the 2017-2019 period for the sub-sector of central government sector are decreasing and amount to KM 2,824.0 million, KM 2,623.3 million and KM 2,616.6 million over the years.

Determining the level of current expenditures and total salaries fund is mostly the result of implementation of the public administration reform. The medium-term structure of expenditures of the Budget of Republika Srpska comprises the following:

- Gross salaries and remunerations to employees are planned in the amount of KM 717.7 million in 2017, KM 720.3 million in 2018 and KM 722.4 million in 2019. Planned expenditures for gross salaries and remuneration to employees in the medium-term in accordance with assumed obligations stated in the Letter of Intent, as well as in accordance with the Law on Salaries regulating this area and envisaging decrease in expenditures for previous employment and it is calculated for each completed year of service, with the result of decreasing gross salaries. In accordance with the obligations assumed under the Letter of Intent signed with IMF in May 2016 through the concluded three-year extended facility, the Government of Republika Srpska also adopted the Strategic plan for decreasing total spending on salaries in the 2017-2019 period. In the following three-year period, with the help of the World Bank, a registry of employees in public administration will be established and it will include persons employed in health care institutions and extra-budgetary funds. This registry will represent the basis for operationalisation of strategic plans for decreasing the number of employees in the public sector. Decreasing public spending including controls of employment and total salaries fund, including implementation of the Law on Fiscal Responsibility, will result in the possibility of increasing capital expenditures which contribute to economic growth.
- Expenditures for goods and services are planned in the amount of KM 109.7 million in 2017, KM 106.1 million in 2018 and KM 105.5 million in 2019.
- Social protection contributions are planned in the amount of KM 1,258.1 million in 2017, KM 1,250.2 million in 2018 and KM 1,251.2 million in 2019, of which the biggest amount is planned in accordance with laws regulating budget contributions related to retired persons, war veterans, refugees and displaced persons.
- Expenditures for interest are planned in the amount of KM 102.5 million in 2017, KM 103.5 million in 2018 and KM 99.2 million in 2019 in accordance with the plan of repayment of foreign and domestic indebtedness, the upgraded plan of withdrawal under investment credits, planned budget financing and calendar of issuance of treasury notes and long-term debentures.
- Subsidies are planned in the amount of KM 98.2 million in 2017, KM 94.2 million in 2018 and KM 94.2 million in 2019 and are planned for producers of goods and services and have the aim of influencing production volume, sale price of outputs or refund to producers on some other basis.
- Donations in the amount of KM 131.1 million in 2017, KM 127.3 million in 2018 and KM 130.7 million in 2019, of which majority of funds are allocated to health insurance of unemployed persons, social protection (in accordance with the Law on Social Protection), transfers to local self-government units and action plans and employment projects.
- Net expenditures for non-financial assets are planned in the amount of KM 79.7 million in 2017, KM 54.9 million in 2018 and KM 63.6 million in 2019, while the largest amount of funds is planned within the framework of Public Investments.

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

In the period between 2017 and 2019, total financing 13<sup>44</sup> (new indebtedness) is planned in the amount of KM 1.8 billion, of which KM 0.9 billion in 2017, KM 0.6 billion in 2018 and KM 0.3 billion in

---

<sup>44</sup> Financing for the 2017-2019 period includes the plan of withdrawal of foreign credit funds under investment projects under implementation approved by the National Assembly of Republika Srpska up to and including 30 September 2016, domestic credit funds under investment

2019. During the given period, the share of financing from outside sources is decreasing in favour of financing from domestic sources (from 67% in 2017 to 19% in 2019). Foreign sources are mainly used for financing investment projects as the result of maximum benefits from access to concessional sources of financing (World Bank, EIB, EBRD, CEB, etc.). Domestic sources of financing are mainly used for financing budget support as the consequence of credit rating of the country and the limited approach to the international capital market, as well as conditionality of obtaining concession funds by achieving goals defined at country level.

During the given period, financing will be realised mostly through long-term instruments (domestic and foreign), including maintaining nominal amount of financing through domestic short-term and long-term instruments (mostly securities) on the level similar to the current level.

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

To calculate the cyclically adjusted (primary) balance of the consolidated general government in the period 2008-2019, the cyclically adjusted budget balance is calculated using the semi-aggregate methods of the European Commission. The calculation of the cyclical balance carried out by the European Commission is based on the usual two-step procedure: (i) the assessment of the aggregate output gap as an indicator of the economic cycle and (ii) the assessment of the ratio of elasticity of the overall revenue and expenditure and that gap.

The first step is the assessment of the cyclical position of the economy (the output gap) by comparing the actual and potential GDP. Given the lack of availability of data, we could not use the method of output function to assess the aggregate output gap, Thus the estimate of the potential GDP is based on the adapted Hodrick-Prescott filter due to its transparency and simplicity, with smoothing coefficient ( $\lambda$ ) for annual data, 6.25<sup>45</sup>. According to Bruchez, P.-A. (2003), the adapted Hodrick-Prescott filter solves the problem of bias at the beginning/end of the sample, which was the main flaw of the original HP filter. Using such an adapted filter, there was no need to artificially extend a series of data outside the projected period.

The second step is the assessment of the effect of cyclical developments on the budget by applying the budgetary elasticity. The total elasticity of revenue/expenditure is derived as a weighted sum of the elasticity of individual categories of revenue/expenditure<sup>46</sup> which are sensitive to business cycle developments, where weights of certain categories present their shares in the total revenue/expenditure. The elasticity of the individual component of revenue/expenditure is first calculated considering its relevant macroeconomic base and then we calculate the elasticity of macroeconomic base to the aggregate output gap. These two elasticities are multiplied to obtain the elasticity of individual component of revenue/expenditure to the aggregate output gap.

As a standard in assessing elasticity of revenue and expenditure, it is assumed that the elasticities of the consumption tax, income tax, corporate income tax, social contributions and the unemployment expenditure in relation to the corresponding tax base, are equal to one. This way calculated overall elasticity of the budgetary balance of the consolidated general government for the period 2008-2015 is 0.338, where revenue elasticity equals 0.337 and expenditure elasticity equals -0.01. The obtained results and their interpretation mainly depend on the length of the used sets, reliability and quality of data

---

projects planned by the Draft Budget for 2017, planned proceeds under new borrowing and issuance of securities with the aim of financing budget spending, on which the National Assembly of Republika Srpska will decide within the framework of annual decisions on long-term borrowing.

<sup>45</sup> Morten O. Ravn and Harald Uhlig: "Discussion Paper No. 2858 on adjusting the HP – Filter for the frequency of observation, CEPR, June 2001

© 2002 by the President and Fellows of Harvard College and the Massachusetts Institute of Technology

<sup>46</sup> Cyclically sensitive components determined on the revenue side are the revenues from VAT and excise duties (consumption tax), income tax, corporate income tax and revenues from social contributions whereas on the expenditure side, only the unemployment expenditure is taken into consideration.

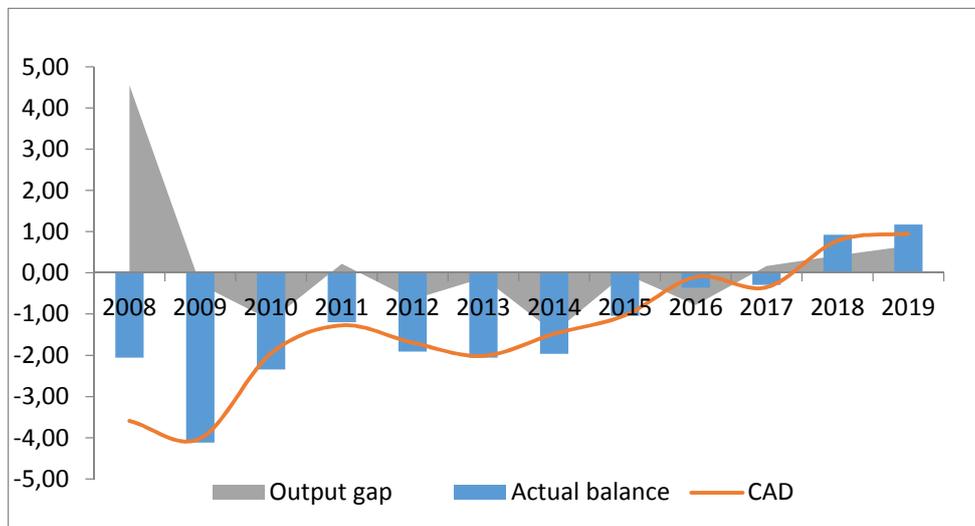
**Table : Fiscal balance and components for calculation of cyclically adjusted balance 2008-2019, in % of GDP**

Year	Output gap	Fiscal balance	Primary fiscal balance	Cyclical component	Cyclically adjusted fiscal balance	Cyclically adjusted primary fiscal balance	Structural primary fiscal balance	Fiscal policy character
2008	4.55	-2.05	-1.58	1.54	-3.59	-3.12	-1.46	
2009	-0.28	-4.11	-3.64	-0.10	-4.02	-3.54	-2.96	-1.50
2010	-0.16	-2.35	-1.88	-0.39	-1.96	-1.49	0.66	3.62
2011	0.22	-1.20	-0.60	0.07	-1.27	-0.67	0.37	-0.29
2012	-0.64	-1.91	-1.18	-0.22	-1.69	-0.97	-0.62	-0.99
2013	-0.12	-2.05	-1.34	-0.04	-2.01	-1.30	-0.99	-0.37
2014	-1.45	-1.97	-1.12	-0.49	-1.48	-0.63	-0.06	0.93
2015	-0.03	-1.04	-0.24	-0.01	-1.03	-0.23	-0.31	-0.25
2016	-0.78	-0.36	0.60	-0.26	-0.10	0.87	0.86	1.17
2017	0.16	-0.29	0.56	0.06	-0.35	0.51	0.59	-0.27
2018	0.42	0.92	-0.02	0.14	0.78	-0.16	-0.11	-0.70
2019	0.66	1.17	0.31	0.22	0.95	0.09	0.17	0.28

Note: Period 2016-2019 includes the projected values

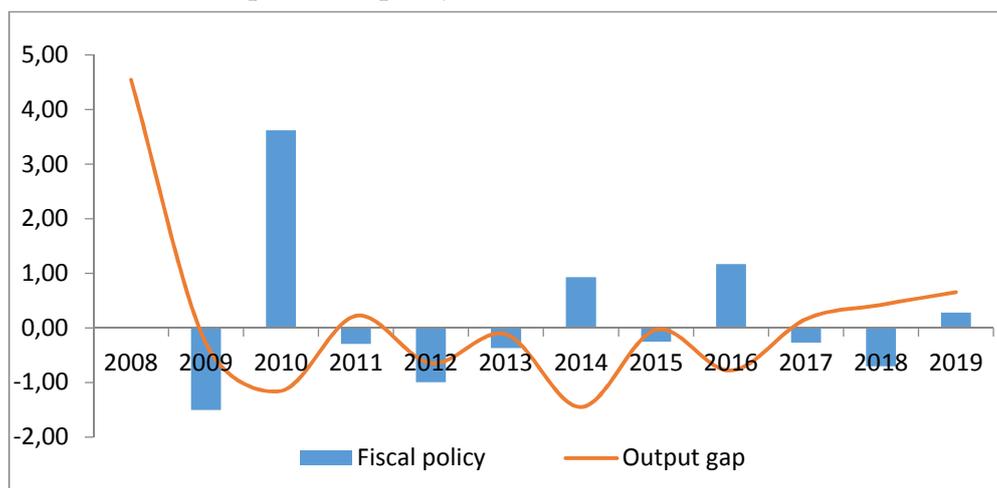
After calculating the overall sensitivity of the budgetary balance, the cyclical component is then obtained as the sum of the output gap and the overall cyclical sensitivity. In order to show the true character of discretionary fiscal policy, we calculate the fiscal stance. It is measured as the annual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

**Graph: Actual and cyclically adjusted fiscal balance in 2008-2019 in % of GDP**



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

**Graph: Fiscal policy character in BiH in 2008-2019**



The above graph shows that, in the period 2008-2015, restrictive fiscal policy prevailed in BiH so as to control and put a stop on the growth of public spending.

Countercyclical policy occurs in 2010 and 2014, when the highest negative values of the output gap were recorded, so the public spending policy was mainly used to contribute to the reduction of the output gap. The expansive policy in 2010 mostly resulted from the mismatch in expenditure and contracted revenue in the time of crisis, while the increase in public spending in 2014 was caused by natural disaster (floods).

In the domain of tax policy – indirect taxes, the amendments to the Law on Excise Duties related to tobacco taxation (effective as of 1 August 2014) and beer taxation were adopted (effective as of 1 September 2014). Changes in the policy of tobacco taxation have a twofold objective; further harmonisation of the excise policy with the EU standards and stabilisation of the tobacco market and revenues from excise duties on tobacco. This policy has already yielded tangible results in December 2014. A slight increase in current spending was partly a result of the adoption of the Law on Special Solidarity Contribution in Republika Srpska, which ceased to be effective on 1 January 2017.

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

In accordance with data available from the Ministry of Finance and Treasury of BiH, entity Ministries and the Finance Directorate of Brčko District, the estimated state of total public debt for 2016 amounts to KM 12,260.8 million and is by 2.9 index points higher than in 2015. In this amount, 71.3% or KM 8,740.7 million pertains to foreign debt, while 28.7% or KM 3,520.1 million pertains to domestic debt.

#### State of public debt<sup>47</sup> and projections (in million KM)

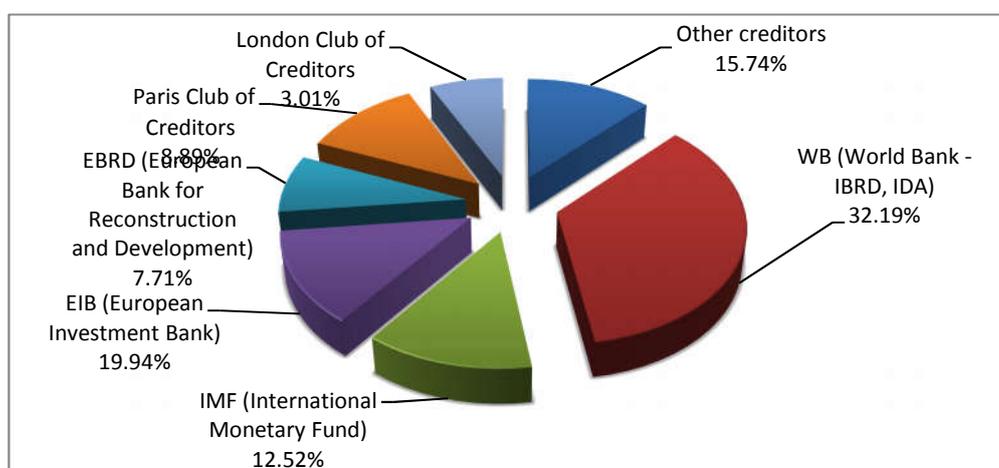
	2015	2016	2017	2018	2019
<b>1. Foreign debt</b>	<b>8,372.5</b>	<b>8,740.7</b>	<b>9,539.6</b>	<b>10,166.6</b>	<b>10,309.4</b>
Institutions of Bosnia and Herzegovina	55.8	83.4	89.5	85.3	79.1
Federation of BiH	5,273.6	5,158.0	5,661.7	5,985.6	5,973.9
Republika Srpska	3,012.1	3,435.2	3,730.6	4,045.4	4,212.4
Brčko District	31.0	64.1	57.8	50.3	44.0
<b>2. Domestic debt</b>	<b>3,539.1</b>	<b>3,520.1</b>	<b>3,209.3</b>	<b>3,054.9</b>	<b>2,873.9</b>
Federation of BiH	1,263.6	1,287.2	1,053.6	1,033.1	983.2
Republika Srpska	2,265.0	2,227.8	2,151.1	2,018.9	1,888.4
Brčko District	10.5	5.7	4.6	2.9	2.3
<b>TOTAL (1+2)</b>	<b>11,911.6</b>	<b>12,260.8</b>	<b>12,748.9</b>	<b>13,221.5</b>	<b>13,183.3</b>

<sup>47</sup> For Republika Srpska, the total debt is included in accordance with legislation in Republika Srpska

### Public debt repayment and projections (in million KM)

	2015	2016	2017	2018	2019
Foreign debt	381.6	479.7	648.0	670.2	587.5
Domestic debt	515.7	514.4	582.1	577.0	489.0
<b>Total FBiH</b>	<b>897.3</b>	<b>994.1</b>	<b>1,230.1</b>	<b>1,247.2</b>	<b>1,076.5</b>
Foreign debt	204.3	256.2	336.6	347.8	297.6
Domestic debt	418.3	488.0	469.3	563.3	447.2
<b>Total RS</b>	<b>622.6</b>	<b>744.2</b>	<b>805.9</b>	<b>911.1</b>	<b>744.8</b>
Foreign debt	2.9	4.5	7.1	8.3	7.9
Domestic debt	10.5	5.7	0.7	0.7	0.7
<b>Total DB</b>	<b>13.4</b>	<b>10.2</b>	<b>7.8</b>	<b>9.0</b>	<b>8.6</b>
<b>Foreign debt of the Institutions of BiH</b>	<b>4.1</b>	<b>4.6</b>	<b>5.0</b>	<b>5.5</b>	<b>7.5</b>
<b>TOTAL BiH</b>	<b>1,537.4</b>	<b>1,753.1</b>	<b>2,048.8</b>	<b>2,172.8</b>	<b>1,837.4</b>

### Foreign debt structure in BiH per creditors<sup>48</sup>



The structure of purpose of credits remains unchanged and is characterised by increased number of investment in infrastructure and public sector in comparison with investment in economic activities. Observed as of 30 September 2016, credits are characterised by favourable conditions with average interest rate of 1.5% (50.4% of credits have a fixed interest rate, and 49.6% have a variable interest rate). The average time of maturity is 7.7 years, while the average time of agreed grace period is 6.6 years.

Currency	Participation of currencies in the state of public debt in (%)				
	31/12/2012	31/12/2013	31/12/2014	31/12/2015	30/09/2016
EUR	46.95	52.21	52.15	51.20	51.16
SDR	36.76	33.25	33.78	34.08	34.36
USD	8.20	7.24	7.08	7.55	7.33
CPU	3.52	2.86	2.52	2.38	2.38
Other currencies <sup>49</sup>	4.57	4.44	4.47	4.79	4.77
<b>TOTAL</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

In the period between 1 January and 30 September 2016, obligations under foreign debt are serviced in their entirety and in time, in the total amount of KM 477.56 million, of which repayment of principal is

<sup>48</sup> Other creditors are: The Kingdom of Spain, the European Commission, the Republic of Portugal, the Government of Japan, Export-Import Bank of Korea, the Austrian Bank, the Republic of Poland, CEB, Raiffeisen Bank AG, the Kuwait Fund, OFID (OPEC), the Saudi Fund for Development, Fortis Bank, Economic Bank, Austrian Postal Service, the Government of Belgium, the Republic of Serbia.

<sup>49</sup> Other currencies are JPY, KRW, CHF, KWD, SAR, CAD, SEK, DKK, GBP.

in the amount of KM 392.9 million or 82.27%, while repayment of interest, service and other costs makes for KM 84.66 million or 17.73%. In total serviced amount of obligations in the observed period, the Federation of BiH participated in the amount of KM 303.72 million (63.6%), Republika Srpska with KM 167.76 million (35.13%), Brčko District with KM 1.84 million (0.38%) and the Institutions of the state with KM 4.24 million (0.89%).

Observed per credits, for repayment of "old debt", the largest amount was paid to the London Club of creditors in the amount of KM 37.74 million, to the World Bank-IBRD KM 35.96 million and to the Paris Club of creditors KM 20.78 million, representing in total KM 94.48 million or 19.78%. In the paid amount under new debt obligations, the largest participation is: IMF KM 123.86 million, SB KM 71.70 million, EBRD KM 70.01 million, EIB KM 63.73 million, etc.

When it comes to the currency structure of the serviced debt in the observed period, majority of obligations or 78.38% was paid in EUR, 18.59% in USD, while 3.03% is realised in other currencies (toward some countries from the Paris Club of creditors or under credits from bilateral agreements). One fourth of paid obligations in EUR (25.94%) pertain to payment of obligations toward IMF since the obligations calculated in SDR are paid in EUR.

**Projects in the procedure of conclusion** include projects in the procedure of initiative for negotiations, negotiating with other creditors, in the procedure of approval by creditors and projects concluded and in the procedure of ratification. This includes projects in the area of road, water and municipal infrastructure, energy, health care, entrepreneurship, banking, education, etc. Total value of stated projects as of 30 September 2016 amounts to approximately KM 1.78 billion, of which KM 1.59 billion or 89.45% pertains to the Federation of BiH, to Republika Srpska KM 168 million or 9.45%, and to Brčko District KM 19.6 million or 1.10%. The stated projects are planned to be financed mainly from multilateral sources (85.16%) pertaining mainly to EBRD and EIB, while 14.84% are planned to be financed from bilateral sources.

Of the total value of projects planned for credit financing, 89.57% pertains to infrastructure projects, 7.52% to projects for economic activities, and 2.91% for public sector projects. In the currency structure of foreign credits planned to be used for financing projects in the procedure of conclusion, EUR makes up for approximately 99%. In addition, a guarantee of Bosnia and Herzegovina is currently being concluded for the project of constructing Banja Luka-Doboj motorway in the amount of EUR 35 million.

#### Foreign debt sustainability indicators

	2015	2016	2017	2018	2019
GDP (million KM)	29,329	30,264	31,644	33,279	35,016
Total public debt (in million KM)	11,911.6	12,260.8	12,748.9	13,221.5	13,183.3
Export of goods and services (million KM)	9,798	10,071	10,791	11,638	12,552
Foreign debt (in million KM)	8,372.5	8,740.7	9,539.6	10,166.6	10,309.4
Public debt repayment (in million KM)	1,537.4	1,753.1	2,048.8	2,173.8	1,837.4
Foreign debt service (million KM)	592.9	745.0	996.7	1,032.8	900.5
Net revenues from indirect taxes (million KM)	5,131.1	5,319.7	5,494.7	5,692.2	5,909.8
<b>Public debt/GDP (%)</b>	<b>40.6</b>	<b>40.5</b>	<b>40.3</b>	<b>39.7</b>	<b>37.6</b>
<b>Public debt repayment/GDP (%)</b>	<b>5.2</b>	<b>5.8</b>	<b>6.5</b>	<b>6.5</b>	<b>5.2</b>
<b>Foreign debt/Export of goods and services (%)</b>	<b>85.4</b>	<b>86.8</b>	<b>88.4</b>	<b>87.4</b>	<b>82.1</b>
<b>Foreign debt servicing/Revenues from indirect taxes for distribution (%)</b>	<b>11.6</b>	<b>14.0</b>	<b>18.1</b>	<b>18.1</b>	<b>15.2</b>

Public indebtedness of Bosnia and Herzegovina, in accordance with historical data and given projections, remains within the framework of Maastricht criteria and Bosnia and Herzegovina remains moderately indebted country.

#### **Council of Ministers of Bosnia and Herzegovina**

##### Guarantees for foreign indebtedness of Bosnia and Herzegovina

Guarantees issued by the state and the entities for foreign and domestic debt are not included in the total public debt, since they do not represent the debt of Bosnia and Herzegovina or the entities, but a potential debt to be paid in case the obligations are not met by the end user. As of 30 September 2016,

the state of debt under issued state guarantees of Bosnia and Herzegovina amount to KM 345,173,226 and pertain to:

Guarantee for crediting the project of potable water for Tuzla on the basis of treatment of water from the artificial lake Modrac (guaranteed amount EUR 5,800,000). The creditor is Export-Import Bank of Hungary, BiH is the guarantor, FBiH is sub-guarantor, while the end user/debtor is Public Utility Company "Vodovod i kanalizacija Tuzla". The final user/debtor regularly settles its obligations under this credit, while the state of debt is KM 2,268,763.

Guarantee for crediting the project of construction of waste water treatment plant and widening of waste water and water supply networks-Bijeljina, Phase II, in the amount of EUR 4,999,000. The creditor is the European Bank for Reconstruction and Development. Bosnia and Herzegovina is the guarantor, Republika Srpska is the sub-guarantor, while the final user/debtor is PC "Vodovod i kanalizacija" a.d. Bijeljina The final user/debtor regularly settles its obligations under this credit, while the state of debt is KM 7,424,923.

The guarantee for crediting the credit line of the Agency for Deposit Insurance in the amount of EUR 50,000,000. The creditor is the European Bank for Reconstruction and Development, the guarantor is the Agency for Deposit Insurance. Up to and including 30 September 2016, the funds have not been engaged. Therefore, the state of debt under this guarantee is KM 0.

Guarantee for crediting the project of Banja Luka-Doboj motorway project in the amount of EUR 185,000,000. The creditor is the European Bank for Reconstruction and Development. Bosnia and Herzegovina is the issuer of the guarantee, Republika Srpska is the sub-guarantor, while the final user/debtor is PC "Autoputevi Republike Srpske" Bnja Luka. The state of debt under this Guarantee is KM 321,788,730.

Guarantee for crediting the project of central heating in Prijedor in the amount of EUR 7,000,000. The creditor is the European Bank for Reconstruction and Development. Bosnia and Herzegovina is the issuer of the guarantee, Republika Srpska is the sub-guarantor, while the final user/debtor is PC "Toplane" a.d. Prijedor. The final user/debtor regularly settles its obligations under this credit, while the state of debt is KM 13,690,810.

***State of debt under issued foreign state guarantees as of 30 September 2016***

*-Preliminary data-*

<b>Creditor</b>	<b>Borrower</b>	<b>Guarantor</b>	<b>Credit purpose</b>	<b>Contracted amount in the original currency</b>	<b>Contracted amount in KM</b>	<b>Guarantee status as of 30 September 2016</b>	<b>Engaged before 30 September 2016 in KM</b>	<b>State of debt under guarantee in KM</b>
Export-Import bank of Hungary	PUC "Vodovod i kanalizacija Tuzla"	BiH Sub-guarantee FBiH	Water for Tuzla from Modrac Lake	5.800.000 €	11,343,814	Effective	11,343,814	2,268,763
EBRD	PC „Vodovod i kanalizacija a.d.Bijeljina”	BiH Sub-guarantee RS	Sewerage system Bijeljina	4.999.000 €	9,777,194	Effective	9,777,194	7,424,923
EBRD	Deposit Insurance Agency	BiH	Credit facility to the Deposit Insurance Agency	50.000.000 €	97,791,500	Effective	0	0
EBRD	PC „Autoputevi Republike Srpske“ Banja Luka	BiH Sub-guarantee RS	Banja Luka-Doboj motorway-Phase I	185.000.000 €	361,828,550	Effective	346,169,228	321,788,730
EBRD	Toplana a.d. Prijedor Prijedor.	BiH Sub-guarantee RS	Prijedor central heating	7.000.000 €	13,690,810	Effective	13,690,810	13,690,810
<b>TOTAL</b>				<b>252.799.000 €</b>	<b>494,431,868</b>		<b>380,981,047</b>	<b>345,173,226</b>

Taking into account that the majority of foreign debt is allocated to the entities and that the domestic debt pertains exclusively to entities, the text below represents the detailed developments of public (total) debt per entities.

### Government of the Federation of BiH

In accordance with the data at the disposal of the Federal Ministry of Finance, it is estimated that the state of public debt of the Federation of Bosnia and Herzegovina on 31 December 2016, bearing in mind the amount of foreign debt concluded by the Federation of Bosnia and Herzegovina which was allocated by subsidiary agreements to end-users-financial institutions, public companies, cantons, local communities, banks and other users, as well as the domestic debt of cantons, cities and municipalities, will amount to KM 6,445.2 million.

#### State of debt in the Federation of BiH as of 31 December 2016<sup>50</sup> in KM

Debt categories	State of debt
<b>1. Domestic debt in FBiH</b>	1.287.151.821
<b>1.1. Domestic debt in FBiH</b>	<b>1.040.344.657</b>
1.1.1. Securities	1.017.231.740
a) Long-term securities	867,231,740
Old foreign savings	51,813,980
War claims	195,417,760
Bonds of the Federation	620,000,000
b) Short-term securities (treasury notes)	150,000,000
1.1.2. Bank credits	<b>0</b>
1.1.3. Obligations of the former Federal Ministry of Defence	12,162,130
1.1.4. Verified domestic debt for which no bonds were issued	10,950,787
Old foreign savings	10,441,530
War claims	509,257
<b>1.2. Domestic debt of cantons</b>	<b>188,400,000</b>
Bonds	0
Credits	188,400,000
Other	0
<b>1.3. Domestic debt of cities and municipalities</b>	<b>58,407,164</b>
Bonds	750,000
Bank credits	57,657,164
Other	0
<b>2. Foreign debt in FBiH</b>	<b>5.157.961.859</b>
<b>2.1. Foreign debt in FBiH</b>	<b>2.781.245.474</b>
<b>2.2. Foreign debt of cantons</b>	<b>261,504,991</b>
<b>2.3. Domestic debt of cities and municipalities</b>	<b>120,092,202</b>
<b>Foreign debt of public companies and other users</b>	<b>1.995.119.192</b>
<b>TOTAL debt of FBiH</b>	<b>3.821.590.131</b>
<b>TOTAL debt of cantons</b>	<b>449,904,991</b>
<b>TOTAL debt of cities and municipalities</b>	<b>178,499,366</b>
<b>TOTAL debt of public companies and other users</b>	<b>1.995.119.192</b>
<b>TOTAL debt of FBiH</b>	<b>6.445.113.680</b>

<sup>50</sup> Estimates include issues planned before 31 December 2016 under the adopted calendar of issuance of securities; they do not include planned issuance of securities under re-balance

### State of contingent liabilities under guarantees as of 31 December 21016 (in million KM) KM)

	2016
Federation of BiH	36.61
<i>Cantons</i>	83.38
<i>Municipalities and Cities</i>	15.74
<b>TOTAL GUARANTEES</b>	<b>135.73</b>

Total domestic and foreign debt of the Government of FBiH<sup>51</sup>, without the debt which was transferred to end users in subsidiary agreements, as of 31 December 2016, amounts to KM 3,821.59 million, of which the amount of KM 2,781,25 million pertains to foreign debt and the amount of KM 1,040.34 million.

### Debt of the Government of the Federation of BiH in comparison with GDP (in million KM)

Year	GDP FBiH <sup>52</sup>	State of debt			Debt to GDP ratio		
		Foreign debt	Domestic debt	Total	Foreign debt	Domestic debt	Total
	1	2	3	4 (2+3)	5	6	7
31/12/2016	19,176	2,781.25	1,040.34	3,821.59	14.61%	5.43%	19.93%
31/12/2015	18,103	2,825.99	1,019.04	3,845.03	15.61%	5.63%	21.24%
31/12/2014	17,728	2,800.31	888.13	3,688.44	15.80%	5.01%	20.81%
31/12/2013	17,728	2,652.32	795.83	3,448.15	14.96%	4.49%	19.45%
31 December 2012	17,031	2,774.61	870.16	3,644.77	16.29%	5.11%	21.40%

Total foreign debt in the Federation of Bosnia and Herzegovina represents the debt governed by the Government of the Federation of BiH that is also responsible for it. It encompasses the foreign debt of the Government of the Federation of Bosnia and Herzegovina, foreign debt concluded by the Federation of Bosnia and Herzegovina and transferred to end-users-financial institutions, public companies, cantons, local communities, banks and other users.

Foreign debt<sup>53</sup> in the Federation of Bosnia and Herzegovina as of 31 December 2016 amounts to KM 5,157.96 million and the majority of it was concluded with bilateral (23.7%) and multilateral financial institutions (World Bank, EBRD, EIB, IMF and others) (76.93%) with the aim of realisation of major infrastructural projects and for budget support.

### State of foreign debt in the Federation of BiH with a projection to 2019 (in million KM)

Debt category	2013	2014	2015	2016	2017	2018	2019
<b>Foreign debt-TOTAL</b>	<b>4,671.20</b>	<b>4,920.75</b>	<b>5,273.61</b>	<b>5,157.96</b>	<b>5,661.72</b>	<b>5,985.60</b>	<b>5,973.90</b>
- Government FBiH	2,652.30	2,800.31	2,825.99	2,781.25	2,795.34	2,452.79	2,103.52
- Cantons	233.10	254.24	290.74	261.50	212.57	181.16	154.47
- Municipalities and cities	53.50	99.40	106.30	120.09	123.65	123.66	114.06
- Public companies and others <sup>54</sup>	1,732.30	1,766.80	2,050.58	1,995.12	2,530.16	3,227.99	3,601.85

Domestic debt in the Federation of Bosnia and Herzegovina was incurred in accordance with the law, with borrowing from domestic financial institutions and the debt that arose from issuance of bonds.

<sup>51</sup>State of debt as of 31 December 2016 is the estimated state. Total debt managed by the FBiH Government and for which it is responsible (total foreign debt in FBiH and total domestic debt of FBiH Government) as of 31 December 2016 amounts to KM 6,198.31 million

<sup>52</sup>GDP: Source – Framework Budget Document 2017 – 2019, Sarajevo, June 2016

<sup>53</sup>State of domestic debt of the Federation of Bosnia and Herzegovina as of 31 December 2016 represents the estimated state

<sup>54</sup>Banks, micro credit organisations and alike.

Domestic debt of the Federation of Bosnia and Herzegovina as of 31 December 2016<sup>55</sup> amounts to 1,137.35 million KM.

**State of domestic debt in the Federation of BiH with a projection to 2019 (in million KM)**

<b>Domestic debt</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
	<b>957.59</b>	<b>1,094.61</b>	<b>1,263.55</b>	<b>1,287.15</b>	<b>1,053.56</b>	<b>1,033.10</b>	<b>983.20</b>
Government FBiH	795.80	888.13	1,027.58	1,040.34	844.59	819.08	757.13
<i>Cantons</i>	113.88	167.18	174.46	188.40	151.53	156.35	168.88
<i>Municipalities and Cities</i>	47.95	53.74	61.51	58.41	57.44	57.67	57.19

*Debt of the Federation of BiH*

Foreign debt of the Government of the Federation of Bosnia and Herzegovina is the debt of the Federation, under which the debtor, directly or indirectly, is the Federal Ministry of Finance on behalf of the Federation of Bosnia and Herzegovina. The foreign debt encompasses the debt concluded through the Ministry of Finance and Treasury of Bosnia and Herzegovina transferred to the Federation of Bosnia and Herzegovina as the end-user, the debt directly concluded by FBiH with foreign creditors with the approval of the Parliamentary Assembly of Bosnia and Herzegovina, as well as the assumed old debt (allocated and unallocated) re-programmed through the Paris and London Clubs of creditors. Foreign debt of the Federation of Bosnia and Herzegovina does not include debt concluded with the purpose of forwarding it to the end users (financial institutions, public companies, cantons and local communities), irrespective of whether conclusion was direct or through the Ministry of Finance and Treasury of BiH.

Domestic debt of the Federation of Bosnia and Herzegovina is the debt prescribed by the law and which was incurred through issuance of securities. Domestic debt prescribed by law is settled through cash payments or issuance of securities (non-market instruments). Non-market instruments are bonds issued directly on the basis of verified obligations for old foreign savings and war claims. These bonds have the legally prescribed maturity deadline and the interest rate of 2.5%. As the verification of old foreign currency savings is decreasing year after year, verification of old war claims is completed. Bearing in mind the dynamics and the amounts in court decisions on war claims, it is not expected for these obligations to be significantly increased. Therefore, total claims in the Federation of BiH under the old foreign currency savings and war claims will be in the amount smaller than the estimated KM 1,150.00 million and KM 500.00 million due to which the domestic debt determined by the law is observed only in comparison with the verified amount.

In accordance with the available data and the estimations of the Federal Ministry of Finance, the domestic debt of the Federation of Bosnia and Herzegovina as of 31 December 2016 amounts to KM 1,040.34 million.

The domestic debt on the basis of issuance of securities, in addition to securities issued for settlement of legally prescribed debt (non-market instruments) also comprises market instruments. Market instruments are treasury notes and treasury bonds which the Federation of Bosnia and Herzegovina started auctioning in 2011 and 2012, respectively. In 2016, 13 auctions of treasury notes and three auctions of treasury bonds were held. In auctions, the amount of KM 350 million<sup>56</sup> of treasury notes was issued, of different maturity (3, 6, 9 and 12 months), while the amount of issued treasury bonds was KM 140 million ranging from 2 to 5 years. Coverage of offer on treasury bonds issued in 2016 was 2.5, and on treasury notes 2.24 to 4.22, depending on their maturity. The main investors in securities of the Government of the Federation of BiH remained to be banks which operate in the territory of FBiH, but other investors also appeared (insurance companies).

Securities are registered with the Registry of Securities in FBiH and are quoted on Sarajevo Stock Exchange. At the end of 2016, the amount of KM 770 million remained of outstanding liabilities under the issued market securities and the amount of KM 247.23 million under non-market securities. The outstanding debt established by the Law and the debt toward employees and suppliers of the former

<sup>55</sup>State of domestic debt of the Federation of Bosnia and Herzegovina as of 31 December 2016 represents the estimated state and includes issuance of securities planned to 31 December 2016 under the adopted calendar of issuance; it does not include planned issues under the re-balance.

<sup>56</sup>Re-balance of the budget for 2016 plans the issuance of treasury notes in the amount of KM 50 million (9M)

Federal Ministry of Defence and the Army of the Federation of Bosnia and Herzegovina, and the obligations under war claims and verified old currency savings obligations for which securities were not issued before 31 December 2016, as of 31 December 2016 amount to KM 23.11 million. Obligations under the old foreign currency savings verified in 2016 will be settled through issuance of securities in 2017.

**Structure of the domestic debt of the Federation of BiH as of 31 December between 2011 and 2019 (in million KM)**

	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Total domestic debt</b>	<b>818.12</b>	<b>870.16</b>	<b>795.83</b>	<b>888.13</b>	<b>1,027.57</b>	<b>1,040.34</b>	<b>844.59</b>	<b>819.08</b>	<b>757.13</b>
<b>1. Non-market instruments</b>	<b>715.48</b>	<b>667.79</b>	<b>552.3</b>	<b>446.0</b>	<b>374.89</b>	<b>247.23</b>	<b>234.73</b>	<b>210.42</b>	<b>149.67</b>
Old foreign currency savings bonds	524.19	477.78	357.9	251.6	179.47	51.81	39.31	15.00	0
War claims bonds	191.29	190.01	194.4	194.4	195.42	195.42	195.42	195.42	149.67
<b>2 Market instruments</b>	<b>90.0</b>	<b>190.0</b>	<b>220.0</b>	<b>390.0</b>	<b>620.00</b>	<b>770.00</b>	<b>600.00</b>	<b>600.00</b>	<b>600.00</b>
Treasury notes	90.0	60.0	50.0	100.0	100.00	150.00	100.00	100.00	100.00
Bonds	0.0	130.0	170.0	290.0	520.00	620.00	500.00	500.00	500.00
<b>3. Obligations of the former Federal Ministry of Defence</b>	<b>12.64</b>	<b>12.37</b>	<b>12.37</b>	<b>12.2</b>	<b>12.16</b>	<b>12.16</b>	<b>9.86</b>	<b>8.66</b>	<b>7.46</b>
Suppliers	7.36	7.36	7.33	7.28	7.28	7.28	5.28	4.28	3.28
Salaries	5.28	5.01	5.04	4.92	4.88	4.88	4.58	4.38	4.18
<b>4. Other (FCS verified in 2016 i court judgements for war claims</b>	<b>0.0</b>	<b>0.0</b>	<b>11.16</b>	<b>39.93</b>	<b>20.52</b>	<b>10.95</b>	<b>0</b>	<b>0</b>	<b>0</b>

Legally prescribed domestic debt in part pertaining to suppliers and soldiers' salaries and remunerations was completely settled in cash. For settlement of obligations toward suppliers, the total amount of KM 17.72 million was paid, while the amount paid for soldiers' salaries and remunerations was KM 32.61 million.

Obligations under old foreign currency savings and war claims are settled in cash and through issuance of bonds. Cash payments for settlement of a part of war claims amount to KM 14.62 million and for settlement of a part of old foreign currency savings KM 104.46 million. Until 31 December 2016, for settlement of obligations under old foreign currency savings, seven issues of bonds were held in the total amount of KM 825.16 million, of which before 31 December 2016, the amount of KM 645.69 million. For settlement of obligations under war claims, four issues were held, in the total amount of KM 195.42 million. For settlement of principal for war claims<sup>57</sup> for which issuance of bonds starts after grace period expiry, 9 years from issuance<sup>58</sup>.

In 2016, on the basis of settlement of domestic debt, the amount of KM 514.40 million was paid, of which KM 486.03 million for principal and KM 28.37 million for interest.

<sup>57</sup> In accordance with the judgement of the European Court for Human Rights, owners of debentures whose basis for emission was the court decision, were paid the claimed amount in cash, while the owner of debentures in the amount of KM 7,597,727 became the Federal Ministry of Finance.

<sup>58</sup> Repayment of principal for the first tranche will start in 2019, for the second tranche in 2012, for the third tranche in 2023, and for the fourth tranche in 2025.

<sup>59</sup> Servicing of debts of cantons, cities and municipalities may amount to 10 per cent of revenues realised in the previous fiscal year. The amount of debt servicing of the Federation, including limitations of the amount of debt of cantons may not exceed 18% of consolidated revenues of the Federation and cantons realised in the previous fiscal year.

Indebtedness in the Federation of Bosnia and Herzegovina is still within the Maastricht Criteria. Obligations for debt servicing are increasing. Debt servicing<sup>59</sup> of the Federation of BiH and cantons (long-term securities) does not exceed 18% of consolidated revenues realised in the previous year, that is, debt servicing of cantons, municipalities and cities is less than 10% of associated revenues realised in the previous year. Participation of servicing the foreign debt which was transferred to end-users through subsidiary agreements in the total obligation of FBiH is gradually increasing. Although servicing of domestic long-term debt of the Federation of BiH significantly participates in total annual obligations, net domestic borrowing is not increasing.

**Projections of domestic net borrowing of the Government of the Federation of BiH through issuance of securities (in million KM)**

Type of security		2016.	2017.	2018	2019
Treasury securities of FBiH	Issuance	140.00	0.00	120.00	50.00
	Repayment of principal	-40.00	-120.00	-160.00	50.00
	<b>Net indebtedness</b>	<b>100.00</b>	<b>-120.00</b>	<b>-40.00</b>	<b>0.00</b>
Treasury notes Federation of BiH	Issuance	350.00	360.00	360.00	360.00
	Repayment of principal	-300.00	-410.00	360.00	360.00
	<b>Net indebtedness</b>	<b>50.00</b>	<b>-50.00</b>	<b>0.00</b>	<b>0.00</b>
<b>TOTAL</b>		<b>150.00</b>	<b>-170.00</b>	<b>-40.00</b>	<b>0.00</b>

The dynamics of borrowing, credit purpose and the long-term problem of the current account deficit in the balance of payments require constant monitoring of debt, as well as maintaining the proportionate structure of repayment through years with the aim of minimising the liquidity risk.

Debt management with the aim of maintaining the debt at the same level or decreasing its share in GDP, higher participation of debt in accordance with the model of guarantees and continued development and improvement of the domestic securities market is one of priorities in the Federation of BiH in the coming period.

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

Contingent liabilities

Contingent liabilities are financial obligations that could arise in the budget of FBiH under issued guarantees or decisions of the Parliament of FBiH on possible assumption of obligations of cantons, local communities or public companies representing the strategic interest of FBiH.

In 2010, the Government of FBiH issued a guarantee for PC Željeznice FBiH under a syndicated credit in the amount of 78.9 BAM. The state of debt as of 31 December 2016 under the stated guarantee amounts to KM 34.34 million. Since credit under this guarantee, in addition to other insurance instruments, is also secured by cash flow transfers from the budget of FBiH, which are regularly planned in accordance with the law, the risk of activation of this guarantee is very low.

In addition to the stated guarantee, there is an external sub-guarantee issued for PUC Vodovod i kanalizacija doo Tuzla in the amount of KM 11.34 million (external guarantee of BiH). Outstanding liability under this sub-guarantee at the end of 2016 amounts to KM 2.27 million.

**Contingent liabilities under guarantees with the state as on 31 December in 2014-2019  
(in million KM)**

	2014	2015	2016	2017	2018	2019
Federation of BiH	57.20	50.98	36.61	26.7	16.8	8.04
<i>Cantons</i>	105.19	114.40	83.38	78.02	72.32	71.4
<i>Municipalities and Cities</i> <sup>60</sup>	42.54	57.92	15.74	13.5	11.5	10.5
<b>TOTAL GUARANTEES</b>	<b>204.93</b>	<b>223.30</b>	<b>135.73</b>	<b>118.22</b>	<b>100.62</b>	<b>89.94</b>

<sup>60</sup>Data for 2014 pertains only to municipalities

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

#### Repayment of domestic and foreign debt with projection by 2019 (in million KM)

Debt category	2015		2016		2017		2018		2019	
	principal	interest	principal	interest	principal	interest	principal	interest	principal	interest
<b>1.1. Domestic debt in FBiH<sup>61</sup></b>	<b>490.55</b>	<b>25.10</b>	<b>486.43</b>	<b>27.97</b>	<b>554.80</b>	<b>27.29</b>	<b>555.51</b>	<b>21.50</b>	<b>471.95</b>	<b>17.08</b>
Securities	490.52	25.09	486.42	27.97	552.50	27.29	554.31	21.50	470.75	17.08
a) Long-term securities	192.81	23.87	186.42	27.97	142.50	27.29	194.31	21.50	110.75	17.08
Old foreign savings	112.81	6.16	146.42	3.60	22.50	1.29	34.31	0.98	15.00	0.37
War claims	0.00	4.86	0.00	4.88	0.00	4.88	0.00	4.88	45.75	4.88
Bonds of the Federation	80.00	12.85	40.00	19.49	120.00	21.12	160.00	15.64	50.00	11.83
b) Short-term securities (treasury notes)	297.71	1.22	300.00	0.00	410.00	0.00	360.00	0.00	360.00	0.00
1.1.2. Bank credits			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1.1.3. Obligations of the former Federal Ministry of Defence	0.03	0.01	0.01	0.00	2.30	0.00	1.20	0.00	1.20	0.00
<b>2.1. TOTAL debt of FBiH</b>	<b>312.50</b>	<b>69, 08</b>	<b>389.31</b>	<b>90.36</b>	<b>554.22</b>	<b>93.81</b>	<b>580.94</b>	<b>89.25</b>	<b>504.45</b>	<b>83.02</b>
2.1.2. Foreign debt in FBiH	149.83	33.55	228.63	52.63	341.29	53.97	343.43	48.01	253.68	43.29
Foreign debt of cantons	44.32	9.92	44.95	2.55	48.94	2.61	31.41	2.10	26.69	1.76
2.1.4. Foreign debt of cities and municipalities	3.26	0.73	3.84	1.69	5.73	1.00	6.70	1.02	9.59	1.99
2.1.5. Foreign debt of PCs and others	115.09	25.60	111.89	33.49	158.26	36.23	199.40	38.11	214.49	35.99

#### Government of Republika Srpska

The Law on Borrowing, Debt and Guarantees of Republika Srpska regulates in detail the scope of borrowing and the issuance of of Republika Srpska and local self-government units, as well as the methods and procedures of borrowing, which together with the existing laws on budget system represent a comprehensive legal framework for improvement and control of budget discipline. This law imposes the restriction on the amount of debt, so that total debt of Republika Srpska<sup>62</sup> at the end of a

<sup>61</sup>Projection of domestic debt servicing does not include obligations pertaining to payment of obligations under court judgements for war claims, nor obligations for old foreign currency savings verified in 2016; it includes plan of repayment under issuance of securities in the following years.

<sup>62</sup>In accordance with the Law, total debt of RS is comprised of public debt of RS, debt of public companies, IRB RS and public sector institutions. Public debt is the debt of Republika Srpska (budget), debt of local self-government units and debt of social security funds.

fiscal year may not exceed 60%, while the public debt of Republika Srpska may not exceed 55% of GDP realised in that year. Debt of Republika Srpska which was incurred under borrowing for financing the rehabilitation of damages from the Single Registry of Damages, prescribed in the Law on the Solidarity Fund for Reconstruction of Republika Srpska, is excluded from these restrictions prescribed for total and public debt of Republika Srpska. Short-term debt of Republika Srpska may not exceed 8% of the amount of regular revenues realised in the previous fiscal year and the total exposure of Republika Srpska under issued guarantees may not exceed 15% of realised GDP in that year. Local self-government units may borrow in the long-term only if in the period of creation of debt, the total amount due for repayment, under the proposed debt and total due arrears in any subsequent year does not exceed 18% of its regular revenues realised in the previous fiscal year. Short-term debt of municipalities may not exceed 5% of their regular revenues realised in the previous fiscal year, while exposure of local self-government units under issued guarantees may not exceed 30% of the amount of their regular revenues realised in the previous fiscal year (all rules applicable to local self-government units are also applicable to social security funds, except in part related to guarantees-social security funds may not issue guarantees).

When it comes to the institutional arrangement, the task of managing debt and indirect debt of Republika Srpska is given to the Department for Debt Management as one of the organisational units of the Ministry of Finance. In December 2015, the Government of Republika Srpska adopted the Debt Management Strategy of RS for the 2015-2018 period prepared by the Ministry of Finance of Republika Srpska. The Strategy identifies indicators or guidelines with the aim of achieving the debt structure with acceptable level of costs and risks:

- With the aim of managing the currency risk, the debt denominated in foreign currency (excluding debt in EUR) should be lower than 35% cent of total observed debt, while, with the aim of developing the domestic market, the domestic debt should be 25% higher than the observed debt;
- With the aim of managing the re-financing risk, the average maturity period should be longer than four years, while the short-term debt should be 8% smaller than revenues realised in the previous year;
- With the aim of managing the interest rate risk, debt under fixed conditions should amount to more than 60% of the total observed debt, while the average weighted interest rate should be less than 3.5%;
- Government of RS will perform annual revisions and upgrades of the Strategy in order for the Strategy to always encompass a four-year period (current year and three subsequent years).

RS public debt state as of 30 September 2016 amounts to KM 4,364.6 million, representing 46% of GDP<sup>63</sup>, while the state of total public debt of RS amounts to KM 5,414.7 million, i.e. 57 % of GDP, and is comprised of the following:

- RS debt (budget) in the amount of KM 3,805.4 million,
- Local self-government units debt in the amount of KM 368.7 million,
- Social security funds debt in the amount of KM 190.5 million, and
- Debt of public companies and the Investment-Development Bank of RS (IRB RS) in the amount of KM 1,050.1 million.

The state of total debt of RS as of 30 September 2016 in the amount of KM 5,414.7 million, per origin of debt, pertains to the following:

- foreign debt in the amount of KM 3,125.8 million, of which:
  - RS debt (budget) amounts to KM 1,998.6 million,
  - Local self-government units debt in the amount of KM 77.2 million,
  - Debt of public companies and IRB RS in the amount of KM 1,050.1 million , and

---

<sup>63</sup>Estimated value of GDP for 2016 amounts to KM 9,498 million.

<sup>64</sup>Currency Board Arrangement determines issuing of domestic currency with total coverage in freely convertible funds under the fixed rate 1 KM=0.51129 EUR.

- domestic debt in the amount of KM 2,288.8 million, of which:
  - RS debt (budget) amounts to KM 1,806.8 million,
  - Local self-government units debt in the amount of KM 291.5 million, and
  - Social security funds debt in the amount of KM 190.5 million.

As of 30 September 2016, total debt of RS which is subject to the legal limitation amounts to KM 5,381 million (56.7% of GDP), while the public debt which is subject to legal limitation amounts to KM 4,331 million (45.6% of GDP).

When it comes to the currency structure of debt, four currencies dominate the total debt of RS: KM, EUR, SDR and USD. The biggest share is that of KM (42.3%) since the domestic debt is entirely denominated in the domestic currency. Bearing in mind that CB BiH maintains the monetary stability in accordance with the Currency Board Arrangement<sup>64</sup>, the fact that participation of EUR in the currency structure is significant, at the rate of 31% may be considered favourable. High participation rate of EUR and KM insures a high degree of predictability of future obligations. In this view, RS is exposed to a lower currency risk. However, due to significant share of USD in the currency structure (3.5%), and bearing in mind domination of USD in SDR structure<sup>65</sup>, while strengthening of USD may result in the increased foreign debt requiring more domestic currency for servicing foreign debt.

When it comes to the maturity, it is very important to note, as a positive fact, that the observed debt of Republika Srpska is almost entirely long-term. Of the total debt of RS only 1.7% pertains to short-term debt, while the remaining debt is long-term and its share is 98.3%. For analysing the debt portfolio, it is very important to observe its structure when it comes to volatility of repayment conditions of certain obligations. Majority of debt, i.e. 58.9% is repaid under fixed interest. Out of total foreign debt, 50.9% is repaid under fixed conditions, while 69.8% of total domestic debt is repaid under fixed conditions.

When it comes to repayment, the structure of the debt is also important since for certain credits the grace period is still in place. Therefore, repayment of principal for certain credits has not started yet-64.2% of total RS debt is being repaid, while the remaining 35.8% is still in the grace period. Out of total foreign debt, 67.8% of debt is being repaid (98.3% of old debt, 61.3% of new debt), while 59.2% of total domestic debt is being repaid.

Debt structure in view of instruments is important when it comes to marketability of debt. Marketable debt represents the debt which is openly traded in the capital market (securities) and which provides for the possibility of utilising debt management advantages, while to non-marketable debt is not traded and its maturity is important (credits). When it comes to the structure of total debt of Republika Srpska in view of instruments, marketable debt (bonds and treasury notes) amounts to 29.8%, while the remaining debt represents a non-marketable debt (credits and debt settled through action plans or in cash).

#### Servicing and state of total RS debt in 2015 - 2019 (in million KM)

Category		2015	30.09. 2016.	2016	2017	2018	2019
		Performance		Plan	Projections		
1	External debt servicing	204.3	170.9	256.2	336.6	347.8	297.6
	1.1. Republika Srpska (budget)	133.7	114.0	171.2	237.9	251.7	199.5
	1.2. Units of Local Government	4.7	2.4	5.7	8.1	8.8	8.8
	1.3. Public Enterprises and IRB	65.9	54.5	79.3	90.6	87.3	89.4
2	Internal debt repayment	418.3	384.4	488.0	469.3	563.3	447.2
	2.1. Republika Srpska (budget)	245.1	301.7	380.0	368.3	462.6	357.2
	2.2. Units of Local Government	56.3	40.6	60.0	56.9	56.3	49.2
	2.3. Social security funds	116.8	42.2	48.0	44.1	44.4	40.8
<b>3</b>	<b>Total RS debt servicing (1+2)</b>	<b>622.6</b>	<b>555.3</b>	<b>744.2</b>	<b>805.9</b>	<b>911.1</b>	<b>744.8</b>

<sup>65</sup> In accordance with the decision of the IMF Executive Board dated 30 Nov 2015, which became effective on 1 Oct 2016, the currency basket represented by SDR includes RMB („Chinese renminbi“, i.e. Chinese yuan), while the proportion of currencies is the following: USD 41.37%, JPY 8.33%, EUR30.93%, GBP 8.09% and RMB 10.92%

<b>3.1.</b>	<b>Servicing debt from RS budget</b>	<b>498.0</b>	<b>501.6</b>	<b>674.8</b>	<b>740.3</b>	<b>844.3</b>	<b>685.0</b>
4.	Foreign debt state	3,012.1	3,125.8	3,435.2	3,730.6	4,045.4	4,212.4
4.1.	Republika Srpska (budget)	1,951.4	1,998.6	2,113.6	2,276.1	2,459.6	2,566.9
	4.1.1. <i>Subject to legal limitation</i>	1,925.4	1,964.9	2,073.2	2,207.5	2,380.0	2,472.6
	4.1.2. <i>Not subject to legal limitation</i>	26.0	33.6	40.4	68.5	79.6	94.2
4.2.	Units of Local Government	79.1	77.2	92.6	137.7	146.3	155.0
4.3.	Public Enterprises and IRB	981.6	1,050.1	1,228.9	1,316.9	1,439.5	1,490.5
5	Domestic debt state	2,265.0	2,288.8	2,227.8	2,151.1	2,018.9	1,888.4
5.1.	Republika Srpska (budget)	1,619.3	1,806.8	1,777.6	1,787.0	1,731.5	1,677.7
5.2.	Units of Local Government	306.9	291.5	258.7	215.8	174.9	132.8
5.3.	Social security funds	338.9	190.5	181.5	148.3	112.5	77.9
<b>6</b>	<b>RS PUBLIC DEBT (4.1. + 4.2. + 5)</b>	<b>4,295.5</b>	<b>4,364.6</b>	<b>4,434.0</b>	<b>4,564.8</b>	<b>4,624.8</b>	<b>4,610.4</b>
<b>7</b>	<b>TOTAL RS DEBT (4 + 5)</b>	<b>5,277.1</b>	<b>5,414.7</b>	<b>5,663.0</b>	<b>5,881.7</b>	<b>6,064.3</b>	<b>6,100.9</b>
<b>8</b>	<b>RS public debt subject to legal limitation (4.1.1. + 4.2. + 5)</b>	<b>4,269.5</b>	<b>4,331.0</b>	<b>4,393.6</b>	<b>4,496.3</b>	<b>4,545.2</b>	<b>4,516.1</b>
<b>9</b>	<b>RS public debt subject to legal limitation (4.1.1. + 4.2. + 4.3. + 5)</b>	<b>5,251.1</b>	<b>5,381.0</b>	<b>5,622.6</b>	<b>5,813.2</b>	<b>5,984.7</b>	<b>6,006.6</b>

Source: Ministry of Finance of RS

As of 30 September 2016, the state of debt under credits for which the Government of RS issued guarantees amounts to KM 345.58 million. Within the RS budget, funds for repayment of obligations under activated and non-activated guarantees estimated as risky are planned.

Bearing in mind the instability of economic developments in the previous period, as well as estimated macro-economic indicators before 2019, and with the aim of maintaining the acceptable capacity of debt repayment and decreasing of debt in comparison with GDP, it is necessary to prioritize projects which would be financed from credit arrangements in the following period, with the aim of supporting only those projects which would contribute to increasing the economic growth of RS or to additional employment and decline projects which are not sufficiently profitable and which bear high cost or risks and continue strengthening fiscal stability in view of decreasing current and total spending, while the decisions on borrowing should be adopted in accordance with the guidelines determined in the RS Debt Management Strategy.

### 3.6. SENSITIVITY ANALYSIS AND COMPARISON WITH THE PREVIOUS PROGRAMME

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

Given the basic outlook of indirect taxes projections and overall economic conditions in BiH and globally, the realisation of the projected level of revenues from indirect taxes in 2017 - 2019 is subject to the following risks:

- Projections of revenues from indirect taxes are closely linked to projections of macroeconomic indicators of DEP. Any deviation of these parameters from projected values represents a risk to revenue projections;
- Weaker economic recovery of main BiH export partners (EU, CEFTA members) increases the level of risk for realisation of macroeconomic projections and subsequently of indirect tax revenue projections as a whole;
- Further increases in excise burden on cigarettes and cut tobacco without supressing the growing black tobacco products market in BiH may seriously undermine the collection of revenues from excise duties on tobacco. Speeding up the dynamics of aligning the level of total minimum excise duty on BiH with the minimum excise duty in the EU in view of developments in excise burden on cigarettes and cut tobacco in neighbouring countries will represent encouragement to smuggling of cigarettes and cut tobacco from neighbouring countries into BiH, thus endangering the domestic tobacco industry and decreasing the taxable consumption of cigarettes and revenues from excise duties.

### *Programme scenario of revenues from indirect taxes*

Changes to the custom duties policy in the next three years pertain to adaptation of the SAA. Since the time line for the implementation of the revised custom duties policy or the scope of changes are not known, in view of goods for which import customs will be removed and in view of territorial implementation, or whether the changes will pertain only to import of certain goods from Croatia or whether the adaptation will pertain to other EU members, rough estimates of implications on indirect taxes collection are performed. On the basis of data of the ITA for 2015, losses on revenues from custom duties might range from KM 15 million in case adaptation of SAA pertains to import of all goods from Croatia, to maximum KM 75 million in case the adaptation pertains to all EU members. Even though decreased basis might result in losses in collection of VAT on imports, whether or not this will result in losses in net VAT will depend on whether removal of custom duties by importers will be used for lower sales prices or whether the importers will have monopoly in BiH market.

Amendments to the Law on Excise Duties approved by the ITA Management Board imply increases of excise duties on petroleum products (oil, gas, fuel oil, kerosene), introduction of road toll in the amount of KM 0.25/l on liquid oil gas, transformation of pay toll in the amount of KM 0.15/l from the budget revenue to the special revenue of road and motorway directorates and introduction of special excise on beer, non-alcoholic beverages, alcohol and alcoholic beverages for financing health insurance funds in BiH. In accordance with statistical estimates based on the amounts of taxed petroleum products in 2015, amendments to the Law on Excise Duties may result in growth on excise duties only on heating oil (approximately KM 35.4 million) and on liquid oil gas<sup>66</sup>, while growth of revenues from excise duties due to increase of excise duties on diesel/bio diesel, gas and heating oil will be entirely neutralised by transforming the budget road toll in the amount of KM 0.15/l into a special road toll for construction of roads and motorways. Bearing in mind relative relations of prices, increase in excise duties will undoubtedly weaken the competitive position of BiH in the regional market of petroleum products. Therefore, it is possible to expect weakening of cross-border and transit retail sale of petroleum products which, in 2016 and in the first quarter of 2016, represented one of the important factors of strong growth from excise duties and road tolls. Previous differentiated policy of taxation of derivatives encouraged illegal spending of heating oil as motor fuel. Although these proposed changes continue the gap between taxation of heating oil and diesel, it is likely that increases in excise duties on diesel will lead to strengthening incentives for using heating oil due to nominal growth of diesel retail prices. Finally, the possible growth of oil prices in the market will negatively influence consumption of petroleum products, which will negatively reflect on both the budget (VAT, excise duties) and special revenues from taxes on petroleum products (road toll).

Initial statistical effects of increased excise duties on beer, alcohol, alcoholic and non-alcoholic beverages are estimated in the amount of KM 67.4 million on an annual level. Since these are special revenues of health insurance funds, introduction of this special excise duty will not influence budgets, except in case growth of excise duties brings a decrease in the consumption of these products. Lower consumption will not only have a negative effect on collection of revenues for health care-it will also have negative implications on the budget. It is probable that increases in taxes on stated products will lead to market distortions (strengthening of black market, establishment of illegal beverages production, illegal sale on markets and alike), which will endanger operations of domestic producers and influence employment and increase of tax evasion, not only in view of indirect taxes, but also of direct taxes and social contributions.

Drastic increases in taxes for health care will lead to a boomerang effect. Strengthening of the black market and low-quality cheap products which were not subject to health, sanitary and other controls will endanger the public health, which will in turn represent burden to health funds.

### *Comparison with the previous program*

The execution of revenue collection in 2015 was approximately KM 15 million or 0.3% less than projections presented in the previous program. The biggest difference pertains to revenues from VAT, since in December 2015, in contrary to what was expected and the historical collection scheme, a significant decrease in VAT on exports and the domestic VAT occurred (Table 3). Differences in projections of revenues for 2016, 2017 and 2018 in relation to the previous program are 0.6%, 0.6%

---

<sup>66</sup>ITA IT system analytic does not allow separation of quantities of liquid oil gas in accordance with its usage (as motor fuel and for industry/households), thus preventing projection of revenues to be collected on the basis of road toll on liquid oil gas used as motor fuel.

and 0.4%, respectively (Table 2), and represent a consequence of current trends in 2016 and differences in macroeconomic projections. Current trends in 2016 largely influenced corrections of projections of VAT revenues (unexpectedly high growth of domestic VAT and stagnation of refunds), excise duties and road toll (strong growth of revenues from excise duties and road toll on petroleum products and decrease in consumption of cigarettes due to increase in substitution of cut tobacco and black market) and custom duties (decrease in import and investment from third countries). Revised macroeconomic projections of DEP from September 2016, compared to the previous programme in view of developments of nominal spending, exports and imports are more pessimistic for 2016, but more optimistic for 2017 and 2018. Finally, projections for 2017-2018 are revised significantly downwards due to negative expectations related to developments in collection of excise duties on tobacco products and given the planned excise duties burden and strengthening of black tobacco market in BiH.

#### Differences in comparison with projections from the previous programme

Document	Time of preparation Projection	Projection* of indirect taxes (in million KM)				
		2015	2016	2017	2018	2019
ERP 2016	October 2015	5,273.6	5,426.5	5,609.3	5,818.4	n/a
ERP 2017	October 2016	5,258.7	5,461.8	5,640.6	5,842.4	6,064.3
Correction (in %)		-0.3%	0.6%	0.6%	0.4%	n/a

\* Clear fields imply real collection of revenues

#### Differences in types of revenues in comparison with the previous programme

(in million KM)	2015	2016	2017	2018
Total correction	-14.9	35.2	31.3	24.0
VAT	-20.3	18.4	44.2	59.0
Excise duties	2.4	-3.6	-36.9	-62.9
Custom duties	-8.8	-14.7	-13.0	-11.3
Road tax	0.8	30.2	32.0	34.2
Other	11.0	4.9	4.9	5.0

\* Clear fields imply real collection of revenues

#### Government of the Federation of BiH

The main risk for the fiscal scenario during the program period are reflected in delayed implementation of structural reforms defined in the Reform Agenda, as well as in failure to fulfil obligations under the IMF arrangement. These two elements are definitely related.

Moreover, weaker economic recovery of the main export partners of BiH (EU, CEFTA countries) increases the level of risk for realisation of macroeconomic projections, which can also endanger the planned fiscal scenario encompassed by the Economic Reform Programme.

#### Government of Republika Srpska

Projections of revenues from direct taxes and non-tax revenues are prepared on the basis of projected macroeconomic indicators for Republika Srpska and the existing tax policy in the area of direct taxation, as well as regulations defining non-tax revenues. For each type of revenues, the collection trends in the previous period were analysed, potential one-time impacts that will occur in the future were also included, as well as determined degree of correlation between certain types of revenues and developments of macroeconomic aggregates. Projection of revenues is prepared separately for each type of revenues. This is very important since legal basis, seasonal influences and specificities of each individual source of income are taken into account.

Projections of revenues from indirect taxes pertaining to Republika Srpska, in addition to identified current trends in collection of revenues and changes in policies related to excise duties on tobacco and custom duties (continuation of harmonisation of excise duties on cigarettes with EU standards and adjusting excise duties on cut tobacco with the growth of excise duties on cigarettes, as well as in implementation of the Free Trade Agreement between BiH and EFTA since 1 January 2015) are based on the forecast of relevant macroeconomic indicators for BiH and Republika Srpska and on the adopted Global Framework of Fiscal Balance and Policies in BiH. Policy regarding excise duties on tobacco between 2017 and 2018 imply continuous annual increase of the specific excise duty on cigarettes in the amount of KM 0.15 /per pack and adjusting the specific excise duty on smoking tobacco to the growth of the minimal excise duty on cigarettes. The adopted Global Framework of Fiscal Balance and Policies in BiH for the 2017-2019 period it was determined that the funds for financing the Institutions

of Bosnia and Herzegovina, to be secured from the ITA account, will amount to KM 750 million for 2017, 2018 and 2019.

Due to the specificity of the system of allocation of indirect taxes revenues, the estimated developments of macroeconomic indicators for Republika Srpska are significant in view of analysis of developments of final consumption in the stated period, as basis for determining the coefficient of distribution of revenues from indirect taxes between Republika Srpska and FBiH. However, projection of servicing foreign debt is especially important for the system of distribution of revenues from indirect taxes within Republika Srpska, i.e. between sub-sectors of central government, local self-government units and PC "Putevi Republike Srpske".

Changes in any of the assumptions that underlie the revenue projections will require changes in projections of revenues stated in this document. The main risks to the realisation of the stated revenue projections may be:

- Divergences of macroeconomic indicators from projected values, due to the close relation of these projections with revenues projections and the degree of correlation of certain types of revenues with macroeconomic aggregates developments;
- Changes in taxation policy in the area of direct taxes, contributions and non-tax revenues;
- Possible changes in taxation policies in the area of excise duties and pay toll. In addition, expected effects of changed taxation policies in the area of excise duties on products, if not followed by adequate administrative and operative measures and actions, may decrease through illegal import and sales, tax evasion;
- More significant divergences in development of the coefficient of distribution of indirect taxes revenues between RS and FBiH in view of the estimated level;
- Unexpected fluctuations on the international foreign currency market through changes in servicing foreign debt may lead to divergences related in relation to projected revenues from indirect taxes;
- Operations of the tax administration may have significant influence on revenues development. Tax revenues depend on improvement of tax discipline;
- Other developments (natural disasters and alike).

The main political risks for realisation of the stated projection of indirect tax revenues are as follows:

- The adopted Global Framework of Fiscal Balance and Policies in BiH for the 2017-2019 period determined that the funds for financing the Institutions of Bosnia and Herzegovina, to be secured from the ITA account, will amount to KM 750 million for 2017, 2018 and 2019. However, the existence of obligation of adoption of the Global Framework of Fiscal Balance and Policies in BiH for the following three-year period results in risks in case of changes in the determined amount of KM 750 million;
- Introduction of new automatic system of revenue allocation from the ITA account, the introduction of which was planned in the Letter of Intent with IMF.

Projections of expenditures are prepared on the basis of requests from budget users and obligations derived from laws and by-laws. Budget realisation is exercised in accordance with realisation of revenues and budget inflows. The risk to realisation lies in (non)realisation of macroeconomic and other assumptions on which the projection is based. Moreover, risks in the real sector would reflect on the expected economic growth and the number of employees.

If we compare ERP RS documents for the 2017-2019 period and NERP RS for the 2016-2018 period, it is evident that in 2015, due to careful planning of revenues within the framework of the last year document, the realised revenues exceed the projected revenues. The most significant divergences are in the framework of revenues from indirect taxes, revenues from property and non-tax revenues. At the same time, the realised total expenditures for 2015 are smaller than those projected in the last year document. The most significant divergences within current expenditures relate to expenditures for interest and social protection contributions. Realised deficit in 2015 amounted to KM 28.7 million and it decreased by KM 86.3 million in comparison with the planned deficit in the last year Programme.

Upgraded projections for 2016 in this programme, in comparison with projections in the last year Programme are higher on the revenues side, but lower on the expenditures side. These changes had the

effect of decreasing the general government deficit by KM 59.1 million in comparison with the previous Programme.

The upgraded projections for 2017 and 2018 increased public revenues (mostly revenues from indirect taxes and revenues from property). Public expenditures are even more increased (mostly expenditures for non-financial property). This resulted in increase of deficit in 2017 (by KM 35.4 million) and decrease of surplus for 2018 (by KM 10.7 million). This is primarily the result of projections being based on careful revenues projections and on expenditures based on the needs expressed by budget users. In execution of the budget, expenditures are reduced to fall within the framework of realisable revenues.

### **3.7. FISCAL GOVERNANCE AND BUDGETARY FRAMEWORKS**

#### **Council of Ministers of Bosnia and Herzegovina**

The main starting point for determining the budget framework of the Institutions of Bosnia and Herzegovina is the Agreement on Adoption of the Global Framework of Fiscal Balance and Policies in Bosnia and Herzegovina for the 2017-2019 period concluded between the BiH Council of Ministers, the Government of the Federation of BiH and Republika Srpska during the Fiscal Council session held on 24.5.2016. The Agreement determines the framework of the Institutions of Bosnia and Herzegovina in the total amount of KM 950 million, as well as apportionment of financing funds from the Single Account of the Indirect Taxation Authority in the amount of KM 750 million.

Bearing this in mind, the Institutions of BiH apply rigorous restrictive spending policy, with the use of modified accrual accounting, where the revenues are calculated on the cash basis when measurable and available, and expenditures on accrual basis in the period when they were incurred.

In preparation of the yearly budget, where requests of budget users are combined with the upper ceiling of expenditures from the Framework Budget Document in the dialogue between the Ministry of Finance and Treasury and budget users, the funds are strictly directed to priority programs and projects in order to comply with the framework of KM 950 million defined in the Agreement. In addition, the austerity measures are applied in accordance with the decisions of the Council of Ministers<sup>67</sup> and new employment in the Institutions of Bosnia and Herzegovina is on freeze.

Planning in terms of budget and Framework Budget Document is performed through the Budget Planning and Management Information System (BPMIS) which supports economic, organisational, program, project, functional and fund classification.

In accordance with the Decision of the Council of Ministers from 2014 on the procedure of medium-term planning, monitoring and reporting in the Institutions of BiH, bearers and deadlines are defined for implementation of the process of medium-term planning and reporting in the Institutions of Bosnia and Herzegovina and relating policies and priorities in the budget documents.

In 2015, the Council of Ministers adopted the Strategic Framework for BiH prepared in accordance with the said Decision, which serves as a directing of strategic objectives for preparation of the medium-term programme of the Council of Ministers and medium-term plans of the Institutions of BiH. The medium-term program of the Council of Ministers presents development-investment projects of the Institutions of Bosnia and Herzegovina which align their Medium-term plan with the Medium-term programme of work of the Council of Ministers.

#### **Government of Republika Srpska**

Further improvement of public finance management in RS represents the top priority of the Government of Republika Srpska. Establishment of all-encompassing and adequately organised public finance represents a precondition for successful processes of reforms and further development of all sectors of society. On the basis of situation analysis and weaknesses identified in public finance management, the priority goals may be grouped into following areas:

- Sustainable fiscal framework,
- Improvement of the process of public expenditure planning,
- Budget execution;

---

<sup>67</sup>On the austerity measures and decisions of CM, please see page 10-Budget execution 2016.

- Development of the system of internal financial control, and the system of internal audit,
- Financial reporting and accounting.

The aim of improving the system of planning and budget preparation encompasses improvement to the final introduction of programme budgeting, strengthening organisational frameworks and human resources for strategic planning in individual institutions, development of detailed program structure of budget users, as well as defining the goals of individual programs and developments of performance indicators or other methods of measuring results of achievement of programme goals and ensuring budgeting based on the results and Government policy.

Framework and foundation for implementation of fiscal policy are the laws, strategies and arrangements stated below.

**The Law on the Budget System of Republika Srpska** ("Official Gazette of Republika Srpska", No. 121/12, 52/14, 103/15 and 15/16) is defining the budget system of Republika Srpska and preparation of the Framework Budget Document of Republika Srpska as the basis for preparation of the budget. Framework Budget Document is adopted each year for the next and for the following two years. Its purpose is to establish a strategic framework and the upper ceiling of resources within which the annual budget should be prepared. In this context, preparation of the budget is based on the Framework Budget Document. The main aim of the Document is to ensure better connectedness between priority policies of the Government and methods in accordance with which it allocates public resources.

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

**The Law on Fiscal Responsibility of Republika Srpska** ("Official Gazette of Republika Srpska", No. 94/15) defining fiscal rules, measures and procedures on the basis of which fiscal framework is established, and which limits public spending, strengthens responsibility for efficient and effective usage of budget funds, establishes the Fiscal Council of RS and strengthens the system of control and supervision. This Law defines general and special fiscal rules. General fiscal rules pertain to the total budget system of Republika Srpska and define:

- Rule on debt: Public debt of RS in the end of a fiscal year may not exceed 55% of GDP realised in that year.
- Consolidated budget deficit rule: Consolidated budget deficit in the end of a fiscal year may not exceed 3% of GDP realised in that year.

Special fiscal rules represent obligatory, automatic measures in case indicators presented in general fiscal rules reach value thresholds defined by this Law and define:

- Debt threshold implies that, in case public debt of RS in the end of a fiscal year reaches the level of 50% of realised GDP in that year, budget for the following year must contain budget surplus.
- Consolidated budget deficit threshold implies that, in case consolidated budget deficit in the end a fiscal year reaches the level of 2.5% of realised GDP in that year, budget for the following year must contain budget deficit.

**The Law on Borrowing, Debt and Guarantees of Republika Srpska** defines the fiscal rules: public debt of RS may not exceed 55% of GDP realised in that year, total debt of RS may not exceed 60% of GDP realised in that year, short-term debt of RS may not exceed 8% of amount of regular revenues realised in the previous fiscal year, total indebtedness of RS under issued guarantees may not exceed 15% of GDP realised in that year, local self-government units may conclude long-term debts only if, in the period of creating the debt, the total amount due for payment, under the proposed debt and under the entire due arrears in any subsequent year does not exceed 18% of its regular revenues realised in the previous fiscal year, short-term debt of municipalities may not exceed 5% of their regular revenues realised in the previous fiscal year, exposure of local self-government units under issued guarantees may not exceed 30% of their regular revenues realised in the previous fiscal year (all rules applied to local self-government units also apply to social security funds, except for the rule related to guarantees-funds may not issue guarantees).

**Debt Management Strategy** of Republika Srpska for the 2015-2018 period represents a plan of the Government which is set to be implemented in the medium-term in order to achieve a desired debt portfolio structure, taking into account cost preferences and risk preferences of the Government. The Strategy identifies indicators, i.e. guidelines with the aim of realising the structure of debt with acceptable level of costs and risks:

- with the aim of currency risk management, the debt denominated in a foreign currency (except EUR) should be less than 35% of the total observed debt, while in the aim of developing the domestic market, the domestic debt should be more than 25% of the total observed debt;
- with the aim of re-financing risk management, average time of maturity should be longer than four years, while the short-term debt should be less than 8% of revenues realised in the previous year;
- with the aim of interest rate risk management, debt under fixed conditions should exceed 60% of the total observed debt, while the average weighted interest rate should be less than 3.5%.

The adoption of the **Public Finance Management Strategy of Republika Srpska** for the 2016-2020 period, expected by the end of 2016, directions of reforms in the area of public finance will be clearly defined and the system of improvement of fiscal responsibility and long-term fiscal stability of Republika Srpska will be completed.

Through the Reform Agenda and the accompanying Action Plan, as well as through the Economic Reform Plan and the Letter of Intent with IMF, the Government of Republika Srpska clearly defined three key reform areas:

1. Stable economic growth based on economic recovery and improvement of business climate and competitiveness;
2. Fiscal sustainability based on fiscal consolidation and public sector reform; and
3. Social security aided by reforms in the area of rule of law and European integration.

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

With the aim of strategic regulation of the area of **accounting and auditing**, Program and Action Plan for Improvement and Development of Accounting and Auditing Profession in Republika Srpska in the 2015-2020 period was adopted. This is the continuation of the initiated reform activities in this area in RS in the 2015-2020 period with the aim of establishing an effective and efficient institutional and functional framework of accounting and auditing, aligned with the European legislation and widely accepted international accounting and auditing standards.

### **3.8 SUSTAINABILITY OF PUBLIC FINANCES**

#### **Council of Ministers of of Bosnia and Herzegovina**

The Council of Ministers of BiH, at its 87th session held on 29 December 2016, adopted the **Strategy for Development of Internal Financial Controls in the Institutions of Bosnia and Herzegovina** for the 2016- 2018 period (PIFC), aligned with SIGMA recommendations and recommendations of the General Budget Directorate of the European Union. The adoption of this Strategy reflects the commitment of the Council of Ministers to further development of internal financial control systems which should ensure efficient, cost-effective, responsible and transparent management of public funds, whether these funds are of national or EU origin. The aim is to introduce higher control standards into public finance management, develop a stronger system of accountability and management based on principles "value for money", which includes development of management and control systems with the purpose of monitoring not only the amount, but also the purpose and method of spending the budget funds.

In addition, the Council of Ministers also adopted the **Public Finance Management Strategy** of the Institutions of BiH for the 2017-2020 period. The Strategy aims at improving the public finance system in order to insure higher functionality, transparency, accountability and efficiency in managing public funds, thus contributing to improving of macroeconomic stability in BiH. In addition to the Ministry of

Finance and Treasury of BiH and its Central Harmonisation Unit, the Strategy was prepared by representatives of the BIH ITA, the Agency for Public Procurement of BiH, the Department for Macroeconomic Analysis within the ITA Management Board, the Directorate for Economic Planning of BiH and the Commission for Accounting and Audit of BiH. This Strategy and strategies of lower levels of government together represent one of the key pillars of public administration reform and will be integrated in the new public administration reform strategy in BiH.

### **Government of the Federation of BiH**

Although significant efforts were invested in improving public finance management in FBiH, alignment and sequence of the implementation of reform activities were not adequate. This resulted in uneven progress in certain key areas of public finance management in all levels of government in FBiH. In this view, a need arose to prepare a comprehensive Public Finance Management Strategy for FBiH. It is expected for the document to be adopted by the Federal Government before the end of 2016.

The aim of this Strategy is to represent a comprehensive and integrated framework for planning, coordination, implementation and monitoring of progress in implementing activities in order to improve macroeconomic stability, insure efficient and planned sharing of public resources and improve services provided by the Federal administration, in parallel to increasing accountability and efficiency, transparency and functionality of public finance management and fulfilling necessary preconditions for accessing the EU.

The Strategy will represent the result of consultations with key partners relevant for its preparation in FBiH and will be based on the commitment of the FBiH Government to reforms, implementation of recommendations from SIGMA Report on measurement of initial state in public administration of BiH in 2016 on cooperation, recommendations of IMG, PEFA, 2014 Assessment of public expenditures and financial responsibility for BiH, planned reforms in the Letter of Intent to IMF and the Reform Agenda 2015-2018<sup>68</sup>

---

<sup>68</sup> [http://www.F BiHvlada.gov.ba/pdf/Reformska%20agenda.pdf](http://www.FBiHvlada.gov.ba/pdf/Reformska%20agenda.pdf)

## 4. STRUCTURAL REFORM PRIORITIES IN 2017-2019

### 4.1. IDENTIFICATION OF KEY OBSTACLES TO COMPETITIVENESS AND INCLUSIVE GROWTH

**The main macroeconomic indicators of BiH in 2015 pointed to increased economic activity that resulted in a 3% growth of the gross domestic product.**<sup>69</sup> The achieved economic growth had an impact on mild rise in employment, although the unemployment rate in BiH still remains among the highest in the region (LFS 27.7%<sup>70</sup>). Great difference between the survey unemployment and the number of unemployed persons registered in employment bureaus indicates to the existence of informal economy and also makes it more difficult to make active employment policies. In 2015, public finances recorded a tight budget deficit and growing public debt, while the total Government foreign debt decreased. The current account deficit (5.6% of GDP) was reduced on the basis of export growth and low import prices, but it is for the most part still financed by foreign borrowing and foreign direct investment. In 2015, FDI inflows recorded a decrease by as much as 44% while a net inflow of around KM 400 million points to poor interest of foreign investors for doing business in BiH.

**Business environment is still burdened by various administrative obstacles at different levels of government.** BiH market continues to be fragmented, with different rules applied in different parts of the country, resulting in inability to achieve real freedom of movement of goods and services within its borders. According to the 2015 Global Competitiveness Index, BiH's rank worsened to end up 111 out of 140 countries. **Educational structure** of the working age population in BiH is one of the factors that cause low competitiveness of BiH economy. In 2015, only 9.5% of working age population had a post-secondary or higher education whereas the percentage of working age population with completed secondary education stood at 51%. The nature of education system in BiH is not inclusive and the importance given to it is not appropriate, despite the fact that it represents a very important pillar in the access to social inclusion and education in EU.

Encouraging **competitive generation and distribution of knowledge through investing in research and development**, clusters and small and medium-sized enterprises is one of the ways of increasing industrial competitiveness and achieving strong economic growth. Innovation is one of the drivers of prosperity and economic growth of the country and it is high time to be included in institutional and strategic frameworks of development of Bosnia and Herzegovina. According to Global Innovation Index 2015, BiH is ranked 79<sup>th</sup> among 143 countries. The estimated total allocations for research (both private and public investment) amounted to less than EUR 69.6 million, which is around 0.3% of GDP. Scientific and research process in higher education should be regarded as an integral part of higher education and competitiveness of BH economy.

**The problem of the social protection system** continues to hamper efforts to reduce poverty in BiH, where one in six households lives in poverty. Therefore, it is not surprising that the emigration process has become one of the most pressing socio-economic challenges that BiH is facing. Besides, access to health services is aggravated because the capacities of medical personnel are considerably lower than the EU28 average, which hinders adequate and timely access to a patient. Approximately 15% of BiH population does not have a public social security.

During the reporting period, there has not been any progress recorded in the areas under the target **sustainable development in BiH** (improving environmental management and development of environmental infrastructure, energy and renewable energy sources, transport infrastructure and telecommunications, as well as development of agriculture and rural areas), except in the sectors of transport and energy where important strategic documents have been adopted: the Framework Transport Policy, the Framework Transport Strategy, the Action Plan for the Use of Renewable Energy and the National Emission Reduction Plan for BiH.

**The main structural obstacle to economic growth and competitiveness** includes the absence of a single economic space throughout the country and large and inefficient public sector with overlapping competencies and the problem of high corruption rate. Improving the standard of living and reducing chronically high unemployment are key challenges for policies in the country.

**The process of transition and capacity building** are crucial for the success of the administration, which should contribute to economic and social development of BiH. Bosnia and Herzegovina is

---

<sup>69</sup> BiH Agency for Statistics, Gross Domestic product for BiH 2015, first results

<sup>70</sup> Labour Force Survey, 2015. Final results

ranked last in the region in public administration reform with the worst score of 2.15 according to the indicator of readiness for membership. **A high level of corruption** is a symptom of irregularities in work of administration, transferring costs to citizens and economy. The Anticorruption Strategy 2015-2019 and the accompanying Action Plan for the Implementation of the Anticorruption Strategy 2015-2019 have been made to address this problem. There has been some progress in BiH judiciary. The Justice Sector Reform Strategy in Bosnia and Herzegovina 2014-2018 was adopted.

**Table 5: The greatest socio-economic challenges**

	2013	2014	2015
<b>Low rate of activity in the labour market</b>	43.6	43.7	44.1
<b>High unemployment rate</b>	27.5	27.5	27.7
<b>High rate of youth unemployment</b>	59.1	62.7	62.3
<b>The lowest rank in the region according to the World Bank's Ease of Doing Business</b>	131 <sup>th</sup> out of 189 countries	107 <sup>th</sup> out of 189 countries	79 <sup>th</sup> out of 189 countries
<b>Law rank according to the EBRD Index of transition reforms</b>	low	low	low
<b>Low rank according to Corruption Perception Index</b>	77	80	76
<b>Low level of FDI per capita</b>	low	low	low
<b>Low rank on the UNDP's Human Development Index</b>	81	85	n/a
<b>The highest level of spending on social assistance in the region</b>	7% of GDP (2011 <sup>71</sup> )	n/a	n/a
<b>The worst targeting of spending on social assistance (reaching the poorest)</b>	The poorest 20% of population receives only 36.8% of the total social assistance budget <sup>72</sup>	n/a	n/a

Priority measures in the coming period should be focused on:

- ✓ Improving the quality of public finances, for example, by providing additional fiscal space, particularly for capital investment and continue with restrictive fiscal policy;
- ✓ Solving the problem of non-existence of single economic space by harmonising and coordinating industrial policies and SME policies;
- ✓ Enhancing competitiveness of BiH by additional promotion, improvement and development of tourism;
- ✓ Improving policies in the field of preschool education, vocational education and lifelong learning;
- ✓ Providing high-quality, harmonised and timely official statistical information to all users;
- ✓ Adopting the missing strategic documents in the sector of transport, energy and environmental protection;
- ✓ Public administration reform, reducing corruption, and the rule of law;
- ✓ Securing additional funding for healthcare.

### ***Federation of BiH***

After a very detailed analysis of the situation by each of the areas, in accordance with Guidance for the Economic Reform Programme of the European Commission, the following key obstacles to growth and competitiveness have been identified:

- Public spending is relatively high and it is necessary to improve the mechanisms of control and management;

<sup>71</sup> Most recent available data

<sup>72</sup> World Bank – Public Expenditure and Institutional Review, 2012.

- High social security contributions, with the existence of non-taxable benefits in the system of labour taxation, provide a picture that does not correspond to the actual situation and limit investment and growth;
- The structure of energy generation is unfavourable and it is necessary to increase the share of production from renewable sources and energy efficiency;
- Insufficient development of communication infrastructure;
- Less than stimulating business environment;
- Weak link between real sector and scientific and research community, as well as incompatibility of study programmes, enrolment policy and the real sector needs;
- Inadequate educational structure of the labour force;
- Inefficient labour market;
- Inadequate structure of production;
- The establishment of a sustainable system of pension and disability insurance and the improvement of the social protection system.

Based on the identified key obstacles to growth and competitiveness, we have defined the priority measures.

### ***Republika Srpska***

After a very detailed analysis of the situation by each of the areas, in accordance with Guidance for the Economic Reform Programme of the European Commission, the key obstacles to growth and competitiveness have been identified that reflect in the following:

- Non-tax charges, which require significant administration but usually do not have a large fiscal impact on public revenues;
- The fiscal burden on labour;
- Health sector, which accumulates outstanding liabilities and a systemic problem of pro-birth policy and the burden on economy;
- The efficiency of the public sector, particularly local self-governance;
- Insufficient development of communication infrastructure;
- The scope and structure of agricultural output, low technological level and productivity of agricultural production, and the trade deficit of agricultural products and foodstuffs;
- Prudential requirements of the banking operations and unregulated procedure of bank restructuring, as well as low efficiency of investment funds;
- Less than stimulating business environment;
- Weak link between real sector and scientific and research community, as well as incompatibility of study programmes, enrolment policy and the real sector needs;
- The labour market efficiency, with unfair competition and insufficient control of unregistered labour.

Based on the identified key obstacles to growth and competitiveness, in line with the methodology of the European Commission, the priority reform measures of Republika Srpska have been identified.

## **4.2. SUMMARY OF REFORM PRIORITIES**

### **I Public finance management**

1. Reducing the burden on economy (FBiH, RS)
2. Ensuring the sustainability of public spending and strengthening financial accountability (BiH, FBiH, RS)
3. Health sector reform (RS)
4. Creating preconditions for the development of effective and target-oriented public finance system (FBiH)

### **II Energy, transport and telecoms markets**

5. Improving the communication infrastructure (BiH, FBiH, RS)
6. Increasing energy efficiency and use of renewable energy sources (BiH, FBiH)
7. Improving the telecommunications market (BiH)

### III Sectoral development

#### *Agricultural sector development*

8. Enhancing agricultural production (BiH, FBiH, RS)

#### *Environmental sector*

9. Conserving, protecting and improving environmental quality (FBiH)

#### *Services sector development*

10. Improving the financial market (FBiH, RS)

### IV Business environment and reduction of the informal economy

11. Introducing electronic signature – eSignature (BiH)
12. Improving the business environment (FBiH, RS)

### V Research and innovation

13. Improving the efficiency and effectiveness of science research and innovation system (RS)

### VI External trade and investment facilitation

14. Speeding up the process of BiH's accession to WTO (BiH)

### VII Education and skills

15. Improving links between education and labour market (BiH, FBiH, RS)

### VIII Employment and labour market

16. Improving the labour market efficiency (BiH, FBiH, RS)

### IX Social inclusion, poverty reduction and equal opportunities

17. Establishing an efficient, financially sound and sustainable system of pension and disability insurance in FBiH (FBiH)
18. Improving the functioning of the social protection system in the Federation BiH (BiH, FBiH)

## **4.3. ANALYSIS BY AREA AND STRUCTURAL REFORM PRIORITIES**

### ***Bosnia and Herzegovina***

#### 4.3.1. Public finance management (1 measure):

1. Ensuring the sustainability of public spending and strengthening financial accountability

#### 4.3.2. Energy, transport and telecoms markets (3 measures):

2. Improving the communication infrastructure
3. Increasing energy efficiency and use of renewable energy sources
4. Improving the telecommunications market

#### 4.3.3. Sectoral development (1 measure):

5. Enhancing agricultural production

#### 4.3.4. Business environment and reduction of the informal economy (1 measure):

6. Introducing electronic signature – eSignature

#### 4.3.6. External trade and investment facilitation (1 measure):

7. Speeding up the process of BiH's accession to WTO

#### 4.3.7. Education and skills (1 measure):

8. Improving links between education and labour market

#### 4.3.8. Employment and labour market (1 measure):

9. Improving the labour market efficiency

4.3.9. Social inclusion, poverty reduction and equal opportunities (1 measure):

10. Improving the functioning of the social protection system

***Federation BiH***

The priorities of structural reforms in 2017-2019 set for the Federation of BiH by areas are the following:

4.3.1. Public finance management (3 measures):

1. Reducing the burden on economy
2. Ensuring the sustainability of public spending and strengthening financial accountability
3. Creating preconditions for the development of effective and target-oriented public finance system

4.3.2. Energy, transport and telecoms markets (2 measures):

4. Improving the communication infrastructure
5. Increasing energy efficiency and use of renewable energy sources

4.3.3. Sectoral development (3 measures):

6. Enhancing agricultural production
7. Conserving, protecting and improving environmental quality
8. Improving the financial market

4.3.4. Business environment and reduction of the informal economy (1 measure):

9. Improving the business environment

4.3.7. Education and skills (1 measure):

1. Improving links between education and labour market

4.3.8. Employment and labour market (1 measure):

1. Improving the labour market efficiency

4.3.9. Social inclusion, poverty reduction and equal opportunities (2 measures):

10. Establishing an efficient, financially sound and sustainable system of pension and disability insurance in FBiH
11. Improving the functioning of the social protection system in FBiH

***Republika Srpska***

Review of reform priorities, in line with the identified key obstacles to growth and competitiveness, set for 2017:

4.3.1. Public finance management (3 measures):

1. Reducing the burden on economy
2. Health sector reform
3. Ensuring the sustainability of public spending and strengthening financial accountability

4.3.2. Energy, transport and telecoms markets (1 measure):

4. Improving the communication infrastructure

4.3.3. Sectoral development (2 measures):

5. Enhancing agricultural production
6. Improving the financial market

4.3.4. Business environment and reduction of the informal economy (1 measure):

7. Improving the business environment

4.3.5. Research and innovation (1 measure):

8. Improving the efficiency and effectiveness of science research and innovation system

4.3.6. External trade and investment facilitation:

4.3.7. Education and skills (1 measure):

9. Improving links between education and labour market

#### 4.3.8. Employment and labour market (1 measure):

10. Improving the labour market efficiency

#### 4.3.9. Social inclusion, poverty reduction and equal opportunities

### 4.3.1. Public finance management (PFM)

#### ***Bosnia and Herzegovina***

The consequences of the global economic crisis on public finances in Bosnia and Herzegovina (BiH) are still visible, thus fiscal consolidation, that will gradually reduce the budget deficit and put the public debt on a downward medium-term trajectory, is one of the priority areas of the Reform Agenda in Bosnia and Herzegovina for the period 2015-2018, as agreed by all levels of government in BiH.

In line with the Reform Agenda, fiscal consolidation in the three coming years will be carried out by increasing public revenues and reducing public spending. Measures to improve tax collection and reduce evasion of the tax system will include efforts to exchange information across the four tax administrations and acceptance of the risk-based approach to audits and inspections, in accordance with the constitutional arrangements and responsibilities of each of the tax agencies in the framework of the concluded memorandum of understanding, as well as increased efforts to collect outstanding tax arrears.

On the expenditure side, BiH Council of Ministers, the governments of the entities, cantons and Brcko District, will impose restrictions on the employment in public administration until the revised staffing systems are adopted and implemented (including the use of standards), while the total public sector wage bill will be on freeze until the adoption of a revised value-based wage setting system.

#### ***Federation of BiH***

##### ➤ *State of play*

The share of total FBiH public expenditure in GDP (consolidated budget data at all levels of government increased by funds) is 39%. Although in the past five years expenditure on salaries and benefits for public sector employees, as a percentage of GDP, has a downward trend, it is still quite high. In the period 2011 – 2015, the highest allocations were in 2011 (9.9%), while in 2015 allocations for salaries and benefits stood at the level of 9.1% of GDP.

Salaries in FBiH are still calculated in a way that the tax base does not include the benefits under the collective agreement such as meal allowance, vacation bonus, commuting allowance, severance pay, assistance in case of death, illness, etc. Since this method of calculation exists only in FBiH, it has to be aligned with labour taxation in the OECD and EU countries to create a better environment for foreign investment. It is also necessary to align labour taxation with the RS, in order to achieve positive impact on the single economic space.

According to the World Bank's report "BiH – Challenges and Directions for Reform – A Public Expenditure and Institutional Review" from February 2012, rates of social security contributions in FBiH are much higher than in other countries. According to this document, total rate of social security contributions in FBiH amounts to 41.5% on gross salary, which considerably exceeds the average of the countries of the Organisation for Economic Cooperation and Development (OECD) – 29.5% and the average of 8 new EU members (Poland, Hungary, the Czech Republic, Slovenia, Slovakia, Estonia, Lithuania and Latvia) – 38.1%. According to OECD analysis from 2014, the tax wedge in FBiH is among the highest ones, whereas the productivity is far below the OECD countries with high burden on labour (Belgium, Austria, etc.).

Labour taxation accounts for the highest share of the overall public expenditures. By lifting the burden from the economy on this basis and by increased taxation of consumption and property (neutral effect), we would change the current practice and thereby provide better business environment for employers. Since contributions make up the most part of total burden on labour, it is estimated that the reduction of the rate of social security contributions is the most appropriate way to reduce the fiscal burden on labour.

#### ***Republika Srpska***

In the area of public finance management, in 2016, Republika Srpska has worked on establishing the Registry of para-fiscal levies, which will, after the adoption of the Law on the Tax System, get its legal grounds. By establishing the aforementioned Registry, which was the first stage of implementation, we have prevented charging of any fiscal levy which is not covered by the Registry.

Furthermore, as of September 2015, together with the IMF, the Government of Republika Srpska has been working on finding the modalities to reduce the tax burden on labour and thus increase the competitiveness of the economy of Republika Srpska, as well as to come up with realistic and steady sources to compensate for losses that the extrabudgetary funds would suffer in this case, primarily the Health Insurance Fund. By the end of 2016, in cooperation with the Ministry of Finance of the Federation BiH, the first phase of the reform will be completed, pertaining to harmonisation of legal solutions in the field of taxation of companies, as well as taxation of income (in the first quarter of 2017), which will be the basis for analysis and proposals for reducing the aggregate rate of contributions over 2017.

The health sector of Republika Srpska has significant outstanding liabilities primarily for taxes and contributions, as a consequence of inefficient management of both the healthcare centres, founded by the local self-government units, and the hospital sector. In addition, the health sector is also facing economically inefficient network of healthcare institutions, and at the same time, the lowest income per capita than all the countries in the region. All this paved the way for the Government of Republika Srpska to initiate the process of health sector reforms in 2015, with technical assistance of the World Bank.

The system of the Republika Srpska administration and local self-governance should be further reformed in the field of employment and total wage bill, in order to increase expenditure on capital investment, as well as in the direction of creating more rational and efficient public administration and local self-governance. One of the issues faced by the local self-governments is the number of employees, which is why the new law introduced a criterion for determining the maximum number of employees in the city, and in the municipal administration.

Consequently, the key obstacles to growth and competitiveness in public finance management are the following:

- Non-tax charges, which require significant administration but usually do not have a large fiscal impact on public revenues;
- The fiscal burden on labour;
- Health sector, which accumulates outstanding liabilities; and
- The efficiency of the public sector, particularly local self-governance

In this regard, the key measures of the Government of Republika Srpska in the area of public finance management in 2017 are the following:

1. Reducing the burden on economy;
2. Health sector reform; and
3. Ensuring the sustainability of public spending and strengthening financial accountability.

#### ***4.3.1.1. Reducing the burden on economy***

This reform is proposed/implemented by both the Government of the Federation BiH and the Government of Republika Srpska.

**Government of Republika Srpska** has identified the Reducing the burden on economy as the need to create a more competitive business environment. This way, the existing business entities will be more competitive and, at the same time, by improving the investment climate, Republika Srpska will be more attractive for new investment. Reducing the burden on economy will be implemented through the following activities:

- 1) Eliminating barriers to businesses; and
- 2) Reducing the tax burden on labour.

Eliminating barriers to businesses will be enabled by the establishment of the Registry of tax and non-tax charges of Republika Srpska, in order to prevent the creation of new non-tax levies without prior detailed feasibility analysis of their introduction. The initial version of the Registry was completed in the fourth quarter of 2016. After this, in 2017, the analysis of the non-tax charges included in the Registry will be continued. Based on the results of the analysis a decision will be made on possible abolition or reduction of certain charges which prove to be unjustified. The pace of implementation of this measure implies that, during the first six months of 2017, the analysis of each individual charge included in the Registry will be prepared while, in the second half of the year, legal and by-legal solutions are set to be prepared and adopted, which will reduce or eliminate some of the charges

included in the Registry. The expected fiscal effects will be clearly identified after completion of the analysis of each individual charge. However, it is planned, under this measure, to abolish the special Republika Srpska tax, which will bring lower revenues in the budget of Republika Srpska (about KM 10 million), as well as reduce burden on businesses. Due to the decrease in non-tax charges for which the analysis shows were not justified, companies would be more competitive. As regards potential risks for the implementation of this measure, they will reflect in almost certain resistance by the budget users and local self-governance units, to whom these non-tax charges were one of the sources of income. This activity is defined through the Reform Agenda, the Letter of Intent and the Economic Policy of Republika Srpska for 2016.

Reducing the tax burden on labour will be implemented through the reduction of contributions, providing at the same time disburdening of the economy and steady and realistic sources to cover the losses to extra budgetary funds generated as a result of decreased revenues based on contributions. The Government of Republika Srpska is expecting the full engagement of all levels of government in Bosnia and Herzegovina, as well as the representatives of the International Monetary Fund, since this is one of the priority areas defined by the Reform Agenda, whose realisation was initiated by Republika Srpska back in 2015, where it is stated that the additional measures, including a VAT increase, would be considered by the end of 2015. The harmonisation of legislation in the field of taxation of corporate income and personal income between Republika Srpska and the Federation BiH is the first phase in aligning the competitiveness between the entities, whose completion by the end of 2016, that is the first half of 2017, will create a foundation for the analysis of possible options for reduction of contributions in 2017. Dynamics of implementation of this measure implies that, by the end of 2016, the entity-level Laws on Corporate Income Tax are set to be harmonised and, in the first quarter of 2017, the Laws on Personal Income Tax too, while in the first six months of 2017, in cooperation with the IMF and the business community in Republika Srpska, the analysis of possible options for reducing the aggregate contribution rate will be continued and, in the second half of the year, legal solutions drafted and adopted so that these amendments come into force on 1 January 2018. As far as fiscal effects are concerned, the current proposal of the Government of Republika Srpska was directed towards reducing the aggregate contribution rate from 33.0% on gross salary to 31.6% on gross salary, i.e. by 1.4 percentage points. According to calculations of the Ministry of Finance of Republika Srpska, financial effects of the proposed changes would lead to decline in revenues of extra budgetary funds in the total amount of about KM 76 million. Due to the decrease in tax burden on labour, companies would be more competitive on the market. The main reason for the delay in implementation of this measure is reflected in the need to simultaneously find steady and realistic sources to cover the losses in revenues of extra budgetary funds, primarily the Health Insurance Fund of Republika Srpska. In parallel, another reason for the delay in implementation of this measure lays in the fact that, in order to avoid the competition between Republika Srpska and the Federation BiH, it is necessary to prepare harmonised solutions in both entities at the same time. It is these reasons for the delay in implementation of the said activity that pose potential risks for implementation of these activities in 2017 as well. This activity is one of key measures defined through the Reform Agenda, the Letter of Intent and the Economic Policy of Republika Srpska for 2015 and 2016.

**Government of the Federation BiH** is planning to take the first step to reducing the tax burden on labour by aligning the method of labour taxation with the EU and OECD countries. The tax base will be extended by so far non-taxable allowances (meal allowance, commuting allowance, vacation bonus, etc.) thus providing the conditions for reducing the contribution rates along with achieving the neutral fiscal effect, particularly in terms of fiscal sustainability of extra budgetary funds. This reform will be achieved by the adoption of the new Law on Personal Income Tax and the Law on Contributions. New tax base and differentiated rates of personal income tax give the possibility of more fair distribution of the tax burden across different categories of natural persons in terms of shifting the tax burden on individuals with higher income. In addition, this reform aims at increasing employment by prescribing the same contribution rates for pension and disability and health insurance for payments that do not arise from the employment such as fee contracts, authors' fees, contracts on temporary and occasional works, etc.

In the second step, it planned to reduce the salary taxation rate covering the loss of public revenues by additional taxation of consumption and introduction of new taxes that do not burden the economy. Disburdening of the economy is also planned on the base of neutral effect from the aspect of public revenues and the overall liabilities of companies in FBiH.

➤ *Activities per year*  
2017

- Adoption of the Law on Personal Income Tax and the accompanying by-laws
- Adoption of the Rulebook on Implementation of the Law on Personal Income Tax, the instructions and other regulations

2018

- Evaluation and monitoring of the implementation of the Law and the accompanying by-laws.

➤ *Cost estimates and information on the budgetary impact of the activities*

The activities under this reform measure will be carried out as part of regular duties without any additional costs. From the aspect of revenues of the budget and extra budgetary funds, a neutral effect is foreseen. Since employment growth is expected in the future period, public revenues are set to rise on this basis as well.

➤ *Expected impact on competitiveness*

Lower burden on the economy will increase the competitiveness of domestic companies and bring greater investment and economic growth.

➤ *Expected social outcomes, including employment-related outcomes*

Employment is expected to rise, since the employer will be discouraged to hire individuals based on fee contract and other similar contracts (the new Law prescribes the same contribution rates for pension and disability and health insurance based on these contracts as for employment). By reducing the cost of labour, the demand for labour will increase and also lead to employment growth.

#### **4.3.1.2. Ensuring the sustainability of public spending and strengthening financial accountability**

This reform is proposed/implemented by the BiH Council of Ministers, the Government of the Federation BiH and the Government of Republika Srpska

**The Council of Ministers of Bosnia and Herzegovina**, following the recommendations of the European Commission from 2015 Progress Report for Bosnia and Herzegovina, established a working group for drafting the Strategy of Strengthening Public Financial Management in institutions of Bosnia and Herzegovina 2017-2020. This Strategy, integrated with strategies of lower levels of government, represents one of the key areas and pillars of public administration reform in Bosnia and Herzegovina. The Strategy was submitted to the BiH Council of Ministers for adoption.

The objective of this Strategy is to enhance the system of public finances in order to ensure better functioning, transparency, accountability and efficiency in managing public funds and thereby contribute to improvement of macroeconomic stability in BiH.

The reform measures are based on the Public Expenditure and Fiscal Accountability Assessment (PEFA) from 2014, The European Commission's 2015 Progress Report for Bosnia and Herzegovina, SIGMA/OECD Baseline Measurement Report of the Principles of Public Administration in Bosnia and Herzegovina from April 2015 and the Progress Report from May 2016, the IMF Country Report from October 2015 as well as the Reform Agenda for BiH 2015 – 2018. Significant support to development of this document and the improvement of its quality was given by the Delegation of the European Union to BiH and SIGMA as well as the IMF technical assistance – Fiscal Reforms Programme for South-Eastern Europe, funded by the EU.

The Strategy of reform of public financial management in institutions of Bosnia and Herzegovina is supported and complemented by the Strategy for development of the internal financial control system in institutions of Bosnia and Herzegovina 2016-2018, which is also under preparation, the Strategy for development of public procurement in BiH (2016-2020) adopted on 13 October 2016 and the BiH Anti-Corruption Strategy 2015-2019. The Strategy of reform of public financial management in BiH institutions consists of six pillars:

- I Fiscal framework (coordination, consolidation and reporting)
- II Mobilisation of revenues
- III Budget preparation, compiling and monitoring
- IV Budget execution
- V Internal control
- VI External audit

In the area of coordination, consolidation and reporting on fiscal data, the focus is on developing a single methodology for consolidation of budgets at all levels of government, data sharing and improving the quality of the Economic Reform Programme (ERP). One of the foreseen activities is a pilot consolidation of Budget Framework Documents and the adopted annual budget. In addition, detailed training is envisaged on the European System of Accounts and its implementation, on the European Semester and the analysis of readiness of BiH for the European Semester with recommendations. Partner institutions in these activities will be the entity level ministries of finance and the Finance Directorate of Brcko District.

In order to increase and improve collection of revenues from indirect taxes, the focus is placed on setting the information sharing system among the four tax administrations, amendments to tax legislation so as to improve tax discipline and collection of taxes and technical capacity building of the ITA.

In terms of budget planning of the BiH institutions, the priority reforms relate to amendments of legal framework (laws and by-laws) so as to improve comprehensiveness of information included in budget documents, the establishment of programme budgeting in the BiH institutions and the improvement of the medium-term budget planning in order to better link sectoral strategies with the medium-term financial planning. Special focus is placed on capital budgeting through the improvement of the assessment procedures, setting priorities and selecting public investment projects in the BiH institutions, as well as reporting on the implementation of capital projects.

In the area of budget execution of the BiH institutions, focus is on strengthening the control of obligations, finalisation of the implementation of the project of the centralised management of salaries, improving the IT system of the Treasury by putting into operation of a backup location in case of natural disasters, and updating the chart of accounts that enables reporting of government finance statistics (GFS/European System of National and Regional Accounts (ESA)). Special emphasis is placed on the preparation and implementation of standards aligned with the IPSAS standards.

Regarding the debt management, the priorities relate to capacity building for debt management by improving the procedures for data exchange and technical assumptions for the implementation of the Debt Management Strategy and developing the debt sustainability analysis. In order to strengthen the reporting capacities in line with ESA 2010, training is foreseen on the Government debt measuring according to ESA 2010 and analysis of the BiH weaknesses in debt reporting in line with ESA 2010 with recommendations for their overcoming. Partner institutions in these activities will also be the entity level ministries of finance and the Finance Directorate of Brcko District.

In order to increase transparency of public procurement, further alignment with the EU legislation and practice is foreseen, as well as upgrading the public procurement web sites for easier tracking, ongoing training of the licensed trainers and public procurement officers. The introduction of the electronic procurement system aims at increasing competition, shortening the procedures and reducing the public procurement costs.

The PIFC reform priorities and the pace of their implementation are thoroughly discussed in a specific Strategy of public internal financial control (PIFC) in institutions of Bosnia and Herzegovina 2016-2018 and the action plan for implementation of this Strategy.

The external audit priorities relate to updating the methodology after the INTOSAI Congress held at the end of 2016, raising awareness on the role and responsibilities of SAI with the users and public, analysing and considering the possibility of certifying the auditors by or within the SAI, as well as raising awareness and understanding of the relevant stakeholders on the need of the constitutional bedrock of the Audit Office of the Institutions of BiH.

**Government of the Federation BiH** is implementing reforms towards strengthening fiscal accountability and fiscal management with the goal to introduce higher standards of control in public finance management, develop a stronger system of accountability and greater legality and regularity in budget spending. The Law on Financial Management and Control (FMC) was adopted in both Houses of the Federation Parliament in April 2016 and published in the Official Gazette of the Federation BiH no. 38/16. The adoption of the FMC Law rounded off the legal framework for setting up the PIFC in the Federation BiH, however, it is also necessary to adopt the by-legal regulations related to FMC. Likewise, as part of this reform area, it is necessary to strengthen the internal audit from the aspect of regulations and capacities. Furthermore, capacities of FMF need to be strengthened in terms of the number and expertise of employees, primarily the Central Harmonisation Unit, Department for Budget and Public Expenditures, and the Treasury Department. This reform will be implemented through a set of measures pertaining to the adoption of regulations for the development of financial management and

control (FMC), capacity building for FMC development, strengthening controls in order to ensure fiscal accountability, improving regulations and methodology of work and effects of internal audit, capacity building of internal auditors, developing the coordination role of CHU and more control over borrowing of all levels of government in the Federation BiH.

➤ *Activities per year*

2017

- The Law on debt, borrowing and guarantees in the Federation of Bosnia and Herzegovina
- Information system for budget preparation BPMIS operational throughout the Federation BiH
- The Law on salaries of employees in extra budgetary funds
- The regulation that will govern the process of collection of claims under placed loans and form protested guarantees of the Federation BiH
- The regulation that establishes the obligation and governs the process of debt and guarantee reporting
- The regulation that governs the process of guarantee issuance, including the risk assessment process for issuance of guarantees, tracking the guarantees of the Federation, the method of calculating the percentage of the risk premium, etc.
- The regulation pertaining to approval for borrowing and issuance of the guarantees of cantons, cities or municipalities in the Federation BiH  
The regulation that establishes the obligation and governs the procedure of recording debt and guarantees and reporting on them
- Information system for debt management (recording and tracking debt and guarantees, debt reporting, etc.)
- FMC Manual
- The regulation providing for establishment, financing and management of the Guarantee Fund and other issues related to the Guarantee Fund
- Amendments to the applicable regulations in the field of internal audit.

2018

- Establish a grant programme for cantons that agree to restrictions on salaries and reduction of total employment in public sector

2019

- Introduce Pension and Disability Fund in the FBiH budget
- Develop the feasibility analysis for introduction of other funds in the FBiH budget (health and employment)
- *Cost estimates and information on the budgetary impact of the activities*

These activities will be carried out by FMF staff, so the implementation costs will be regular costs for salaries of employees (no additional costs). Some activities will bring savings in the budget through elimination of irregularities in budget spending, while some of them will require additional funds planned through various technical assistance projects (IPA fund, other donors) as well as the budget of the Federation BiH available to CSA.

➤ *Expected impact on competitiveness*

More efficient public administration leads to a more competitive private sector.

**Government of Republika Srpska.** Ensuring the sustainability of public spending and increasing fiscal sustainability aims at additional measures for promotion of fiscal accountability, reduction of public spending and changes in the structure of budget spending in favour of capital spending. This measure is the main pillar of all policies of the Government of Republika Srpska in its term of office 2014-2018, and its implementation in 2017 will be focused on the following activities:

- 1) Completion of the implementation of the Law on Fiscal Responsibility;
- 2) Reforms in the public sector, with the establishment of the Registry of public sector employees;
- 3) Reforms in the system of local self-government; and
- 4) The adoption of the Strategy of the public finance management of Republika Srpska.

Completion of the implementation of the Law on Fiscal Responsibility relates to the establishment of the Fiscal Council of Republika Srpska, given that the public call announced in 2016 will be annulled

since only one candidate met the required conditions. We expect the application procedure to be completed and the Fiscal Council of Republika Srpska established in full capacity in the first half of 2017. The establishment of the Fiscal Council of Republika Srpska will require funds for its functioning, but we expect the budget users' savings to be much higher than the costs for its functioning, and expect a positive net fiscal effect. Savings in public spending and changing the structure of expenditures in favour of capital spending may have a positive long-term impact on increasing the competitiveness of Republika Srpska. Reasons for the delay in implementing this measure reflect in the fact that the insufficient number of qualified candidates applied to the public call, which can also pose a potential risk to the implementation of this activity in 2017. This activity is connected to the key pillar of the Government of Republika Srpska, presented in the speech of the Prime Minister, and as such, subsequently became an integral part of the Reform Agenda and the Letter of Intent.

Public sector reform is an ongoing process, which will be continued in 2017-2018. It is necessary to ensure legal prerequisites for the development of high-quality and comprehensive Registry of public sector employees in Republika Srpska, which would be a basis for new organisation and classification of jobs, preceded by analysis and grading of all public sector jobs. Grading of jobs would make the public sector salary system more transparent and fair. The adoption of the Law on Civil Servants is set for the first quarter of 2017, while the subordinate legislation adoption is planned for the fourth quarter of 2017, in order to create the preconditions for the implementation of foreseen and above described activities in 2018. The adoption of the Law on Salaries of Employees in the Administrative Bodies of Republika Srpska is set for the second quarter of 2018. The activity of the establishment of the Registry of public sector employees is planned to be completed by September 2017, with technical assistance of the World Bank. The implementation of these activities will create the assumptions for cost-effective public sector with low budget costs. Specific indicators for reducing the budget costs will be possible to determine after the implementation of these measures and the analysis of their effects. The objective of the public sector reform is to achieve more efficient and effective administration as a basis for delivery of better quality of services to citizens and businesses in all areas. A potential risk in the process of implementation of the proposed activities can be a financial risk, regardless of the fact that the final impact on the budget is expected to be positive. In case of possible downsizing of the number of employees in that period, it is necessary, *inter alia*, to carry out the Programme of providing for laid-off employees through severance pay and other compensations. This activity has been defined through the Strategic Framework for Public Administration Reform in BiH 2016-2020, which is still in the development stage, where one thematic area is "Civil Service and Human Resources Management". The establishment of the Registry of public sector employees has also been defined in the Letter of Intent.

The local self-government reform has been provided under the new laws on local self-government, which prescribe a number of measures towards improving the efficiency of the bodies of the local self-government units. These new solutions set out, *inter alia*, the criteria for determining the maximum number of employees in the bodies of the local self-government units, aiming at reducing the number of employees to the optimal number on the long run, creating preconditions for efficient work of municipal, i.e. city administrations and raise the quality of delivery of services at the local level. The principles of internal organisation of city, i.e. municipal administrations have also been set, as well as the procedure for cooperation among local self-government units in various areas, while the new competencies of cities will fully reflect the principle of subsidiarity, namely that the duties of local self-government should be dealt by authorities that are closest to citizens. Also, municipalities and cities will be delivered a unique programme for keeping their staff registry, while the Ministry of Administration and Local Self-Government will keep a single data base on the employees in the bodies of the local self-government units. Further directions of local self-government development will be set in the Strategy for Development of Local Self-Government in Republika Srpska 2017–2021. The Law on Local Self-Government defined the time frame for harmonisation of the number of employees in the bodies of the local self-government by 30 June 2019, while the Strategy is set to become effective in the first quarter of 2017. The establishment of the Registry of Employees in the Bodies of the Local Self-Government Units is expected to be completed by the end of the first quarter of 2017. The Law on Local Self-Government and the Law on Civil Servants and Employees in the Bodies of the Local Self-Government Units foresee the adoption of a number of by-laws in the first and second quarter of 2017. Local self-government units will adopt and harmonise their general regulations with these laws and by-laws. The implementation of the Action Plan of the Strategy for Development of Local Self-Government in Republika Srpska will take place starting with the third quarter of 2017, and on through quarters, depending on the defined directions for development. In the fourth quarter of 2017, the bodies of the local self-government units will adopt the by-laws on providing for redundant employees in

municipal, and city administration, in order to harmonise the number of employees with the Law on Local Self-Government, and the Action Plans for the implementation of these by-laws. Financial effects of harmonising the number of employees in the bodies of the local self-government units will be visible only after the expiration of the legally prescribed time frame, which will be preceded by the need to provide funds to pay the redundant employees off. Depending on the programme of measures and the Action plan for the Implementation of the Strategy, we will set an indicative financial plan for its implementation. It is estimated that in those self-government units where the number of employees get downsized, the funds that were previously set aside for salaries and benefits of employees would be streamlined to capital spending. All of the planned activities are related to the strategic framework for development of local self-government in Republika Srpska.

The adoption of the Strategy of the public finance management of Republika Srpska aims at strengthening the budget planning, the budget execution and oversight in order to boost fiscal discipline, simplify allocation of funds in line with the policy objectives and improve quality of public administration, as well as promote economic development. In this regard, the Government of Republika Srpska has appointed a working group to prepare the draft strategy. The main medium-term thematic priorities include the following: macroeconomic framework and fiscal policy targeted to reduce the share of public and total debt in GDP in the medium term; elimination of arrears and prevention of their recurrence; tightening control of obligations and multi-year obligations and improve the system of financial control; functional multi-year budgeting process; strengthen revenue collection and improve regulatory compliance in order to reduce tax evasion and shortfalls in tax revenues; well trained and capable internal audit; increase transparency and better accountability mechanisms; and the efficient public procurement system so as to improve the quality of public spending. The Strategy is expected to be prepared and submitted to the Government for consideration and adoption by the end of 2016, and adopted by the National Assembly of the Republika Srpska in the first quarter of 2017, so that the implementation of measures defined by the Strategy could start as of the second quarter of 2017. Strengthening the budget planning and fiscal discipline is expected to bring savings in the budget system of Republika Srpska, which will, in addition to the fiscal effect, have an impact on competitiveness, because it will be possible to change the structure of budget spending in favour of capital investments. Reasons for the delay in implementing this measure reflect in the fact that this is a very complex and comprehensive area, where a large number of interconnections and relationships need to be identified and where a very wide range of potential users is involved, which all requires a dedicated and meticulous analytical work. We do not expect any potential risks to the implementation of this measure, because almost all of them have been examined and analysed so far, which is also one of the reasons for the delay in the implementation of this measure. This activity is one of the general eligibility criteria set by the European Commission that need to be met when programme of budgetary support is to be approved. Therefore, the second criterion – Stable public financial management, which is considered fulfilled by the adoption of the Public Financial Management Strategy, is of crucial importance in order to support the other three criteria. This is why the European Union advocates for the adoption of the Public Financial Management Strategy in BiH, whose integral part would be the Public Financial Management Strategy of Republika Srpska, prior to considering the other sectoral strategies for the EU support.

#### **4.3.1.3. Health sector reform**

This reform is proposed/implemented by the Government of Republika Srpska.

Health sector reform started in September 2015 with the World Bank as the partner. The reform is being implemented in several phases, namely: an analysis of arrears of the health care sector; inclusion of all public health care institutions and the Health Insurance Fund of Republika Srpska into a treasury operations system; and finding options for new models and sources of funding. An analysis of arrears of the health care sector has started in September 2015 with the World Bank's support, by collection and analysis of data from public health care institutions. Since this activity is closely related to the measure of introducing the treasury system in the health care sector of Republika Srpska, its implementation will be continued in 2017 as well in order to obtain as accurate data as possible and identify the ways for settling the liabilities of the health care sector. The objective of the introduction of all public health care institutions and the Health Insurance Fund of Republika Srpska into a treasury operations system is to strengthen financial discipline and efforts of each level of government to take its own share of responsibility for health care institutions it manages. By introducing the treasury system, the Health Insurance Fund will be a buyer of health services according to its own standards and will not finance staff number increase, as was the case so far. Finding opportunities for new models and sources of funding in the health sector is the project the Government of Republika Srpska is preparing

with the World Bank. The most important additional sources of funding the health care system in Republika Srpska to be implemented in the coming period will be allocation of a portion of funds from excise duties on tobacco and alcohol for this, as harmful products that multiply the health risk, and the introduction of additional insurance. At the same time, we will insist on increasing the coverage of population with compulsory health insurance, primarily by connecting subsidies in agriculture with the payment of contributions. The effect of this activity will be the adoption of the Primary Health Care Strategy, as well as the Secondary and Tertiary Health Care Strategy, which will improve the management of the health care centres and the hospital capacities, and simultaneously define the new models of health care funding. In 2017, the new Law on Health Care and the New Law on Health Insurance as well as the new Law on Child Protection will be adopted in order to reduce the burden on businesses and also improve the position of the insured persons and health care employees. In terms of the dynamics of the implementation of this measure, the analysis of arrears is set to be completed by the end of 2016, the introduction of all public health care institutions and the Health Insurance Fund of Republika Srpska into a treasury operations system is set to be completed in the first half of 2017, while finding opportunities for new models and sources of funding in the health sector is planned for 2018. It is possible that public health care institutions will be more responsible when they are aware that there is control and analysis of balance of their operations. In addition, the introduction of the treasury system in the health sector is expected to significantly reduce costs and creation of new liabilities, and stop growth of employment in public health institutions, which will lead to a considerable fiscal effect. Better control and greater fiscal accountability will generate savings in the health system, which will be streamlined into raising the quality of health services, as the most important competitive advantage of this reform measure. The implementation of this measure has started in September 2015, but this is a very complex area, which is also socially sensitive and, at this moment burdened with very pronounced financial stock of arrears, all of which require very professional, thorough and careful situation analysis and well synchronised reform steps, for which we have full support and technical assistance of the World Bank. In this regard, urgent measures need to be taken, such as they do not endanger the functioning of the system, which may be one the main reasons for additional delay in the implementation of this measure. All the aforesaid also pose potential risks to the implementation of this measure. This should be added with the strong resistance by managers of the health care institutions, as well as municipal mayors and heads of local self-government units. This activity is one of key measures defined through the Reform Agenda, the Letter of Intent and the Economic Policy of Republika Srpska for 2015 and 2016.

#### ***4.3.1.4. Creating preconditions for the development of effective and target-oriented public finance system***

This reform is proposed/implemented by the Government of the Federation BiH.

##### ***➤ Short description of measure***

The implementation of this reform measure entails the establishment of the registry of risks and improving the reporting system and allocation of public revenues in the Federation BiH. The new reporting system will be based on the use of data from the RAS system of the Tax Administration of the Federation BiH and the adaptation of the reporting forms.

The preparation of the models of vertical and horizontal allocation of the indirect tax revenues among different government levels in the Federation BiH is under way (technical assistance provided by IMF) as well as relevant amendments to the Law on allocation of public revenues in FBiH. After reaching a consensus on the selected model of allocation, the work will begin on drafting the text of the Law and possibly other regulations that affect the system of allocation of the indirect tax revenues, including foreign debt servicing from revenues of the BiH ITA single account.

The adoption of the Guidelines for the implementation of the risk management process for the purpose of consistent risk management in all public funds users is planned by the end of 2016, in order to optimise the use of scarce public funds. The strategic plans of budget users contain risk-related information. Some budget users have already started their risk assessments and compiling the registry of risks, while by the adoption of the Law on FMC and supporting by-legal regulations, all users of public funds will be required to do so.

It is also planned to raise the quality of financial reporting and auditing and to align them with best international practices in this field by improving the methodology of audit, establishing the efficient system of quality control in auditing, as well as the audit oversight system, a better assessment of the

future performance of companies for allowing investors to make sound investment decisions, and reducing the risk of financial crises and their negative impact on the country's economy.

The registry of financial reports contributes to transparency of financial reporting, due to the introduction of mandatory public disclosure of data from financial reports and the accompanying documentation for all parties subject to submission of financial reports on the web site of the Financial-Information Agency pursuant to the Law on Accounting and Auditing. The goal is to improve awareness and safety of investors and to foster foreign investment inflows.

➤ *Activities per year*

2017

- The Law on Accounting and Auditing in the Federation BiH
- The Law on the Registry of Financial Reports
- The Registry of fees and taxes in the Federation BiH
- The Law on Development Planning
- By-legal regulations on development planning and management of development in the Federation BiH
- The Law on Allocation of Public Revenues in the Federation BiH

2018

- Drafting the implementing regulations of the Law on Allocation of Public Revenues in the Federation BiH

➤ *Cost estimates and information on the budgetary impact of the activities*

These activities will be carried out as part of regular activities and there will be no additional costs. At this point it is not possible to fully determine the fiscal impact of this structural reform and its implications on the budgets.

### **4.3.2. Energy, transport and telecoms markets**

#### ***Bosnia and Herzegovina***

Sustainable and competitive transport is a key challenge for BiH at the international level. The greatest challenge is the underdeveloped road infrastructure in all modes of transport, but it requires the biggest investment. We put the most of our efforts in raising the level of bilateral cooperation with the neighbouring countries, as well as with the EU countries in the field of road transport. The situation in the telecommunications sector in BiH needs to be upgraded so as to follow modern global development trends and dynamics by the adoption of application of new technologies in the field of telecommunications and the information society, as well as by regulatory compliance with the EU Regulatory framework for electronic communications. There was some progress in the energy market in terms of removing the legal and contractual barriers to the establishment of the organised electricity market.

#### ***Federation of BiH***

Overall electricity generation in FBiH in 2015 reached 8,847.01 GWh, which is by 4.8% less than in 2014. Thermal power plants recorded the production of 5,413.40 GWh, which is by 6.5% less than the previous year and accounts for 61.2% of total production. Reduction of electricity generation in thermal power plants is a consequence of decline in production in coal mines. In the same period, electricity generation in hydro power plants recorded 3,259.42 GWh, which is by 3.4% less compared to 2014, and accounts for 36.8% of total achieved production. 2015 is characterised as mildly hydrologically unfavourable with inflows under multi-year averages, which caused the decreased generation in hydro-power plants relative to the year before.

Total electricity generation from RES and EC<sup>73</sup> in 2015 amounted to 3,324.45 GWh, accounting for 37.58% of overall electricity generation in FBiH. Electricity from renewable energy sources was

---

<sup>73</sup> Generation recorded in hydro power plants (JP EP BiH and JP EP HZHB, and small hydro-power plants of qualified independent producers), solar and wind power plants – renewable energy sources generation.

mainly generated by hydro power plants, whereas generation by solar and wind power plants amounted to only 5.25 GWh, which is negligible compared to the total generation from renewable energy sources. Compared to the past year, in 2015 generation from solar and wind power plants more than doubled, but this does not say much given the low starting point.

In 2015, institutional framework has been fully set up for the implementation of regulations in the field of RES and awarding the planned dynamic quotas<sup>74</sup> for primary hydro and solar energy sources. It should be emphasised that due to great investors' interest, the dynamic quotas for primary solar energy source have been completely filled in accordance with APOEF.

The total realised annual electricity consumption in 2015 amounted to 8,146.12 GWh, which is by 10.1% more than in 2014. As regards the energy sector, the state-wide law on energy as an overarching law for BiH has still not been adopted. The energy efficiency law also remains to be adopted, which provides for setting up of the Energy Efficiency Agency of FBiH for carrying out professional duties so as to improve conditions and measures for more rational use and saving of energy and energy products, reduce negative impacts on the environment, increase security of energy supply, satisfy the energy needs of consumers and fulfil the international commitments assumed by Bosnia and Herzegovina in terms of reducing the greenhouse emissions and improving energy efficiency in all energy consumption sectors. The law on gas has yet to be adopted too, to regulate this area as well, and a number of other regulations stemming from these laws.

The density of the total road network in FBiH in 2015 did not change relative to the previous year and stood at 18.0 km/100 km<sup>2</sup>. The density of magistral roads amounts to 7.6 km/100km<sup>2</sup>, which is about 3 times less than the EU average. The motorisation level<sup>75</sup> has not significantly changed relative to 2014 and in 2015 stood at 221, which is still more than two times less than the EU average. The number of registered passenger vehicles in FBiH in 2015 was 516,259, which is by 3.3% higher than the previous year.

Total freight transport in 2015 increased by 7.4% relative to 2014 and stood at 5.123 tonne kilometres<sup>76</sup>. Road freight transport is dominant, accounting for 83.7% of total freight transport in 2015, which is by 2.3 percentage points higher than in 2014.

Rail freight transport in 2015 decreased by 50 million tonne kilometres, namely by 5.6% relative to 2014 and amounts to 835 million tonne kilometres. Total passenger transport in 2015 rose by 2.2% relative to 2014 and amounts 414 passenger kilometres.<sup>77</sup> Road passenger transport increased by 4.2%, while rail passenger transport dropped by 7%, thus showing the downward trend in rail passenger transport.

In 2015, the activities on the implementation of the project for developing the telecommunication system to support FBiH e-government have continued. The following sub-projects are stated as the main activities to be implemented in 2015: development of the software system One Stop e-Gov Portal (single web-based access point for FBiH Public administration bodies), automation of business registration based on a single web access point, electronic tax registration for legal and physical persons based on a single web access point, e-land registry based on a single web access point and interoperability of public administration units at the level of FBiH budget. These activities will be continued in the future as well.

### ***Republika Srpska***

The energy policy of Republika Srpska is based on the efficient utilisation of its own energy potentials while attracting foreign investors, which also implies the preservation of energy independence along with the application of the EU standards and energy efficiency principles. The Government of Republika Srpska has a clear commitment that energy investment must contribute to the achievement of economic objectives. The key obstacles to growth and competitiveness are the following: low electricity price, making it less attractive for investment; high operating costs from the aspect of taxes for electricity producers; low operating efficiency due to the use of obsolete technologies, particularly

---

<sup>18</sup> Dynamic quotas represent a maximum level of installed capacity of qualified producers for each technology pursuant to the Law on the Use of Renewable Energy Sources and Efficient Cogeneration (Official Gazette of Federation BiH, No. 70/13, 4/14, 5/14).

<sup>75</sup> Number of passenger vehicles per 1000 population

<sup>76</sup> A tonne kilometre represents the transport of one tone of goods over a distance of one kilometre.

<sup>77</sup> A passenger kilometre represents the transport of one passenger over a distance of one kilometre.

in the segment of thermal power plants and coal mines, which require high maintenance costs; and low accumulation of capital for realisation of new investment, which creates the need for credit funds.

Regulations in the field of transport are partly harmonised with the EU regulations, standards and practices and require further alignment. In the past 20 years, significant efforts have been made to improve the quality of transport infrastructure in Republika Srpska. Despite that, to make the quality of transport infrastructure as close as possible to its quality in the neighbouring countries, it is necessary to improve the very management of the transport infrastructure and to establish a sustainable funding system. The system needs to be continuously improved so that services are delivered to all users on equal terms, in order to increase the quality and cost-effectiveness of service. It is also necessary to continue the efforts towards improving the traffic safety. The main obstacles to growth in the field of transport infrastructure are related to the institutional efficiency and financial sustainability of the system.

In this regard, the key measure of the Government of Republika Srpska in the field of energy markets, transport and telecommunications in 2017 is:

1. Improving the communication infrastructure.

#### *4.3.2.1. Improving the communication infrastructure*

This reform is proposed/implemented by the BiH Council of Ministers, the Government of the Federation BiH and the Government of Republika Srpska.

**The Council of Ministers of Bosnia and Herzegovina – Ministry of Transport and Communication of BiH.** A horizontal objective is set by the Framework Transport Policy of BiH 2015-2030, towards the country's integration in the EU, following the Protocol on Land Transport built into the Stabilisation and Association Agreement. The transport sector has to contribute to sustainable and steady economic development through four general objectives:

1. Ensuring institutional efficiency;
2. Ensuring financial sustainability;
3. Stimulating economic development; and
4. Addressing the environmental and social impacts.

These four objectives will have to be achieved through specific actions according to the needs and peculiarities of the entities and Brcko District. Furthermore, the Framework Transport Policy sets six objectives to achieve the overall goal of sustainable development of the transport system, as follows:

- To meet social and economic demands;
- To provide the best level of services at the lowest possible cost;
- To satisfy safety and information requirements;
- To be financially sustainable (be financially sustainable and based on the principal funding sources ranging from user charges, municipal budgets and private sector involvement; satisfy the needs in terms of maintenance, improvement and development of transport infrastructure);
- To comply with the EU standards and regulations;
- To have a minimal permissible environmental impact.

Based on the Framework Transport Policy of BiH 2015- 2030, the Framework Transport Strategy of BiH 2016- 2030 has been adopted.

The Framework Transport Strategy is based on the aforementioned general objectives, which have been described in detail in specific objectives, according to the needs of BiH, FBiH, RS and Brcko District. The core part of the Framework Transport Strategy is defined in objectives and actions. Objectives and actions jointly establish the strategic vision for the BiH transport system by 2030.

Specific objectives of the Framework Transport Strategy stem from the "higher level" objectives. The latter are consistent with the BiH Framework Transport Policy 2015–2030, which sets framework goals for the transport sector, and foresees the definition of the transport strategies, pursuant to the BiH Constitution, at the level of BiH, its two entities and Brcko District. Such higher level objectives are particularly relevant for international and inter-entity actions. Specific objectives are provided for different modes of transport (road, railway, inland waterways and air transport), and are based on BiH, FBiH, RS and BD transport priorities which emerged from the understanding of current situation (based on the needs analysis and official documents). In accordance with the defined set of objectives,

the Framework Transport Strategy aims at defining actions to be implemented with the purpose to achieve specific objectives for each transport mode. Actions are clustered by the foreseen timing for implementation, namely in "short-term" (2016-2020), "medium-term" (2021-2025) and "long-term" (2026-2030) categories of actions. FTS also defines responsible bodies and instruments for the implementation of each action.

The internal institutional set up, political situation and inadequate attitude of the competent and responsible institutions towards the problem of road traffic are the reasons for BiH still not having the strategy for road safety in place. The internal institutional set up and political situation in the past have brought up the adoption of the following strategic documents related to the road traffic safety in BiH: Baseline of the Road Traffic Safety in FBiH (2008–2013), and Strategy for Road Traffic Safety in RS (2009–2013), (2013–2022). The adoption of this document is one of the main priorities for 2017.

Within the Western Balkans 6 (WB6), WB6 representatives and the European Union reached an agreement on the indicative extension of the Trans-European Transport Network to the Balkans. Implementation of this extension is foreseen as part of SEETO cooperation process, and the entire SEETO comprehensive network is now integrated into TEN-T network.

**Government of Republika Srpska** implements the measure of improving the communication infrastructure primarily for the purpose of better communication links of Republika Srpska, as a basic prerequisite for the creation of a favourable business environment, simplifying transport costs of the economy as well as increasing the competitiveness of the entire economy of Republika Srpska. This measure will be implemented through the following activities:

- 1) Improving the quality of the services of the Airport of Republika Srpska;
- 2) Activities in the field of road transport (completion of construction of the motorway Banja Luka–Doboj, section Banja Luka–Prnjavor, beginning of construction of the interstate bridge on the river Sava near Gradiska and completion by the end of 2019, as well as completion of construction of the bridge over the river Drina, location Bratunac-Ljubovija).

Improving the quality of services of the Airport of Republika Srpska will be realised by developing the spatial planning documents, the airport Master Plan, procurement of equipment for better service delivery, construction of the cargo assembly centre and the expansion of the passenger terminal building in Mahovljani. Improving the quality of services for cargo traffic and better conditions for receipt and dispatch of larger passenger capacity aircrafts will result in increasing the Airport's own income and thereby create conditions for further investment and better offer. In terms of the dynamics of implementation, the expansion of the main airport runway towards the east is planned in 2017-2019, which will be preceded by the land expropriation. As for Master Plan and spatial plan for special purpose facility – draft document will be completed by the end of 2016, followed by the adoption procedure of the Spatial Plan by the relevant Assembly. The construction of the cargo facility is planned in the third quarter of 2017 and the expansion of the passenger terminal in the third quarter of 2017. Supply and installation of the Airport ground lighting is planned in the first quarter of 2017, procurement of X-ray machine and metal-detector gates for cargo warehouse in the fourth quarter of 2016, procurement of vertical cargo loader – in the first quarter of 2017, procurement of emergency fire truck – third quarter of 2017, and procurement of jet fuel tanks – third quarter of 2017. KM 2 million need to be provided for land expropriation, while the amount of KM 7 million from credit funds is provided for development of spatial planning documents, procurement of the Airport's Master Plan, procurement of equipment for better quality of service delivery, construction of cargo facility and expansion of passenger terminal building. Depending on transport of goods and regularity of new airlines, the income set to be realised in 2017 amounts to KM 3.85 million, and KM 4.06 million in 2018. Increasing the quality of services provided by the Airport of Republika Srpska will reduce transport costs to businesses, enable more efficient communication with other countries, as well as provide for the improvement of tourism offer of Republika Srpska. A potential risk reflects in the fact that funding for the project of expansion of the main airport runway towards the east has not been secured. The proposed activity is also planned in the Transport Strategy of Republika Srpska 2016-2030.

Activities in the field of road transport reflect in completion of construction of the motorway Banja Luka–Doboj, section Banja Luka–Prnjavor, beginning of construction of the interstate bridge on the river Sava near Gradiska and completion by the end of 2019, as well as completion of construction of the bridge over the river Drina, location Bratunac-Ljubovija. The activities planned for 2017 are completion of construction of the motorway Banja Luka–Doboj, section Banja Luka–Prnjavor (fourth quarter), completion of construction of the bridge over the river Drina, location Bratunac-Ljubovija

(fourth quarter) and beginning of construction of the interstate bridge over the river Sava near Gradiska for which Republika Srpska ensured funds (beginning of construction in the third quarter of 2017). Upon completion of the construction of the motorway Banja Luka–Doboj, section Banja Luka–Prnjavor, the travelling time on one of the busiest travel routes will be shortened and thus the travel costs reduced too. The safety of traffic participants will be increased as well. Road management companies' income will rise due to increased toll collection. Upon completion of the construction of the interstate bridge over the river Drina, businessmen in this area will be able to transport goods across the border, which has not been the case by now, and this will have positive effects on businesses and farmers of this region and beyond. The construction of the interstate bridge over the river Sava near Gradiska will enable more comfortable border crossing and reduce costs and travelling time. This way, enabling shorter travel time, lower transport costs and faster border crossing, our businesses will be more competitive in the market. The potential risk for the construction of the interstate bridge over the river Sava is that the Republic of Croatia fails to provide its share of funding for the implementation of this project. The proposed activities are also planned in the Transport Strategy of Republika Srpska 2016-2030.

**Government of the Federation BiH** adopted the Transport Strategy and the accompanying Action Plan 2016-2030 for the Federation BiH. Procedures for adoption of the amendments to the regulations and enactment of corresponding decisions on new categorisation of roads in the Federation BiH are under way. The activities are undertaken to increase discipline, collection, allocation and earmarked spending of the original revenues for transport infrastructure, and the process of establishing a unit/department for traffic safety within the relevant ministry.

The FBiH railway restructuring document is being prepared in cooperation with the World Bank and the Swedish organisation SIDA. The proposal of restructuring policy was presented by the World Bank and the Federation needs to accept one of the proposed models. To put it simply, all the proposed models include the separation of infrastructure from operators, the establishment of a holding company and a synthesized structure.

Within this reform measure, we will urgently start preparations for implementation of projects "Reconstruction of railways in BiH III" for the reconstruction of 270 km of tracks in the northern part of corridor Vc from Sarajevo to the river Sava (border with Croatia), which would by 2020 round up the complete post-war overhaul of tracks on corridor Vc through BiH, with the existing speed parameters of up to 120 km/h.

The Federation BiH is continuing the activities on the motorway of the corridor Vc through BiH. Furthermore, it is planned to improve the road infrastructure through projects on sections of the motorway and the magistral roads. In addition, it is important to underline the activities to improve the Sava river waterway and development of the Brcko port, as well as the bridge Svilaj.

➤ *Activities per year*

2017

- To set up a model for reconstruction of railways;
- To amend the Law on Railways of FBiH;
- To develop an action plan for restructuring of railways – establish the obligations and financial structure;
- To re-define original revenues (from oil and registration) and create better assumptions for construction of the road infrastructure;
- To continue the construction of the motorway on corridor Vc;
- To amend the Ordinance on defining the charge model for motorways;
- The amendments to the Law on Roads – finishing;
- The Law on the authorities delegated to automobile clubs;
- To redefine models of funding the motorways with a focus on concessions and public-private partnership;
- The Decision on categorisation of roads and the review of the existing studies that will influence the Decision on categorisation of roads;
- To create a database on the situation of aviation infrastructure in FBiH so as to determine the situation and the development needs.

➤ *Cost estimates and information on the budgetary impact of the activities*

The improvement of transport infrastructure (launching a new investment cycle for Restructuring of railways III to complete the reconstruction of the northern parts of the railway section on corridor Vc) requires EUR 40 million. For construction of the motorway on corridor Vc, the total planned amount is KM 1,514.83 million; in 2017: KM 515.01 million; in 2018: KM 500.73 million; and in 2019: KM 234.71 million.

➤ *Expected impact on competitiveness*

Development of the communication infrastructure is expected to have a positive impact on competitiveness.

#### **4.3.2.2. Increasing energy efficiency and use of renewable energy sources**

This reform is proposed/implemented by the BiH Council of Ministers BiH and the Government of the Federation BiH

#### **BiH Council of Ministers – Ministry of Foreign Trade and Economic Relations of BiH**

Preparations for the BiH Energy Strategy

Horizontal energy issues are currently the topic of the entity strategies.

The FBiH Government has adopted the terms of reference for development of the energy strategy of the Federation BiH 2015-2035, with projections by 2050. The activities related to the preparation of tender documents for selection of a consultant for development of FBiH energy strategy are currently ongoing. In FBiH, there is a Strategic plan and programme for development of energy sector in BiH. FBiH is steadily committed to the adoption of the state-level Energy Strategy in line with the recommendations of the European Commission.

In 2012, Republika Srpska adopted the Energy Development Strategy up to 2030, covering all the elements of security of supply, diversification of supply sources and routes, the use of domestic resources, as well as the plan for interconnectivity and development of the power transmission grid. The Strategy is followed by the associated action plan for the implementation of the set objectives and measures.

In February 2016, the Council of Ministers instructed the MoFTER BiH to set up a working group with the goal to define the principles on which, after the adoption of the energy strategy of the Federation BiH, one state-level strategic document will be formed from the two entity level strategies.

#### *The electricity market development*

Some progress is achieved in removing the legal and contractual barriers to the establishment of the organised electricity market. The prepared draft LAW ON THE REGULATOR OF ELECTRICITY AND NATURAL GAS AND ENERGY TRANSMISSION IN BIH (the title is still to be harmonised) is expected to be soon sent to the Directorate for European Integration for the opinion on compliance with the EU *acquis*, and then to the regular parliamentary adoption procedure, which should be completed by 31 March 2017. Also, the working group for drafting the legislation in terms of unbundling of the transmission system operators held several meetings in order to define the deadlines and implementers of activities. The other activities within this measure (amendments to the Law on VAT, public procurement; electricity exchange; ensuring the liquidity of domestic electricity market by implementation of regulatory measures; the market coupling) are subject to initial considerations of competent authorities.

BiH is also a signatory of the *Road Map for development of electricity supply market* agreed at the WB6 summit in Paris. The implementation of procedures and obligations under the defined time frames is the key to meeting the requirements for integration with the EU electricity market. These activities are implemented in cooperation with the Energy Community Secretariat.

#### *Cross-border balancing*

At the end of 2015, a set of rules and decisions of the State Electricity Regulatory Commission (SERC) and the Independent System Operator in BiH (ISO BiH) were completed, thus introducing market principles in previously fully regulated method of providing ancillary services and balancing of the power system of BiH. ISO BiH is applying a new balancing system based on market principles as from 1 January 2016. Trilateral Agreement on Joint Regulatory Power Reserve in Control Block SHB (R. Slovenia, R. Croatia and BiH) is practically applied as from 9 December 2016.

### *Regional cooperation*

The Independent System Operator in Bosnia and Herzegovina is a member of ENTSO-E. Furthermore, it actively participates in activities of the SCC - Security Coordination Center with the seat in Belgrade and the SEE CAO - *Coordinated Auction Office in South East Europe* with the seat in Podgorica. On 28 September 2016, SERC approved the auction rules for the allocation of cross-border transmission capacities in version 1.4, which will be applied by the SEE CAO in the coming year.

### *Cross-sectoral measures*

Most of the activities within the framework of these measures are related to alignment of legislation at all levels with the so called Third Energy Package of the EU: the deregulation of production prices; legal and functional unbundling of distribution system operators and supply companies; the regulator's independence; the observer status in the ACER, etc. Development and adoption of the aforementioned laws, and alignment of the entity-level laws and associated regulations, should overcome these shortcomings. Some procedures related to competition and state aid have been upgraded. The Parliament of the Federation BiH is expected to adopt the Restructuring Programme for the Electricity Sector in the Federation BiH.

### Information on the Energy Community

Bosnia and Herzegovina actively participates in the work of the Energy Community. It has become a full member by signing the Treaty Establishing the Energy Community in Athens on 25 October 2005, which came into force on 1 July 2006. This enables the creation of the biggest internal market for electricity and gas in the world, with effective participation of the European Union on one side and eight Contracting Parties on the other side. The main objectives of the Energy Community are the creation of a stable and single regulatory framework and market space that ensures security of energy supply and attracts investment in electricity and natural gas.

By a unanimous decision of the Ministerial Council of the Energy Community of 24 October 2013, the Contract which was originally concluded for a period of ten years, has been extended for an additional ten years.

Bosnia and Herzegovina actively chaired the Energy Community in 2016 and, on 14 October 2016, the meeting of the Ministerial Council of the Energy Community was held in Sarajevo, where measures taken against BiH in Tirana in October 2015 were temporarily suspended.

**Government of the Federation BiH** is committed to the adoption of the new document of Energy Strategy of the Federation of Bosnia and Herzegovina in order to ensure better positioning of the Federation BiH in the framework of the energy sector of Bosnia and Herzegovina and the region. Also, it our strategic determinant to work on increasing the generation capacities and rising the share of renewable energy sources in the overall production, thus achieving the indicative target of electricity production from RES in 2017 in line with the APOEF. Contribution to functional and cost efficient energy market is provided through the South Interconnection for the Regional Gas Pipeline. Further implementation of projects contributing to production from renewable energy sources will be continued: construction of wind farms Podvezlje, Mesihovina; construction of HPP Vranduk on the river Bosna - 20 MW; HPP Una Kostela – reconstruction and expansion; HPP Janjici – on the river Bosna -15,75 MW and PHP Vrilo.

In addition to these capital projects, there are also a number of smaller projects in the field of solar energy potentials, wind energy potentials, hydro-potentials and biomass. A number of renewable energy sources and efficient cogeneration projects are under preparation or in the implementation phase.

### ➤ *Activities per year*

2017

- Development of the Energy Strategy of the Federation of Bosnia and Herzegovina 2015-20135 with projections by 2050;
- Law on Energy Efficiency of FBiH;
- Amendments to the Law on Exploration and Exploitation of Oil and Gas in the Federation BiH;
- Activation of projects of integrated use of watercourses (water supply; protection against high waters; protection against low waters; electricity generation, etc) on the catchment of the rivers Bosna and Vrbas, through awarding the concessions to public companies and private investors or through public-private partnership;

- SCADA/DMS/OMS with the accompanying communication system – electronic networking of all energy facilities;
- Reconstruction of the existing oil terminals and gradual establishing of oil stocks, and the creation of prerequisites for the fulfilment of the Directive 2009/119 EC;
- Further restructuring of the concern Elektroprivreda BiH, with emphasis on restructuring of the mines (operational, personnel and financial) through the Programme of Restructuring of the Electricity Sector in FBiH;
- Distribution of electricity - "Smart Meters" KM 23.36 million (loan in the amount of KM 19.56 million)
- Law on Gas of FBiH
- National Energy Efficiency Action Plan (NEAP) in BiH

2018

- Distribution of electricity - "Smart Meters" KM 17.48 million (loan KM 13.69 million)
- Amendments to the Law on Companies by introducing corporate governance in public companies using the OECD's guidelines on management;
- Amendments to the Ordinance on Professional Development of Chairman and Members of Supervisory Boards and Managements of Companies with State Capital, and adoption of the Programme for Professional Development of Chairman and Members of Supervisory Boards and Managements of Companies with State Capital;
- Reconstruction of the existing oil terminals and gradual establishing of oil stocks, and the creation of prerequisites for the fulfilment of the Directive 2009/119 EC;
- Further restructuring of the concern Elektroprivreda BiH, with emphasis on restructuring of the mines (operational, personnel and financial) through the Programme of Restructuring of the Electricity Sector in FBiH;
- Feasibility study (ESIA, CBA and preliminary design) for the regional gas pipeline "South Interconnection of Bosnia and Herzegovina and Croatia" – diversification of supply sources.

2019

- Distribution of electricity - "Smart Meters".

➤ *Cost estimates and information on the budgetary impact of the activities*

The amount set aside for the development of the Energy Strategy of the Federation of Bosnia and Herzegovina 2015-20135 with projections by 2050 is about KM 600,000 plus the VAT budget funds.

JP Elektroprivreda BiH d.d. Sarajevo and JP Elektroprivreda HZ HB d.d. Mostar, for construction of hydro and wind power plants plan to invest the total amount of KM 823.33 million; 2017: KM 307.78 million; 2018: KM 205,00 million; 2019: KM 97.16 million (wind farm "Mesihovina", HPP "Vranduk", HPP "Una Kostela", HPP "Janjići", PHP "Vrilo").

For the Energy Efficiency Project, the Federal Ministry of Physical Planning will allocate the total amount of KM 31.08 million; 2017: KM 13.11 million; 2018: KM 1.65 million.

The construction of new power plants will increase the production of electricity, which will have a positive impact on public revenues.

#### **4.3.2.3 Improving the telecoms market**

This measure is proposed/implemented by the BiH Council of Ministers.

#### **BiH Council of Ministers – Ministry of Communications and Transport of BiH**

The applicable Law on Communications is based on the 1998 EU regulatory framework. Pursuant to Article 104 of the Stabilisation and Association Agreement between the European Communities and their Member States, of the one part, and Bosnia and Herzegovina, of the other part (hereinafter in the text: Agreement), harmonisation in the area of electronic communication networks and electronic communications services with the Regulatory framework for electronic communications of the European Union shall be completed one year after the entry into force of this Agreement.

The telecommunications sector is of great importance for the development of economy and society in general, and it is necessary to set up a framework for its improvement, set objectives and main activities to be undertaken in order to achieve these objectives in the given period.

Given the accelerated development of electronic communications, particularly broadband access, and the increasing share this sector takes in both national and global economy, it is of great importance to adopt the broadband access strategy. By stimulating the economic growth through the introduction of new services and opening to investment, telecommunications create conditions for creation of new jobs, boost productivity of the existing business processes, revenues and return on investment. Investment in broadband access directly affects GDP growth, competitiveness of all sectors of the economy and improves the lives of citizens.

The digitalisation process of terrestrial broadcasting needs to be intensified because, on 17 June 2015, the analogue broadcasting in EU was officially switched off. After this date, all media in BiH broadcasting the analogue signal will be legally unprotected, and the Regulatory Agency can prevent their broadcasting in case their signal causes interference to the media that broadcast digital signal.

MTP 2017-2019 foresees the development of:

- Law on Electronic Communications;
- Telecommunications sector policy in BiH 2017-2021; and
- Broadband access strategy;
- Continuation of the implementation of the Project of the digitalisation of public broadcasting services in Bosnia and Herzegovina, which is important for releasing the radio frequency spectrum from the existing users in digital dividend bands, thus creating conditions for awarding licenses for fourth generation mobile networks (4G).

For the development of these regulations, the funding is provided from the BiH budget, and will be implemented through the salaries and benefits of the implementors of activities, whereas for the implementation of the digitalisation process funding is secured from several sources (BiH budget; UMTS licenses; the BiH CRA's accumulated surplus income), as defined by the Decision on inclusion of the Project of the digitalisation of public broadcasting services in Bosnia and Herzegovina in the multi-year capital investment programme 2011-2014.

### **4.3.3. Sectoral development**

#### **4.3.3.1. Agricultural sector development**

Despite growth recorded in recent years, BiH agriculture is characterised by fragmentation of arable agricultural parcels, high share of small farms, low productivity, low level of modernisation of manufacturing and processing capacities, low level of cooperatives and unfavourable age structure of producers. All these cause primary agricultural production to be insufficiently competitive in terms of both quantity and the price. There is a general lack of larger quantities of adequate quality domestic raw materials for the on-going production of the manufacturing industry, which is thus forced to import raw materials for most of its products. All these indicate that agricultural production and food industry in Bosnia and Herzegovina is still less than competitive, even in the domestic market, and that significant investment in primary sector is required so as to make food industry more competitive and thus create conditions to place agricultural and food products on domestic market as well as export food on the EU market.

##### **4.3.3.1.1. Enhancing agricultural production**

This reform is proposed/implemented by the BiH Council of Ministers, the Government of the Federation BiH and the Government of Republika Srpska.

#### **BiH Council of Ministers – Ministry of Foreign Trade and Economic Relations of BiH**

The share of agriculture in the relevant 2015 macroeconomic indicators increased compared to the previous year given that the share of agriculture in the total employment accounted for about 18%, the share of agriculture's GVA in GDP maintained the level of about 7%, while the share of agricultural and food products in foreign trade indicators is slightly higher relative to the previous year (share in exports 9.10%, and share in imports 18.24%). Foreign trade of agricultural and food products in 2015 recorded growth in exports (25.92%), growth in imports (5.06%), but also the decline in foreign trade deficit (1.39%). Approximately 34% of exports of agricultural and food products is placed on the CEFTA market, 30% on the EU market and around 28% in Turkey, while most of agricultural and food

products placed on BiH market originate from the EU - around 55% , and from CEFTA countries - around 25%.

According to the 2015 Labour Force Survey, carried out by the Agency for Statistics of BiH in collaboration with the Institute of Statistics of Republika Srpska and the Institute for Statistics of the Federation BiH, the average number of employees in agriculture is around 147,000, of which 65% men and 35% women. In 2015, this number of employees rose by 8,000 or 6% compared to the previous year.

In 2015, there was an increase in volume of plant production compared to the previous year. Also, after several years of downturn in the number of heads of livestock, 2015 saw a mild increase in livestock numbers compared to 2014.

Summary of reform measures: Creating the required preconditions for the use of pre-accession funds of the European Union targeted to support the development and raising the competitiveness of the agricultural sector in BiH and development of rural areas in BiH.

The main objective is to ensure the development and integration of the BiH agricultural sector into the European and global market.

The development of agriculture and rural areas, raising the level of productivity and ensuring a sufficient level of competitiveness of domestic agricultural production for entry in a liberalised market is a priority and a special interest of Bosnia and Herzegovina. This issue is particularly important for BiH given the high foreign trade deficit and complex institutional structure. The basis for the provision of the IPA II financial assistance to Bosnia and Herzegovina in the pre-accession period is a developed strategic document prepared by the European Commission in consultation with the beneficiary country. For beneficiary countries, this strategic document will be reviewed in 2017 and revised as necessary. Apart from developed strategic document, Bosnia and Herzegovina, as a beneficiary country, needs to have an effective coordination mechanism at the time of the beginning of the IPA II programming and a comprehensive sector strategy/strategic document (for each area that will be financially supported – sectoral approach).

Key obstacles: To fully meet the conditions for the use of the EU pre-accession funds for rural sector, including agriculture in terms of investments, it is necessary to develop and adopt a comprehensive Strategic Plan for Rural Development of BiH and establish IPARD operational structure, which will take into account the specificities of the constitutional set up of BiH. Institutions in BiH responsible for agriculture and rural development work on finding a model of IPARD operational structure, which will take into account the specificities of the constitutional set up of BiH and meet the requirements of the European Commission.

Statistics: Available budgets of the institutions earmarked for support to the development of agriculture and rural development at all levels responsible for agriculture in Bosnia and Herzegovina reaching the amount of KM 160 million are insufficient to support the reform processes and cannot ensure strengthening of competitiveness of the BiH agriculture. The European Union has earmarked the pre-accession funds of up to KM 35 million annually for Bosnia and Herzegovina as a potential candidate for the EU membership. These funds are very important for support to competitiveness of agriculture and development of rural areas. Description of measures: Although BiH, as well as other countries of the region, set out very early to fulfil the so called "operational preconditions" (early 2009) for use of IPARD funds i.e. the establishment of the IPARD operational structure, namely Strategic Plan for Rural Development of BiH and the IPARD Programme. The second technical requirement is the establishment of the IPARD operational structure for BiH, which will meet the EU requirements and take into account the specificities of the constitutional set up in BiH.

Costs: The base funds required for the development of the Strategic Plan for Rural Development of BiH and the IPARD Programme, as well as the establishment of the IPARD implementation structure, amount to around KM 10 million.

We should also mention the great importance of the agricultural information system through all its components, whose value is not only expressed in obligation under the EU legislation but also in the fact that, indirectly, through reforms relying on data from this system, it fosters economic development by stimulating the development of agriculture. There are currently no funds in BiH for development and establishment of the agricultural information system, and, having no strategic documents in this area in place, there is no possibility of using the EU pre-accession funds. More intensive implementation of the agricultural information system will be provided through the EU technical assistance and use of other funds that the EU planned for BiH in the accession process, while later, at a

certain level of development and implementation, and the adoption of strategic documents, the access to the EU funds would be enabled.

Other priority reforms: Ensuring the conditions, primarily, through the adoption of the legislative package in the area of agriculture, veterinary, phytosanitary protection, food, fishery (Law on wine; amendments to the Law on Agriculture, food and rural development; Law on food; Law on Veterinary; upgrading regulations on organic production and marine fisheries) which will comply with the EU regulations, and establishing structures (inspection services and services for product quality assessment) which will ensure the achievement of the required level of food quality and safety standards for undisturbed trade in agricultural products and export of all goods of animal and plant origin in the EU market.

**Government of the Federation BiH** believes that the agricultural sector is economically very important integral part of the economy. According to the Institute for Statistics of the Federation BiH (FSI), in 2015, the share of agriculture, forestry and fisheries in the total GDP of FBiH was 4.6%, which is higher than in 2014 when this share was 4.2%. The average number of employees in the sector of agriculture, forestry and fisheries in the reporting year amounted to 7,490, or 1.8% of the total number of employed persons in FBiH, and rose by 0.6% compared to 2014, continuing the positive trend of employment growth in this sector. According to the Labour Force Survey, there were 44,000 employees in agricultural activity in 2015.

Utilisation of capacities in the food industry in recent years is still low and ranges under 50% on average. It is the highest in plants for processing fruits and vegetables (62.0%), milk processing plants (56.0%), plants for production of non-alcoholic beverages (53.9%) and milk processing (52.5%), while it is lowest in wine production (15.6%).<sup>78</sup>

In general, the Federation BiH has a negative trade balance. The coverage of imports by exports of 57.5% in 2015 was somewhat higher than in the previous year (55.8%). In 2015, the share of food and live animals imports in the Federation BiH accounted for 12.9% of total imports and slightly increased relative to the previous year (12.7%).<sup>79</sup> Without agricultural census it is not possible to set up meaningful objectives of the programme of rural development.

Medium Term Strategy for Agricultural Sector Development in Federation BiH 2015-2019 was adopted in the previous period. A set of other by-laws regulating the sector of agriculture and food industry was adopted too. At the same time, primary production of some agricultural outputs is not sufficient to meet the needs of processing capacities. Insufficient incentives, fragmented holdings, expensive loans, insufficient quality control of imported products, are just some of the problems encountered by agriculture and food industry in the recent years.

➤ *Short description of measures*

This measure is planned to equalise the amount of support for direct payments per hectare for production of crops, vegetables and fruits, as well as wines, including the seed production for owners of farms registered in RAF that meet the general and specific criteria, on the basis of pre-defined minimum land parcels for exercising the right to this support measure. This measure comprises two sub-measures, namely direct payments per hectare of land area and direct payments per head of cattle. Agriculture and supply chain for foodstuffs suffer from numerous weaknesses that prevent agricultural products from FBiH to compete on domestic or foreign market. The consequence of these weaknesses is a growing lack of competitiveness of producers from FBiH, while the production capacities, which often do not meet the needs of the modern market, are utilised far below their full potential. It is of the utmost importance to include the marketing infrastructure and capacities for strengthening the value chains, infrastructural measures, measures for development of skills such as, for instance, investments in technologies for placing the product on the market (investment in modern cold chains, investments in skills development and marketing, investments in primary production), which will contribute to improving economic capabilities and employment opportunities, sustainability of economic activities in

---

<sup>78</sup> Information on situation in food industry for 2015. FMAFW Sector for food industry 2015. Data on utilization of capacity were collected based on the Questionnaire on the operations that are submitted to farmers every year, but they should be taken with reserve because farmers have no formal obligation to complete them and submit to the FMAFW Department for food industry. It is the opinion of the Department that there are greater capacities and that they are more utilized than is shown in the Information, since they do not dispose of data on the large number of small producers.

<sup>79</sup> FSI, Release No. 16.1.12, Data on FBiH foreign trade in December 2015.

rural areas and development of local economic programmes for improving economic opportunities in rural communities.

The incentive programme was created in March 2016, after which it was adopted by the Government and entered into force by publication in the Official Gazette.

➤ *Activities per year*

2017

- Direct payments per head for dairy cows in the system of milk collection;

2018

- Direct payments per hectare (agricultural strategy adopted; the payment software is being developed);
- Establishing the agro-fund/agro-bank, equally dispersed across the entire territory, and concluding contracts with commercial banks for financing investment projects in agriculture and rural development;
- Taxation of uncultivated agricultural land and streamlining the collected funds in the agro-fund;
- LPIS identification of parcels for payments based on use;
- GIS for agriculture;
- Law on the Organisation of Agricultural Products Market.

➤ *Cost estimates and information on the budgetary impact of the activities*

With regards to introduction of support measures based on payment per hectare and per head, the implementation of this measure will not require additional costs on top of regular allocations from the budget.

For the introduction of rural development measures on principles of EU IPARD, funds from the budget are secured per year, for 2017. – EUR 1.29 million, 2018. – EUR 1.24 million, 2019. – EUR 1.35 million.

➤ *Expected impact on competitiveness*

The expected impact on competitiveness is positive.

**Government of Republika Srpska** considers that, of all manufacturing sectors, agricultural production makes the largest share in the structure of the RS GDP. There are currently registered about 35,000 agricultural holdings in the Registry of agricultural holdings, of which about 5,000 commercial and about 30,000 non-commercial holdings. Of course, the total number of holdings is much higher, but it is about unregistered, small rural farms that do not produce significant market surplus. The competitiveness of the Republika Srpska's agricultural sector is the key to its current and future development. The analysis of the foreign trade index of agro-industry of Republika Srpska by product groups shows comparative advantages in product groups such as fish, milk and dairy products, and, in some years, product groups of fruits and vegetables. The lack of comparative advantages in the analysed period was most pronounced in cereals and milling industry products. Republika Srpska has a foreign trade deficit in most agricultural products. Only a few customs tariffs recorded higher total value of exports in relation to the value of imports. Volume of investment in domestic food production and its buy off is insufficient compared to investment in construction of shopping malls and supermarkets that sell food produced in different parts of the world. Key obstacles to growth and competitiveness are: sources and scope of financing in the agricultural sector; the total volume and structure of agricultural production; technological level and productivity of agricultural production; structure of agricultural holdings; the trade deficit of agricultural and food products; property and legal issues related to agricultural land; harmonisation with the EU CAP; inability to use grants from the EU pre-accession funds; and climate change and increasingly frequent natural disasters.

Based on the all aforementioned, the key measure of the Government of Republika Srpska in the area of agriculture in 2017 is:

1. Enhancing agricultural production.

The enhancement of agricultural production will be implemented through the following activities: improvement of agrarian sector financing; adoption and harmonisation of regulations in the area of agriculture at the level of Republika Srpska and the level of BiH; setting up a land parcel identification

system; implementation of the animal identification process through development of the animal marking system; improvement of foreign trade operations and protection of domestic agricultural production; work on documents for rural development and IPARD operational structure. Agrarian sector financing is the most important basis of current production and development as a whole. The present system of incentives needs to be reformed towards unbundling the social from the development segment. By accepting the market competition through the expansion of the SAA Agreement, and bearing in mind the development of agriculture in the CEFTA region countries, we need to give a stronger boost to market-oriented production for the purpose of development. The development segment of incentives needs to be divided into: fostering current production and fostering long-term investment. Reducing the number of social aspect measures in favour of measures that affect growth of production volume, quality of production and export of key agricultural outputs, will provide more funding for market-oriented production. In order to provide additional sources of funding, we will draw up documents for rural development and IPARD operational structure, which is a precondition for creating the IPARD Programme and defining the measures to be financed from the EU rural development funds, in line with the constitutional set up and the responsibilities of each level of government in BiH. In terms of the dynamics of the implementation, this activity will be carried out continuously by the end of 2019. Creation of the document for rural development and IPARD operational structure will provide additional sources of funding for agricultural sector, resulting in improving the level of technology and quality of production and thus the competitiveness of this sector as a whole. Regulations arising from constitutional authorities of Republika Srpska will be adopted and harmonised, as well as adopted and harmonised regulations pertaining to constitutional authorities of joint bodies at the level of BiH. Harmonisation of laws and regulations with the EU *acquis* enables standardisation of production in line with EU and thus raises the opportunities for domestic agricultural producers to jointly perform at the EU common market as well as enhances the overall competitiveness of this sector. We will launch the activities on setting up a Land Parcel Identification System (LPIS). In terms of the dynamics of the implementation, this activity will be carried out continuously by the end 2018. Setting up the Land Parcel Identification System enables a more efficient system of streamlining incentives per hectare, i.e. the output unit, and therefore a more efficient system of control of spending of the funds. The activities will be continued to improve foreign trade and protect domestic agricultural production against excessive imports and unfair competition, establishment of the system and method of data collection in the market of agricultural products, improvement of work of the border authorities and enhancing the level of the overall competitiveness of the agricultural sector. In terms of the dynamics of the implementation, this activity will be carried out continuously by the end 2019. In this regard, we will implement the necessary activities to build a traceability system "from farm to fork", veterinary and phytosanitary control, as well as set up the market standards in accordance with the requirements of the EU market, the Russian Federation and the third countries. Enhancing foreign trade and protection of domestic agricultural production contributes both to protection of domestic agricultural production against unfair competition and to protection of consumers against the imports of poor quality and unsafe products, contributes to improving the trade balance and the increase in foreign trade and thus the competitiveness of domestic production. We will continue to support the institutional and organisational strengthening of agricultural companies, cooperatives, associations, clusters and other forms of groupings. We will continue the activities on the implementation of the process of animal identification through the improvement of the system of marking the animals, in cooperation with the BiH Veterinary Office and the Agency for Animal Identification. Functional and up to date Registry of animals is the basis for smooth foreign trade in the animal sector, as well as a precondition for further improvement of the process of financial control and earmarked spending of the agricultural budget. In terms of the dynamics of the implementation, this activity will be carried out continuously by the end 2019. The implementation of the process of animal identification through upgrading the system of marking the animals provides for more efficient system of quality control and safety in the production chain from farm to fork, enables the export of animal origin products to the EU market, and enables more efficient streamlining of incentives per head, i.e. unit of output and therefore the more efficient system of control of spending. None of the above mentioned activities has direct fiscal effect. Most of the measures have a character of continuous activities by the end of the observed period (2019), except for laws and by-laws to be adopted according to the Republika Srpska Government Work Plan and Programme. Preparation of IPARD Programme and operational structure was directly conditioned by the harmonisation of the coordination mechanism in the process of EU integration. The risk to the implementation of these activities relates to inability to reach the agreement with other levels of government in BiH on further harmonisation of positions and functioning of coordination mechanism. Also, setting up the Land Parcel Registration System includes extensive field, land survey and information work and requires significant funds, the lack or shortage of which can pose a potential

risk for implementation of this measure. All activities within the proposed measures are directly related to strategic objectives of the development of agriculture and rural areas by 2020.

In order to protect agricultural and other public goods, key activities for the improvement of agricultural production also relate to the water management sector, where two reform activities are set to be implemented, namely: establishing rational and effective organisation of work of the JU Vode Srpske, and the activity of developing the early warning system.

The Government of Republika Srpska adopted Measures for re-defining the organisation and economic and personnel position of the Public Forestry Company "Sume Republike Srpske", which define the concept of linking forestry, wood processing sector and transport activities. The adoption of the action plan for the implementation of these measures created the conditions for addressing the strategic objectives.

#### ***4.3.3.2. Environmental sector***

In 2015, the procedures for adoption of the new Law on Environmental Protection and the new Law on the Environmental Protection and Energy Efficiency Fund in FBiH were not completed yet. Environmental legislation would comprehensively regulate the issue of setting up and use of economic instruments for environmental management in order to facilitate the implementation of the principle of integrated approach to environment, sustainable development and polluter pays principle, as important principles of formal environmental protection policy in FBiH. Also, a number of other laws and regulations are being prepared that, due to the need of aligning with the RS, have not been adopted yet. This primarily refers to the Law on Amendments to the Law on Waste Management and the Law on Ozone Depleting Substances.

##### ***4.3.3.2.1. Conserving, protecting and improving environmental quality***

This reform is proposed/implemented by the Government of the Federation BiH.

The problem of air pollution in industrial areas is still pronounced despite a number of legal solutions. Emissions of pollutants in industries whose capacities operate using outdated technologies significantly affect the quality of air. The Register of Plants and Pollutants Releases is in function, which contains publicly available database on releases of pollutants, environmental permits, environmental inspection activities and substances harmful to human health. Also, the Rulebook on Monitoring of the Emission of Pollutants in the Ambient Air (Official Gazette FBiH, No. 9/14), regulates in detail the manner, procedure, frequency and methodology of measuring the emission of pollutants, the procedure for evaluating the measurement results, and the compliance with the prescribed emission ceilings, and define the obligation to control and monitor the releases of pollutants as well as report on the emission measurements performed. Despite this, adequate statistics on emissions of harmful gases at the level of FBiH are still not publically available.

The implementation of the Second Solid Waste Management Project (funded by the World Bank loans) was to be completed in 2015 but, due to a number of reasons, the project was not finalised. In Zenica region, the activities on rehabilitation and closing of the unregulated landfill "Side" are progressing very slowly. It is similar with Livno region as well as other regions covered by the envisaged project. The activities on the inclusion of other regions foreseen by the project were going on very slowly so the project was not fully completed by the date set for closure of the project. Thus the additional postponement of the project's closure was requested from the World Bank that finances the entire project.

##### ***➤ Short description of measures***

This reform measure entails improving the existing legal framework governing the area of waste management, financial mechanisms, and the system of getting environmental permits.

##### ***➤ Activities per year***

2017

- Law on the Environmental Protection and Energy Efficiency Fund. The focus is on designated use of the fund resources, which is extended to energy efficiency too. Financing measures to increase energy efficiency in the areas of environmental protection and greenhouse gas emissions is foreseen too, as well as meeting the Energy Community contractual obligations.

2018

- Establishment of regional waste management centres and environmentally sound closing of unregulated municipal landfills along with the development of infrastructure for selective collection of packaging, electric, electronic and other waste, the establishment of recycling centres using funds from different sources.

➤ *Cost estimates and information on the budgetary impact of activities*

The adoption of the Law on the Environmental Protection and Energy Efficiency Fund has no impact on the budget because it will be carried out through regular activities and capacities, at no additional cost.

➤ *Expected impact on competitiveness*

The impact is expected to be positive.

#### **4.3.3.3. Services sector development**

Processing industry is one of the most important sectors of the economy of Republika Srpska. The privatisation process so far has not produced the expected results due to the influence of numerous factors, particularly a very poor state in most companies, primarily high indebtedness and burdensome surplus of workforce. In addition, the processing industry output is less than competitive as a result of under-utilisation of production capacities, outdated technologies, lack of qualified personnel and underdeveloped quality system. Insufficient foreign direct investment in processing industry is mostly a result of the lack of interest of investors to invest in production capacities of the processing industry. The lack of investment in modernisation of production and development capacities of processing industry companies is the main reason for their products' low competitiveness on the market. Key obstacles to growth and competitiveness are: inefficient and inadequately completed privatisation of state-owned capital; low competitiveness of products; under-utilisation of production capacities; low level of technological development; low labour productivity; underdeveloped business infrastructure; failure to meet quality standards; unsatisfactory level of investment and a lack of skilled labour.

Changes in the global financial market and recent developments have shown that there is a considerable lack of adequate instruments for efficient resolution of the problem of bad banks and troubled banks, which is why the new legal framework is required to introduce more stringent capital requirements, improve corporate governance, and further strengthen the risk management system.

##### **4.3.3.3.1. Improving the financial sector**

This reform is proposed/implemented by the Government of the Federation BiH and the Government of Republika Srpska.

**Government of the Federation BiH.** In 2015, banks in FBiH have generated profit in the amount of KM 149 million, which is the best result achieved since 1996. Out of the total of 17 banks, 14 achieved positive result in the amount of KM 220 million, while 3 banks achieved negative result in the amount of KM 71 million. Total balance sheet assets of the banking sector by 31 December 2015 amounted to KM 17.2 billion, rising up by KM one billion or 6.5% compared to the end of the previous year. Total assets growth primarily results from deposits growth by KM 968 million and total capital growth by KM 182 million. Indicators of loan quality in FBiH for two most important sectors (enterprises and households) point to the upward trend in 2015. The share of non-performing loans, as a key indicator of loan quality, decreased from 14% to 13%.

Despite the positive banking sector results achieved in 2015, the sector of financial intermediation needs to ensure adequate long-term capital, achieve greater safety of operations, rationalise costs, and greater stability in banking operations.

➤ *Short description of measures*

The current situation of financial markets requires a revision of the entire set of legal solutions. The expected improvements relate to tighter prudential requirements, strengthening the legal framework governing the operations of banks, MCOs, investment funds, insurance and leasing companies. This measure is related to the Letter of Intent; FSAP recommendations and capital standards BASEL II, and the Strategy for introducing BASEL III.

➤ *Activities per year*

2017

- The Law on Banks
- Law on Insurance Mediation
- Law on the Banking Agency
- Law on Microcredit Organisations
- Law on Leasing (amendments)
- Law on Investment Funds (amendments)

➤ *Cost estimates and information on the budgetary impact of the activities*

The expected fiscal effect is neutral.

➤ *Expected impact on competitiveness*

The expected impact is positive.

**Government of Republika Srpska.** It is necessary to regulate the area of bank restructuring and resolution and set up such a system that provides to the Banking Agency of Republika Srpska, as a supervisory body, a set of instruments for early and rapid intervention in a failing bank, or likely to fail bank, in a way to avoid or minimise negative consequences on the economy or financial system as a whole.

In Republika Srpska, as by 31 December 2015, there were 11 management companies and 16 investment funds, of which 14 closed-ended and two open-ended investment funds. Out of 14 closed-ended investment funds, 13 were formed in the process of transformation of the privatisation investment funds established under the Law on the Privatisation Investment Funds and Privatisation Fund Management Companies<sup>80</sup> in order to collect vouchers and exchange them for company shares issued in the procedure of voucher privatisation. Performance indicators suggest that a large number of the management companies was neither buying nor selling securities for a period of years, which means that they did not perform their basic function of managing the fund's assets for the benefit of its shareholders. Also, their efforts to restructure the initial portfolio of the funds they manage have been very modest, whereby it should be noted that the initial portfolio mainly consists of illiquid shares of the privatised companies whose nominal value of shares was set on the basis of the core capital of those companies determined in the initial balance sheet on 30 June 1998. Most of those shares are not traded, while for some companies the bankruptcy proceedings were either completed or ongoing. In addition, shares of closed-ended investment funds are traded at a large discount relative to book value (the average amount of 46%) while in emerging economies this discount amounts to 10% to 5%. The method used by management companies so far would quite certainly lead to liquidation of funds these companies manage, as a result of sale of the portfolio for the purpose of settling the management costs<sup>81</sup>. This trend is supported by the fact that the net asset value of all PIFs in 2003 amounted to KM 1.15 billion while in 2015 it dropped to as little as KM 301 million.

Based on all the aforementioned, the key measure of the Government of Republika Srpska related to services sector in 2017 is:

Improving the financial market.

Improving the financial market will be implemented through two activities:

- 1) The introduction of tighter prudential requirements of the banking business and regulation of the bank restructuring procedure; and
- 2) Set up mandatory transformation of the closed-ended investment funds, created by transformation of the privatization investment funds, into open-ended investment funds.

---

<sup>80</sup> "Official Gazette of Republika Srpska", No. 24/98, 63/02 i 67/05;

<sup>81</sup> According to the Information of the Republika Srpska Securities Commission, in the period from 2002 to 31 December 2015, total management fees charged by the companies at the expense of the funds' assets they manage amounted to KM 128 million;

The introduction of tighter prudential requirements of the banking business and regulation of the bank restructuring procedure will be implemented by strengthening the legal framework providing for bank operations, namely: the adoption of the Law on Banks of Republika Srpska, whose development was based on the Basel Committee recommendations; applicable solutions of the EU Directives; positive practice of the countries in the region; as well as proposals made through technical assistance within the existing Stand-by Arrangement of the International Monetary Fund, and modernisation of the Republika Srpska Banking Agency in the part relating to the expansion of the Agency's competencies to bank restructuring and improving the internal management and decision making processes. The new law will define tighter prudential requirements of the banking operations, including more adequate assessment of the banks' risk profile, better quality of risk management in banking operations, buying and selling of bank lending based on loans to authorised customers, enhancing and strengthening of the control function of the Agency for Banking of Republika Srpska, with particular emphasis on early intervention measures, carrying out of bank stress-tests, developing a special regime of consolidated supervision, developing recovery plans by the banks, restructuring of banks, as well as other issues of importance for bank resolution and the procedure of liquidation and bankruptcy. The adoption of the new Law will determine the conditions and manner of bank restructuring, as a regulated process of resolution of troubled banks, whose operations may have adverse effects on the remaining financial sector and economy in general. The restructuring of banks aims at preserving the key functions of systemically important banks, avoiding the harmful effects of their failure on the financial system stability, and providing protection to depositors and investors as well as protection of funds and assets of the banks' clients. According to legal provisions, which are partially in line with the requirements of the new Directive of the European Union on Bank Recovery and Resolution of Credit Institutions (2014/59/EU), funds for financing bank resolution can be secured from the Deposit Insurance Fund, the financial support funds, as well as other sources such as loans, credits and other acceptable forms of support to banks and, as a last resort, the use of emergency public financial support of Republika Srpska, subject to strict qualitative and quantitative restrictions. In terms of the timeline for implementation of this activity, the amendments to the Statute of the Banking Agency of Republika Srpska will be adopted in the first quarter of 2017; by-laws stipulated by the law will be adopted in the second quarter; harmonisation of operations, organisation and general regulations of banks with the provisions of the law and by-laws of the RS Banking Agency in the third quarter of 2017, while by-laws stipulated by the law pertaining to bank resolution will be adopted in the fourth quarter. The development of the resolution plan for banks having licences on the date of entry into force of this law is set for the first quarter of 2018; development of recovery plans for banks and for banking groups and their submission to the RS Banking Agency for review is set for the second quarter; the development of the resolution plans for banking groups is set for the third quarter; while the review of the submitted recovery plans is set for the first quarter of 2019. The expected fiscal effect of this activity is neutral, while the proposed measure aims at securing steady and secure financial system and protection of depositors, as well as greater market discipline of bank operations. The activity is carried out according to the defined deadlines and there are no potential risks to its implementation. This measure is associated with the Letter of Intent; FSAP Recommendations; the Strategy for introducing "International Convergence of Capital Measurement and Capital Standards" BASEL II; the Strategy for introducing BASEL III; and the Project for strengthening the results-based banking sector with two separate loan agreements with the World Bank.

Setting up mandatory transformation of the closed-ended investment funds, created by transformation of the privatisation investment funds, into open-ended investment funds arises from the need to remove flaws in operational practice of investment funds so far, and proposals of models for reshaping of the closed-ended investment funds, while not forgetting the need to protect the interests of the funds' shareholders, which resulted in the adoption of the Law on Amendments to the Law on Investment Funds<sup>82</sup> (hereinafter the text: the Law). The three-year time limit for mandatory transformation of the closed-ended investment funds, created by transformation of the privatisation investment funds, from the date when the Law<sup>83</sup> entered into force, was proposed so as to allow the management companies, taking into account the structure of the closed-ended investment funds' portfolio, enough time to provide the necessary portfolio liquidity according to the planned schedule. As regards the timeline of the implementation of this activity, quarterly reporting on implementation of the approved plans (harmonisation plan and transformation plan) to the Commission is set for 2017; quarterly reporting on implementation of the approved plans (harmonisation plan and transformation plan) to the Commission

---

<sup>82</sup> "Official Gazette of Republika Srpska", No. 82/15.

<sup>83</sup> The Law on Amendments to the Law on Investment Funds entered into force on 14 October 2015

is set for 2018; while transformation of the closed-ended investment funds, created by transformation of the privatisation investment funds, into open-ended investment funds is set for the fourth quarter of 2018. The expected fiscal effect of this activity is neutral. As was expected, due to the fact that a large number of management companies did not perform their basic function of managing the fund's assets for the benefit of its shareholders, i.e. was neither buying nor selling securities for a period of years, the number of management companies declined and, on 30 June 2016 there were six management companies on the market, which managed 14 closed-ended investment funds. The new working regime of investment funds, after transformation, should result in a more active role of funds in the securities market through restructuring of the portfolio, and harmonise their operations with business rules of this type of financial intermediaries on developed markets. This activity will be implemented according to the defined schedule. The proposed transformation of the funds contains a hidden risk of misuse of the new legal framework for the sake of achieving individual interests of persons having no intention to carry out these duties in accordance with the law, professional standards and good business practice. In contrast, to those management companies with long-term orientation towards doing business in this area, the proposed transformation should bring the restructuring of the existing portfolios of the funds they manage, and increase the interest of investment companies that guarantee higher value of shares/equity, i.e. a higher return on invested capital to investors. This measure is related to the FSAP Recommendations and the action plan for addressing deficiencies in anti-money laundering and counter financing of terrorism, in order to harmonise the system of prevention of money laundering and financing of terrorism with standards and recommendations of the Financial Action Task Force – FATF.

#### **4.3.4. Business environment and reduction of the informal economy**

Business environment is particularly important in terms of small and medium-sized enterprises. Therefore, it is through the education system, especially through primary and secondary education, that we need to undertake the activities that foster the entrepreneurial mindset. There are already some ongoing activities in FBiH, but on a voluntary basis, so they need to be systematised and introduced as mandatory in the school system.

The BiH commitment to ICT development was confirmed through the Electronic South Eastern Europe Agenda + Initiative - eSEE+ in Sarajevo in 2007, with the BiH Ministry of Communications and Transport as its signatory.

The adopted ICT related legislation, as a main prerequisite for improving the business environment and economic growth, is the following: Law on eSignature, Law on electronic legal and business transactions, and Law on eDocument.

##### **4.3.4.1. Introducing electronic signature - eSignature**

This reform is proposed/implemented by the BiH Council of Ministers.

#### **BiH Council of Ministers – Ministry of Communications and Transport of BiH**

The Office for Supervision and Accreditation of eSignature has been established, on the basis of Article 20 of the Law on electronic signature (the amendments to the Rulebook on Internal Organisation of the Ministry of Communications and Transport of BiH was adopted at the 34<sup>th</sup> session of the Council of Ministers of BiH held on 9 December 2015). The basic prerequisite for the implementation of these three laws, the staffing of the Office, has not been completed yet. By-laws required for the operation of the Office for Supervision and Implementation of the Law on e-Signature are the Rulebook on detailed conditions for issuance of qualified electronic certificates; the Rulebook on repository of certification authorities; and the Rulebook on measures and procedures to protect the electronic signature, means for forming the electronic signature and certification system. These Rulebooks have been drafted and sent to the General Secretariat of the Council of Ministers BiH for consideration and adoption.

Setting the legal framework for further ICT development has to start with the analysis of the entire legal system and identification of regulations that must be changed, as well as the manner as to how to make those changes. The goal should be to define such legislation so as to identify and regulate relations across all actors – participants in electronic exchange of business documents at all levels of government – establishment of interoperability. The currently ongoing activities of the Ministry of Communications and Transport of BiH in this regard are:

- Draft of the Information Society Development Policy prepared in line with the recommendations of the European Union, and the relevant documents: Digital Agenda for Europe, SEE2020 Strategy

and Europe 2020 – A Strategy for Smart, Sustainable and Inclusive Growth. The policy was sent to the General Secretariat of the Council of Ministers BiH for consideration and adoption.

- Draft of the new Law on eSignature in line with the EU Regulation No. 910/2014 repealing the Directive 1999/93/EC (*The drafting is in progress and planned to be completed in early 2017*).
- Development of by-laws accompanying the Law on eSignature based on the new Law and the amendments to the aforementioned Rulebooks in line with the new Law on eSignature are planned in 2017. It is important to note that these rulebooks will not be changed significantly when the new Law enters into force, except in the Articles they refer to, because they have been prepared in line with the new Regulation.

#### **4.3.4.2. Improving the business environment and reduction of the informal economy**

This reform is proposed/implemented by the Government of the Federation BiH and the Government of Republika Srpska.

**Government of Republika Srpska** implemented the reform in the field of business registration by introducing a one-stop-shop registration system and thereby significantly reduced the start-up costs, number of days and required procedures. The number of businesses registered for the past two years increased by 30%. However, countries with the best ranking in this area, as well as some of the countries in the region, have made further progress by introducing the possibility of online registration. By introducing the one-stop-shops we have reduced the costs, procedures and time necessary for registration, but the remaining limiting factor is the fact that there is no possibility of online registration, which is particularly important for foreign investors.

In this regard, the key reform measure of the Government of Republika Srpska in 2017 is:

Improving the business environment.

Improving the business environment will be implemented through the following activities:

##### 1) Introducing the online registration of business entities

The next medium-term phase of improving the business environment includes the creation of possibility for business to register electronically. This reform comprises several segments: the first segment refers to complete digitalisation of court files on registered business entities in Republika Srpska, their final verification and connection to the electronic form of the business registry, which is essential to the validity of this registry. The second segment refers to the adaptation of the system, application and legislation to the reform, while the third segment refers to the establishment of the qualified issuer of digital certificates (certification body). Enabling the Certification Body is of broader significance, since it also creates assumptions for a number of other potential electronic services such as electronic issuing of construction permits, registering property or any other public service. In terms of the pace of implementation, the adoption of the action plan for online registration is planned in the first quarter of 2017, as well as the preparation of the Certification body of Republika Srpska for issuing qualified electronic signature, stamp and seal, development of a software solution and completion of digitalisation. The beginning of the digitalisation of the court records related to the existing registry of business entities is set for the second quarter; the continuation of digitalisation and implementation of procurement procedures for new software solutions for the third quarter of 2017; while the continuation of digitalisation and work on software solutions is planned for the fourth quarter of 2017. Work on software solution will extend to the first quarter of 2018; finalisation of software solution is set for the second quarter of 2018, while the test-phase of online registration is set for the third and fourth quarter of 2018. The implementation of the first two components is entrusted to the World Bank and British Embassy approved donor funds for this project in the amount of KM 3.5 million. The implementation of the third phase will require additional staffing, organisational and other resources and the analysis is ongoing. Efficient and transparent delivery of services by electronic registration, as well as issuing certified digital signature, stamp and seal, will enable businesses a simple and secure process of entering the market and much faster procedure of investing in Republika Srpska. This will directly affect the efficient exchange of services, reduce the time required for registration and positively reflect on their competitiveness. Electronic registration and the establishment of a Certification body create assumptions for the use of a number of other potential electronic services for the needs of carrying out business activities, which will prevent any form of corruption and have multiple importance for the creation of more favourable business environment for the economy of Republika Srpska as a whole. A large number of involved institutions and special regulations may lead to delays in the implementation of measures due to the need of unforeseen

consultations. This measure is in line with the Republika Srpska Foreign Investment Encouragement Strategy 2016-2020, Strategy for SMEs Development 2016-2020 and the previous Action Plan of the Government of Republika Srpska pertaining to the business registration reform.

**Government of the Federation BiH** has undertaken some actions to improve the position of BiH when it comes to ease of doing business. The implementation of the project "Improvement of business zones in the Federation BiH" and "Entrepreneurial support institutions". In addition to these activities, steps have been taken to set a registry of taxes and fees that should be a basis for regulating the area of para-fiscal charges. The Registry provides an overview of all non-tax revenues classified by type, legislative framework, payer, allocation, and operators collecting them, because they are imposed and collected by various bodies at federal, cantonal and municipal level (ministries, agencies, institutes, public companies and other budget users). The Registry has been prepared as scheduled and should be posted on the website of the Federal Ministry of Finance, so that users of public revenues and tax payers could review it and propose possible amendments. After that, the Registry will be forwarded to the Government of the Federation BiH for consideration and verification and then downloaded by users and officially set on the webpage of the Federal Ministry of Finance in the form of interactive Registry. There has also been some progress in the area of interoperability. The following documents were adopted: The Decision on the adoption of the Interoperability Framework; the Decision on the adoption of the "Guidelines and Standards for System Architecture and Application Development" and the Instruction on the Application in the FBiH Institutions; the Decision on the adoption of "Standards for the Development and Maintenance of the Data Glossary and Initial Data Glossary" in the institutions of the Federation FBiH; and the Agreement on Mutual Cooperation of the Main Bearers of the Project. The Coordination body was formed while the long-term implementation plan will be developed as soon as the experts are engaged.

➤ *Short description of measures*

Support to development of the entrepreneurial infrastructure in the Federation BiH will be provided in the coming period with the goal to foster economic growth and employment at the local level. This measure also contributes to the implementation of economic priorities defined in the development strategies of local self-government units and the implementation of priorities identified in the strategic documents of the Federation BiH. The process of establishing and improving business infrastructure should proceed by direct support from all the levels, by creating strategic and legal documents, and direct financial support in order to implement the economic priorities identified in the development strategies of local self-government units as well as priorities identified in the strategic documents of the Federation BiH.

This investment will be combined with support to ancillary services to entrepreneurial development, as a factor of local economic growth, and strengthening capacities for business zones management, in order to create more conducive environment for activities of small and medium-sized enterprises. We will continue to reduce costs of doing business in the coming period too, as well as to shorten procedures of issuing permits. With a view to establishing the public transparency principle we will develop the Registry of fees and taxes in the Federation BiH.

Efforts will be made to harmonise public administration with the reforms of labour legislation in the Federation BiH, as well as harmonisation of the branch collective agreement in the field of administration, and the enhancement of the principle of local self government functioning system.

Furthermore, efforts will be made to establish an electronic Government system, which will, through the central website eGovernment provide basic eServices for business sector, citizens and public administration. Information and services on a central website will significantly improve access to services for users, reduce the time required for administrative procedures and standardise processes.

The primary objective in this area is to establish a system for accreditation and supervision of verifiers of digital certificates as the basic condition for development of electronic commerce, and the full implementation of the BiH Law on Electronic Signature. It is also necessary to set up a one-stop-shop website providing information and services to users.

In order to increase competitiveness of the tourist and catering services, and to reduce unregistered work and para-fiscal charges, legal framework in tourism and catering sector has to be improved.

➤ *Activities per year*

2017

- Amendments to the Law on Incentives to Small Businesses, the harmonisation of legislation with the EC recommendations;
- Amendments to the Law on Crafts and Related Activities. The goal is to ease doing business of craftsmen in FBiH and create environment for growth of crafts, with a number of by-laws;
- Registry of crafts, with the aim of improving business and making better quality policies in the field of SMEs;
- Registries on population and registry books;
- E website;
- Law on Tourism and a number of by-laws;
- Law on catering and a number of by-laws;
- Law on Tourist Fees in FBiH;
- Intensify development of entrepreneurial infrastructure (business zones, technological parks, incubators, entrepreneurial centres and clusters) by awarding incentives and improved cooperation with local self-government units;
- Produce catalogues and interactive map of Entrepreneurial zones in the Federation BiH with performance indicators;

2018

- Law on Improving the entrepreneurial infrastructure in FBiH with a number of by-laws;
- Establish the Agency for SME Development;
- Establish the SME Fund compatible with IPA funds;
- Adopt Strategy for Development of Tourism in FBiH;
- Registries on space, facilities and GIS maps;

➤ *Cost estimates and information on the budgetary impact of the activities*

The amount of KM 1 million will be spent for project of support to development of entrepreneurial zones, while the amount of KM 0.15 million will be allocated from the budget for establishment and development of business support institutions. Additional support to increasing SME competitiveness is planned through a credit-guarantee fund from the budget in the amount of KM 1 million, and loan funds in the amount of KM 2 million, as well as the amount of KM 3.03 million from the current transfers for awarding incentives in order to improve SMEs competitiveness. Regulatory activities will not require any additional costs since they will be part of regular activities.

The Law on Tourism and the Law on Catering, and the number of accompanying by-laws, will have neutral impact on budget. The Law on Tourist Fees in FBiH entails regulation of the system and its effect on budget revenues is expected to be positive.

➤ *Expected impact on competitiveness*

There are many studies showing that the improvement of business environment has a positive impact on competitiveness of the economy.

➤ *Expected social outcomes, including employment-related outcomes*

Positive impact on employment

➤ *Potential risks associated with the implementation and planned actions*

There is a potential risk to the setting up of the SME Agency.

#### **4.3.5. Research and innovation**

A small country with limited resources such as BiH can successfully build its prosperity only by developing economy based on technology and innovation. It should not reduce its business framework to narrow, regional perspectives but rather think in global terms. Higher education, science, research and technological development in BiH, as a common set of activities, must become a national priority, with the ultimate goal of achieving the standards applicable in the EU.

To this end, it is recommended that science and technology should be in forefront of fight against the economic crisis, and to support the real sector in order to expand the innovative capacities and

competitiveness abilities of enterprises, particularly micro, small and medium size enterprises, namely by:

- Providing additional funding for science and technological development;
- Streamlining science, research and development projects in the needs of the economy, strengthening public science and research institutes and university institutes and their collaboration with industry;
- Enhancing scientific, research and technological infrastructure (equipment, facilities, systems, laboratories);
- Increasing financial "start-up" assistance for high-tech enterprises;
- Controlling quality of imported goods using the laboratories at universities and institutes;
- Increasing the involvement of experienced professionals in the industry with additional co-financing of their work.

When it comes to Bosnia and Herzegovina, the answer should be sought, *inter alia*, in accelerated development and application of science and technology in the real sector with a view to expand the innovative capacities and competitiveness abilities of BiH enterprises, i.e. to utilise more the three universal factors: the meaningful investment of available financial resources; the efficient use of the existing knowledge; and the direction of political will to address the problems using knowledge.

BiH can become internationally competitive and achieve strong economic growth primarily if it has internationally competitive generation and distribution of knowledge.

The re-establishment of effective research and technological development systems in BiH entails full support from all actors, particularly decision-makers at all levels of government because only then it will be possible to successfully develop the "triangle" of a country's successful future: education – science - economy, with positive participation of the government (politics) as a catalyst.

#### **4.3.5.1. Improving the efficiency and effectiveness of science research and innovation system**

This reform is proposed/implemented by the Government of Republika Srpska.

There have been significant steps forward in the area of research and innovation in the previous period in terms of institutionalisation of this area, organisation of the science and research work and technological development, introduction of modern criteria for co-funding of the programme activities and improving the quality of scientific research and innovativeness. However, institutional framework should be further advanced to be fully aligned with good European practices. Additional challenges are the lack of regional cooperation; insufficient number of researchers and a pronounced brain drain; low level and quality of scientific productivity; the lack of cooperation of scientific, research and innovation community with industry; modest investment in scientific and research development; the presence of bias in assessment; and lack of interdisciplinarity. The area of technological development is characterised by a pronounced gap between the abilities of industry to absorb new technological solutions and the lack of awareness of decision makers on the importance of innovation and need to utilise modern technological solutions. Higher education institutions do not have a systemic approach to innovation while the industry does not invest in research centres to promote the development of innovativeness. This results in an insufficient level of innovative activities, obsolete technological solutions in industry and less than creative adaptation to the existing global technologies. Recommendation of the Evaluation of Integrated Policies<sup>84</sup> is to treat strategic challenges by targeted policies aimed at developing the quality of scientific and innovation results, capacity building and clear priority setting. The key obstacles to growth and competitiveness are the following: Lack of scientific productivity and international visibility of researchers; Lack of funds to strengthen research and innovation capacities; Underestimation of the budget financing of scientific and research activities; Weak connections between the real sector and scientific and research community; Insufficient interest of businesses in scientific and research results and low investment of the business sector in research and development; Mismatch between study programmes, enrolment policies and the need of the real sector; Underdeveloped training programme for researchers to be included in international research

---

<sup>84</sup> Policy Mix Peer Review Reports – Background Report of Bosnia and Herzegovina, 2016.

area; and Mismatch between policies and regulations of science and technology and policies and regulations in the field of higher education.

In this regard, the key reform measure of the Government of Republika Srpska in 2017 in the area of research and innovation is:

1. Improving the efficiency and effectiveness of science research and innovation system with a view to make them applicable in industry and significant improvement of competitiveness of the economy of Republika Srpska.

By encouraging science and research quality and innovation, we will develop good administrative capacities, which are necessary for successful implementation of research and innovation projects, together with the international partners. We will create conditions for closer cooperation with foreign countries, scientific exchange, cooperation with industry, and attract foreign students. We will encourage mobility of researchers and innovators as a way of acquiring new knowledge and skills, as well as gaining and exchanging experiences. We will create such business climate so as to stimulate enterprises to increase their demand for innovative solutions and research projects by using financial and non-financial tools. We will foster scientific, research and innovative organisations to increase their revenues through the protection of intellectual property rights, contracts on the use of the existing or development of new technologies, and through consulting services. We will encourage smart specialisation, which will serve to recognise our potentials and development of emerging industries. The following activities will be implemented in 2017: the adoption of the Republika Srpska Strategy for Science and Technological Development; the development of the Study on the Establishment of the Fund for Science and Innovation of Republika Srpska; and the analysis of the existing legal framework and identification of the necessary amendments in line with the reform objectives. For the purposes of the Republika Srpska Strategy for Science and Technological Development 2017–2021 and implementation of the proposed measures in the coming years, we need to make a special financial study with projections of possible funding sources and the assessment of acceptable scenarios. The fiscal effects of the proposed reform measures will be visible in the long run, given the specificity of investment in research and development. Within two or three years, through increased research capacities of human resources, financially measurable benefits will be revealed, in terms of the reduced need for the budget support to scientific and research activities and the increasing interest of the real sector in taking over most of the funding, which is expected to result in the same proportion of the budget savings. The second type of financial effects relates to the business sector, which will generate considerable financial benefits by engaging the researchers. Moreover, the use of innovative processes or products, acquired or developed within the business entity, has a strong financial impact and results in intensive growth and development. This leads to the additional effect – higher income means greater possibility of investing funds in research and development, thereby continuing the circle of positive activities in this area, but also spilling over from the real to the academic and research sector. The main risks to the implementation of the defined measure are conditioned by prioritising social sector at the expense of the development component; Negative trends of investment in research, development and innovation by the public and the business sector; Poor support to innovative enterprises; Inadequacy of legal and by-legal solutions related to research, development and innovation; Lack of interest of researchers to find solutions to concrete problems and focus on theoretical research; Inadequate legal framework to protect the intellectual capital or lack of measures and capacities for its implementation; and overly ambitious plans and projections set inconsistently with real capabilities. This measure is fully consistent with the vision of the higher education development and the Education Development Strategy of Republika Srpska for 2016–2021; the Industry Development Strategy and Policy of Republika Srpska 2016–2020; the Strategy for SME Development of Republika Srpska 2016–2020; the Foreign Investment Encouragement Strategy of Republika Srpska 2016–2020; the Strategic Plan for the Development of Agriculture and Rural Areas of Republika Srpska 2016–2020; the Strategy for forestry Development of Republika Srpska 2011–2021; The South East Europe 2020 Strategy; The West Balkans Regional Research and Development Strategy for Innovation; and the priorities of the European Research Area.

#### **4.3.6. External trade and investment facilitation**

Although the local authorities are not obligated to harmonise legislation in the area of foreign direct investments with the European Union (EU), articles 70, 87 and 91 of the Stabilisation and Association Agreement with the EU envisage cooperation in terms of gradual harmonisation of local laws and future legislature with the EU *acquis communautaire*, implementation of economic reforms aimed at

strengthening the economy, business environment and economic policies, as well as creating a favourable environment for investments.

The Law on Foreign Direct Investment in Bosnia and Herzegovina lays down the meaning of primary categories, procedure of foreign direct investment, the rights, privileges and obligations of foreign investors, resolution of disputes and implementation of the Law. Along with the stipulations of this Law, the legislative framework for FDI in BiH also consists of the implementation legislation and 42 current bilateral Agreements on Promotion and Protection of Foreign Investments. Although a liberal and open approach to foreign direct investment was adopted with this framework in 1998, some pragmatic limitations were identified over time.

Consequently, the BiH Ministry of Foreign Trade and Economic Relations has, through its activities, demonstrated its commitment to work towards the world's best practices, including a new system of passing regulation which was established by the European Union. In terms of improving the regulatory framework, enhancing the business community and creating a more favourable environment for foreign investors, the Ministry has, on two occasions in the period from 2010 to 2014, implemented reviews of the effects of legislative changes relating to the area of foreign direct investment. These activities resulted in the simplification of the procedure for registering companies with an element of foreign direct investment, which includes shorter registration periods and reduced registration costs, as well as a very significant emphasis on liberalisation in terms of investment in dedicated industry and the media.

What sets these reforms apart is the fact that, in addition to from government and non-government institutions, the process also includes the private sector, as well as all other stakeholders - whether they are from the state, entity, cantonal or local level, direct and indirect beneficiaries, current and potential foreign investors, expert opinion providers on promoting foreign direct investment, and all others who wish to contribute to creating a favourable environment for potential investors.

Future steps will focus on creating an improved business environment through securing accurate and reliable inputs on the height of foreign direct investment based on which we can monitor inflows and outflows of foreign capital, analyse the situation and undertake any other measures with the goal of attracting new and keeping current investors. Our goal is to collect in one place the information on the amount of foreign capital invested in the economy disaggregated by various parameters including specific time and other frameworks, on which we can base reliable statistical reports for the purpose of analyses and/or informing other institutions. Apart from that, in the following period the Ministry will, in cooperation with FIPA, take active part in the preparation of the "Framework Strategy for Attracting and Promoting Foreign Direct Investment 2016-2020."

### ***Republika Srpska***

According to relevant international reports, there has been a drop in foreign direct investment at the global level, due to international developments. The situation in Republika Srpska is similar to that in countries of the region. Following annual trends going back a few years, the amount of investment is on a similar level and varies between KM 100 million and 400 million annually. The specific methodology of monitoring amounts of foreign investment should also be considered, as it does not take into account specific categories of investment (for example, loan funds from abroad, excluding funds from foreign founders). Following the number of registered companies with foreign investment in Republika Srpska, one can observe an upward trend. In 2014, 131 legal entities with foreign investment were founded. In 2015 that number was 186, whereas by 30th September of 2016, 143 legal entities with foreign investment were founded. The area of sub investment support is subject to variations of a series of factors, which are the key obstacles to growth and development: it is sensitive to international, regional and internal movements, such as global economic or political crises. The limiting internal factors that can be influenced are all elements of the business climate.

The BiH Law on Foreign Trade Policy was passed in 1998 and was only slightly amended in 2004. Article 28 of the Law refers to the commercial activities abroad and stipulates that all business entities must obtain authorisation from entity ministries of trade to invest monetary funds abroad if they wish to establish a company abroad or purchase or increase share capital in a company abroad. The procedure of issuing a licence to invest funds abroad in order to establish a company abroad or purchase or increase share capital in a company abroad can last anywhere from 15 day up to a few months, which represents an administrative barrier, i.e. an obstacle, to the free movement of capital, one that results in the loss of competitiveness of our companies.

#### **4.3.6.1. Speeding up the process of BiH's accession to WTO**

This is the reform proposed/implemented by the BiH Council of Ministers.

##### **BiH Council of Ministers - BiH Ministry of Foreign Trade and Economic Relations**

It is well established that for a number of years Bosnia and Herzegovina has been in negotiation to join the World Trade Organisation (WTO), as part of the trade integration processes. Accession to the World Trade Organisation (WTO), i.e. inclusion of BiH in the global multilateral trade system, is a highly complicated process that demands years of negotiation, implementation of numerous reforms, passing of series of laws, establishing new institutions and finding the most favourable solutions for the country in the process of accession, all with the aim of its active and equal participation in international trade flows.

This is a demanding process that should, through implementing reforms on the national level, ensure that the local economy is prepared for competitiveness in the open market at the global level which was an additional difficulty at the time this process was initiated, considering the highly complex constitutional structure of the country and non-existence of legislation in many areas as well as institutions for its enforcement.

At this time, the process of Bosnia and Herzegovina accessing the World Trade Organisation is in its final stage. In that sense, the reform process in the area of trade legislation is almost completely finalised, demonstrated through the realisation of the "Legislative Action Plan" (LAP), with remaining minor open issues. Of course, the process of trade legislation reform in Bosnia and Herzegovina will not end there, but will continue through an even deeper integration process with the EU by implementing the Stabilisation and Association Agreement (SAA).

The segment of negotiations which refers to the area of local incentives in agriculture has been completed and there is further work to be done in that area in order to harmonise agricultural incentive policies in all government levels in BiH in accordance with accepted obligations within the WTO accession negotiations, which should, in the immediate future period, prepare the sector of agriculture in Bosnia and Herzegovina for open market competition at the global and regional level.

Apart from the above, Bosnia and Herzegovina's accession process to the World Trade Organisation also encompasses bilateral negotiations to access the market in the area of goods and services, within which Bosnia and Herzegovina is, as are all other countries undergoing the process, obligated to lower customs rates and liberalise access to the services market bilaterally to all interested individual members of the WTO which will, in the final phase after consolidation, be implemented on an MFN basis (to all WTO members at the same time). In this area, negotiations are still ongoing with: the Russian Federation, Ukraine and Brazil, within which it is necessary to avoid further opening of the market of goods and services on an MFN basis, which would result in further deepening of Bosnia and Herzegovina's trade deficit.

#### **4.3.7. Education and skills**

BiH has a high unemployment rate, especially when it comes to youth, women and persons with disabilities. According to the Labour Force Survey for 2016 issued by the Agency for Statistics of BiH, the unemployment rate is 25.4%, whereas it was 27.7% in 2015, making BiH the country with the highest unemployment rate in the region.

The unemployment rate for men is 22.5%, and for women it is 30.0%. The majority of the unemployed in BiH have completed secondary education, followed by those who have completed primary education and those with lower education. The lowest unemployment rate is recorded among persons with university diplomas.

Considering that challenges in the labour market continue to stand in the way of opening new jobs, there is an urgent need to remove employment barriers, in terms of increasing the flexibility of the labour market.

In order for learning results in education to successfully meet current and future demands of the labour market in terms of skills, there is a need for modern education institutions with enough autonomy to provide education and develop skills for different groups.

This is particularly valid in the area of adult education. For that reason it is necessary to continue building institutional and human resources in the sector of education, in order to enable institutions to meet the needs of the population regarding accessing the labour market.

In that context, the dominant goals are developing and implementing a suitable qualification framework and establishing a system for ensuring quality in all education levels, as well as facilitating recognition of qualifications.

#### *4.3.7.1. Improving links between education and labour market*

This reform is proposed/implemented by the BiH Council of Ministers, the Government of the Federation of BiH and the Government of Republika Srpska

##### **BiH Council of Ministers – BiH Ministry of Civil Affairs**

In order to remove barriers to the main drivers of economic growth, from the aspect of education it is necessary to improve development of new policies in terms of building and enhancing skills, competences and knowledge. The labour market is incessantly demanding new and adaptable work force. Education should answer all these demands. In that sense, it is necessary to improve the existing and prepare new strategic documents in all levels of government, with the goal of modernising and integrating BiH's educational systems into the European educational system. On that note, there are strategic documents at the BiH state level which represent a basis for further education enhancement. The current documents are: Priorities for 2016 – 2026 Higher Education Development in BiH, Action Plan for the Development and Implementation of the Qualifications Framework in BiH for the Period 2014-2020, Strategic Adult Education Development Platform in the Context of Lifelong Learning in Bosnia and Herzegovina for the Period 2014-2020 and Principles and Standards in the Field of Adult Education in Bosnia and Herzegovina.

Expired strategies (Strategic Directions for the Development of Education in Bosnia and Herzegovina, with the Implementation Plan 2008-2015, Strategy for Vocational Education and Training in BiH for the Period 2007-2013 and Strategy for Entrepreneurial Learning in Education Systems in Bosnia and Herzegovina) need to be revised in accordance with the report on their implementation and the process of European integration in the area of education and skill development and labour market trends.

BiH places priority on reforming professional and higher education. The priority for relevant institutions of education in the future period is to develop study programmes and curricula based on learning outcomes and to develop quality assurance in professional education. It is necessary to improve the conditions for the education process, establish partnerships of schools, institutions of higher education and employers, motivate all participants of these processes to take part in trainings and enhance professional training of teachers. Further development of the Lifelong Learning Qualification Framework in BiH would enhance and facilitate more direct networking of the sectors of education, labour and employment. It is well-known that qualification frameworks encompass the development of knowledge, skills and competences based on learning outcomes and represent an answer to the demands of the labour market. In that regard, it is essential to also work on validating non-formal education and informal learning.

In the sense of improving the chances of young people for inclusion in the labour market, first and foremost it is necessary to harmonise enrolment policies in secondary vocational and higher education, and then to develop career counselling.

##### **Government of the Federation of BiH**

The gross domestic expenditures for research and development in FBiH in 2014 were KM 46.699 million, of which KM 34.958 million are current expenditures (74.86%), and investment expenditures were KM 11.741 million (25.14%). Gross domestic expenditures for research and development in 2013 were KM 35.7 million, and in 2012 they were KM 27.996 million. In FBiH in 2014 the largest share of expenditures was for research and development in higher education, amounting to KM 37.727 million (KM 26.1 million in 2013). Expenditures for research and development in the business sector in 2014 amounted to KM 2.009 million, which is lower than in 2013 (KM 6.7 million), whereas the same expenditures in the government sector in 2014 amounted to KM 6.96 million (KM 2.7 million in the previous year). The largest expenditures in FBiH in 2014 were for the area of Engineering and Technology (45.60%).

Based on the official data of EUROSTAT, agencies for statistics in countries of South-Eastern Europe, as well as data of entity-level institutes of statistics in BiH for 2015, it is visible that FBiH's

productivity stands at 30% of the EU 28 average, which is significantly connected with the education and training system. It is necessary to remove obstacles to the key drivers of economic growth, and one of the most important drivers in the improvement of competences, knowledge and skills of the work force, along with better and more direct cooperation of employment agencies on the one side and chambers of commerce and employers on the other side.

➤ *Short description of measures*

The Federal Ministry of Education and Science has completed its preparation activities for the establishment of the Student and Education Staff Mobility Fund in the Federation of BiH. The text of the Decision to Establish the Fund/Foundation received opinions from the Division for the Harmonisation of BiH Legislation with the EU *acquis*, the Federal Ministry of Justice and the Federal Ministry of Finance.

The Ministry also co-funded student and education staff mobility in 2016 with modest budget funds. Activities were implemented through the programme of support to the programme of international academic and student mobility and exchange through multilateral cooperation and agreements in the area of higher education (CEEPUS etc.), as well as bilateral cooperation and agreements in the area of higher education. However, the mobility rate is still low, an increase being expected as a result of the establishment of the Mobility Fund.

Through the realisation of the project of establishing the Mobility Fund, a higher level of harmonisation with the needs of the labour market will be ensured by means of the career guidance project.

The document Strategic Principles of Career Guidance 2015-2020 has been prepared, as well as an Action Plan for its implementation. In cooperation with cantonal agencies and the Federal Employment Agency, the enrolment policies for secondary schools, universities and enrolment quotas for public secondary schools and universities will be coordinated. Emphasis will be placed on focusing secondary education on professional skills with the goal of harmonising them with employment opportunities and economic needs through the preparation of a career guidance model.

➤ *Activities per year*

2017

- Establish the Student and Education Staff Mobility Fund which will focus on supporting activities aimed at forming education departments that will conduct classes in the English language, with staff training and promotion of mobility programmes and good practices.
- Prepare a career guidance model in cooperation with the cantons, focusing education on the labour market and connecting learning and education outcomes with demands of the labour market.
- Guidelines for preparing and adopting textbooks and other teaching resources for primary and secondary schools (adopted by coordination of ministers). The goal is to arrive at the best quality of textbooks in order to contribute to a better quality of the education process and better integration into the labour market.

2018

- Attract the intellectual and scientific potential of the diaspora and facilitate the visa regime for students, researchers and science professionals in order to improve student and academic mobility and include the scientific potential of the diaspora into the education process.

➤ *Cost estimates and information on the budgetary impact of the activities*

The costs of implementing this reform measure are covered within the FBiH Budget and annually amount to: KM 0.9 million for 2017, KM 0.87 million for 2018 and KM 0.86 million for 2019.

➤ *Expected impact on competitiveness*

The expected impact on competitiveness is positive.

➤ *Potential risks associated with the implementation and planned actions*

Potential risks include the challenge of coordinating with ten cantonal education ministries.

**Government of Republika Srpska.** Daily changes of the demands of the labour market require a work force that will be able to change its knowledge, skills, competences and qualifications, because the lack of that ability is often one of the main reasons for unemployment. The process of evaluating non-formal

and informal learning has not been developed yet. Therefore, in the future period it is important to create the prerequisites for its organisation. The connection between education and the labour market and economy is still weak, both within Republika Srpska and in the frameworks of the broader region and the EU. Vocational secondary education must provide the individual with the ability to navigate in and constantly adapt to the labour market. One significant activity in the future period will be focusing on capacity building of three-year vocational schools, as a direct response to the needs of the market, especially considering the fact that future secondary school students show progressively less interest in three-year vocational education each year, whereas the needs of the market are progressively increasing. The teaching process in education of students of three-year vocational schools will be improved through a reallocation of the number of classes in a way that will increase the number of practical classes while decreasing the number of general education and theoretical subjects. Vocational secondary education plays a vital part in development of human resources with the goal of achieving economic growth and employment, and therefore it must capacitate the individual with quality knowledge, skills and competences needed in the labour market. With the aim of improving vocational secondary education, the Republika Srpska Strategy of Education Development for the Period 2016–2021 foresees a series of measures and activities focused on improving secondary education, and one of the next steps will be to improve the work of the Republika Srpska Pedagogical Institute and the Institute of Adult Education. The hyper production of low quality highly educated personnel that is not competitive in the market, lack of interest in scarce occupations, lack of recognisability in the international labour market, are the key obstacles for higher education in Republika Srpska. Autonomy of universities means that every university adopts an act that prescribes the conditions of selection and advancement towards scientific and educational titles, whereas the minimum conditions are prescribed with the Law on Higher Education. Universities are responsible for their own ratings and competency of their teaching staff. Only improved criteria and a more competent teaching staff can enable better quality and positioning of graduates in the labour market. Due to a relatively low number of highly educated personnel and an underdeveloped labour market, it is necessary to respect the fundamental joint conditions of evaluating the quality of work and advancement of university teachers to higher scientific and educational titles. The issue of educating young scientific and research staff, especially PhDs, is especially important. Reform of doctoral studies does not only include a change of the structure of studying and fitting into the framework of the Bologna process, but also a change within institutions of higher education and their research and education policies, as well as education based on competencies for the needs of the labour market, cooperation of universities with the public and private sector, and systematic development of research staff, not only for the needs of the academic market, but also for the needs of other sectors and the labour market. To that end, joint responsibility and attention should be dedicated to the third cycle of studying, because a PhD title acquired without actual scientific and research work is a very bad investment for the future. Based on all of the above, the key obstacles to growth and competitiveness in this area can be identified as: inertia of institutions of higher education in implementation of intensive changes in accordance with a long, expensive and complex process of changing the existing study programmes and introducing new ones; overload and lack of elasticity of the labour market; and lack of financial funds at the level of institutions of higher education.

Based on the identified key obstacles, the key reform measure of the Government of Republika Srpska in 2017 in the area of education and skills is:

1. Improving links between education and the labour market.

Improving links between education and the labour market will be realised through analysing the needs of the labour market and the real sector for the purpose of harmonisation with the policy of enrolment in secondary schools and institutions of higher education, as well as through improving direct cooperation and harmonisation with the needs of economic development and the labour market by strengthening entrepreneurial and innovation components in the area of secondary and higher education. In order for the acquired qualification to match the requested competences of the work place, it is necessary to take into account all practical aspects. Occupational standards are criteria which an individual has to fulfil to be able to perform a specific job, and technological development demands continuous harmonising and development of new standards in accordance with development of the economy. Updating of standards should be performed on initiation by the employers, institutions of education and social partners. The roles of vocational secondary schools, participants and bodies that will serve as a link between vocational secondary education and the labour market will be defined. The main carriers of this process are Advisory Councils of vocational secondary schools which are consisted of representatives of employees, employers and the local community. Each vocational school forms an Advisory Council in accordance with professions and occupations for which it provides

education. The Advisory Council assists the school in planning curriculum, provides council to the school on issues regarding the practical classes and helps strengthen the link between the school and the local labour market, all with the goal of ensuring an adequate education system which concurs with the needs of the labour market and developmental goals. Strengthening the role of the Advisory Council will create the conditions for starting an initiative to introduce new occupations, revise the existing occupation nomenclature and modernise existing professions. Analysis of data on the needs of the labour market by the Chamber of Commerce of Republika Srpska, the employer and the Employment Institute of Republika Srpska will help determine the personnel needs in the future period. Enhancement of the link between employers and vocational secondary schools will be realised continuously by forming a competent body at the Government level, in which the Chamber of Commerce of Republika Srpska will play an active part, with the aim of enhancing the link between vocational education and the labour market. Employers will be engaged in the course of preparing modular programmes in the period 2017–2020, who will ensure that student have enough practical classes in companies. Presently, it is not possible to estimate the fiscal effects, considering that the measure will be realised in the medium term period. Increasing the efficiency of the labour market will significantly influence the competitiveness of the economy of Republika Srpska, whose end goal is to reduce the unemployment rate. The process of amending curricula, study programmes and generally improving the quality of the teaching personnel is long, complex and depends on significant financial funds, which can be a potential risk in the implementation of this measure. The end goal of the defined measure is to enhance education and the labour market, i.e., indirectly, to reduce the unemployment rate in Republika Srpska.

#### 4.3.8. Employment and labour market

The labour market in Bosnia and Herzegovina is still marked by a high unemployment rate, an extremely high unemployment rate of youth aged 15 - 24, significant share of economically inactive persons among the population capable of work, significant share of persons with completed secondary education in the structure of the unemployed, high rate of long-term unemployment and low mobility of the labour force. The unfavourable situation in the labour market is first and foremost a consequence of low creation of new jobs and the lack of coordination of the education with the needs of the labour market, i.e. the need to develop knowledge, skills and competences necessary to meet the complex and variable demands of the labour market.

##### 4.3.8.1. Improving the labour market efficiency

This reform is proposed/implemented by the BiH Council of Ministers, the Government of the Federation of BiH and the Government of Republika Srpska

##### **BiH Council of Ministers –Ministry of Civil Affairs of BiH**

According to data of employment agencies and institutes in Bosnia and Herzegovina, on 30<sup>th</sup> September 2016 there were 514,935 registered unemployed persons, which is 1.1% less than on 31<sup>st</sup> August 2016, and 4.6% less than in the same month of 2015. Out of the total number of persons seeking employment, 270,933 or 52.6% are women. The largest number of registered unemployed persons is consisted of those with third level of education skilled workers 33.2%, and persons with secondary education 28.1%. Out of the total number of registered unemployed persons, persons with higher education (two-year college qualification and university qualification) make up 9.4%. In comparison with the same period of the previous year, the number of unemployed persons continuously declined during the first nine months of 2016.

According to administrative data of the Agency for Statistics, in the period from January to August of 2016 the number of employed persons continued the trend of increase in BiH. The number of employed persons in BiH in August of 2016 was 727,255<sup>85</sup> which is an increase of 1.7% in comparison to the same month of 2015. The increase of the number of employed persons contributed to the decrease of the unemployment rate, which stood at 41.7% in August of 2016 and was reduced by 1.5 percentage points in comparison to August of 2015. *By comparing 2016 with 2015, we can state that there is a positive trend of developments in the labour market substantiated by a reduction of the number of registered unemployed persons and an increase of the number of employed persons.*

---

<sup>85</sup> Source: Agency for Statistics of BiH, First Release No. 8 – Employment by activity, August 2016.

According to results of the Labour Force Survey for 2016,<sup>86</sup> the work force (economically active population) in BiH consists of 1,074,000 persons, whereas the number of non-active persons is 1,415,000. Within the work force, 801,000 are employed and 273,000 persons are unemployed. Standing at 25.4% at the level of BiH in 2016, which is 2.3% less than in 2015, the survey rate of unemployment is significantly lower than the registered rate of unemployment. The employment rate in 2016 was 32.2%, which, compared to 2015, is an 0.3% increase. According to this survey, the gender structure of unemployment is: 54.9% men and 45.1% women.

The education structure of unemployment indicates that the largest share of unemployed persons are persons with completed secondary education at 70.1%, 16.6% are persons with primary education or lower, whereas 13.4% have completed higher post-secondary education (college), university, academy, masters and PhD.

During 2016, relevant institutions in BiH have prepared a Sector Planning Document (SPD) entitled Employment, Education and Social Policy, the purpose of which is to ensure a strategic framework for planning and programming IPA II in BiH in the sector of employment. The SPD for employment, education and social policy is focused on proposing interventions which will ensure an increase of the number of employed persons in Bosnia and Herzegovina through activities in the area of education and creating inclusive employment, as well as mitigating the effects of decrease of the number of existing jobs.

In its 60<sup>th</sup> session held on 14<sup>th</sup> June 2016, the BiH Council of Ministers adopted the information of the Directorate for European Integration on the possibilities for using the Sector Budget Support of IPA II and sector strategic documents needed to use IPA II. With the goal of realising the conclusions of the Council of Ministers from the aforementioned session, relevant institutions in BiH began preparing a proposal of an action document, i.e. the Sector Reform Contract (SRC) for employment, which would be financed from the IPA 2017 programme for using Sector Budget Support, and which is to be delivered to the European Commission by 15<sup>th</sup> December 2016.

*In the context of new challenges expected in the labour market, the following activities are suggested to relevant institutions in Bosnia and Herzegovina:*

To continue the process of harmonising regulations in the area of labour, employment etc., which relate to labour market policies, in order to enable work force mobility;

- Amend curricula in accordance with the needs of employers and enhance the quality of education so that graduate students will possess the required knowledge fund, skills and competences;
- Enhance the system of statistical indicators with the goal of improving the process of monitoring labour market developments;
- Adopt a transparent and efficient model of informing the public in labour market developments;
- Amend the existing regulations (regarding the link between health insurance and unemployment status, payment of benefits, etc.),<sup>87</sup> in order for employment agencies to focus their activities on implementing and monitoring active employment measures and individual work with unemployed persons;
- Enhance cross-sectoral cooperation (sector of labour and employment, education, private sector, social partners, etc.), as well as capacity-building in institutions and services;
- Ensure tripartite representation of social partners in management boards of employment agencies, cantonal employment institutes and funds for employment of persons with disabilities at government levels in which that has not yet been achieved;
- Enhance the system of lifelong learning by adopting regulation in government levels in which that has not yet been completed and implementing them.

**Government of the Federation of BiH.** The labour market in FBiH is characterised by a very low labour force activity rate, which stood at 44.1% in 2015 (in EU 28 countries, this rate is 66.0%). The employment rate in 2015 was 27.9% (measured in relation to population capable of work in accordance

---

<sup>86</sup> Source: Agency for Statistics of BiH, Labour Force Survey 2016.

<sup>87</sup> Passive measures of the labour market are more represented than active measures, because of the lack of administrative and financial capacities of entity governments and public employment services to implement active measures in the labour market, and their oversaturation with registered beneficiaries who are not actively looking for employment.

with Eurostat methodology – registered employment). FBiH has the lowest employment rate<sup>88</sup> among countries in the region. The employment rate in FBiH (27.9%) is two and half times lower than the European average (70.1%). Out of the countries in the region, Slovenia has the highest employment rate at 69.1%.

Unemployment is one of the biggest challenges with which FBiH is faced. Two fifths of unemployed persons in FBiH have been unemployed for more than five years, while only a quarter has been unemployed for less than a year. The issue is not cyclical, but structural unemployment where the chance of reemployment is very low. Young people are especially affected as they do not manage to enter into the labour market for years. However, what is especially worrying is the large number of young people with no qualifications whatsoever. In 90% of published job ads employers require additional knowledge and skills not possessed by young people who have just completed their education process. The majority of registered unemployed persons are young people with third degree education (secondary) with inadequate qualifications, outdated knowledge and skills for which there is no demand in the labour market. On the other hand, there is little or no interest among students to enrol in specific vocational qualifications that are highly demanded. A significant reason for unemployment is the insufficient number of jobs in the labour market and inferior position of young people without work experience.

The unemployment rate (registered unemployment) in 2015 was 46.4%, and in 2014 it was 46.9% (measured by the number of unemployed persons in relation to the labour force).

The majority of employment programmes which were implemented in FBiH were focused on unemployed young people up to 30 years of age and without work experience. Allocations for employment incentives in 2015 were larger than in the previous period. In that way FBiH is realising a positive trend of investing into employment programmes, although the sustainability of this form of stimulating employment is highly uncertain. Over the past four years, FBiH recorded a trend of mild increase of allocations for employment programmes, except in 2008 when there was a sudden drop in the percentage of 68.4% and in 2009 when the drop amounted to 45.6%. The main reasons for the unsatisfactory situation in the area of employment are the lack of structural reforms, relatively high tax burden on labour, low level of investment and low competitiveness of the local economy.

#### ➤ *Short description of measures*

The foundation of this reform measure is the high unemployment rate among young people, women and socially vulnerable categories. The low activity rate among the population capable of work in the Federation of BiH on the one side, and the failure to harmonise the education system in accordance with the needs of the labour market on the other, demand a new approach to promoting employment, stimulating the demand for labour force by giving incentives to employers, promoting self-employment, strengthening the capacities of public employment services and enhancing their functionality. The final goal, apart from increasing employment and enhancing the work of employment services, is also to stimulate the development of the private sector and suppress the gray economy. To that end, the Employment Support Project in FBiH sets out the following objectives until 2020:

- Increase employment through enhancing the employment programmes for different categories of unemployed persons implemented by public services of employment. This relates to categories of young people (15-30 years of age), women, socially vulnerable categories, as well as unemployed persons aged 40 and over. The Project also includes stimulating self-employment, excluding self-employment in the area of agriculture.
- Increase employment through enhancing services of mediation in employment. The goal of this component of the Project is to enhance services of mediation in employment provided by federal and cantonal employment services, by introducing a new Rulebook on Active Job Seeking with an emphasis on profiling the unemployed, investing in mediation services, capacity building, introducing new systematisations and modernisation of employment services.

Apart from the above, planned activities also include amendments to labour-related legislature pertaining to strikes, work safety and protection. The goal is to avoid misuse and damage that both

---

<sup>88</sup> The average employment rate in 2015 in EU 28 was 70.1%, in Bulgaria 67.1%, Romania 66.0 %, Hungary 68.9% and Slovakia 67.7%

employers and employees can suffer in cases of work stoppages that could have been prevented by dialogue and arbitration.

➤ *Activities per year*

2017

- Implement employment and self-employment programmes aimed at young people, women and other vulnerable groups of the unemployed
- Law on Amendments to the Law on Mediation for Employment and Social Security of Unemployed Persons, with which the amount of the cash benefit for unemployment will be linked to a percentage of salary of each unemployed person
- Rulebook on Records in the Area of Employment
- Law on Strike
- Law on Security and Safety at Work
- Law on Peaceful Resolution of Labour Disputes

2018

- Implement employment and self-employment programmes aimed at young people, women and other vulnerable groups of the unemployed
- Prepare an annual report on the effects of the Programme of Active Labour Market Measures, with the goal of increasing employment

➤ *Cost estimates and information on the budgetary impact of the activities*

The overall value of the Employment Support Project is KM 110 million, financed partly from a World Bank credit and partly from budget funds.

➤ *Expected impact on competitiveness*

Employment programmes provide support to employers, which in turn influences an increase in their competitiveness in the market. The expected effect of improved legislature pertaining to strikes, safety at work and peaceful resolution of disputes is positive.

➤ *Expected social outcomes, including employment-related outcomes*

It is to be expected that this reform measure will lead to an increase in the number of employed persons in FBiH. Increase of employment contributes to vulnerable groups and their families being lifted from poverty, prevents young people from leaving the country, and influences the economic empowerment of women by creating equal opportunities and equal access to the labour market.

➤ *Potential risks associated with the implementation and planned actions*

Uncertainty of adoption of laws in parliamentary procedure and possibility of securing credit funds to finance employment stimulation.

**Government of Republika Srpska.** Analysis of the situation in the labour market points to insufficient flexibility and low efficiency of the labour market, which result in a low level of activity and employment, a high rate of long-term unemployment, limited opportunities for integrating young people into the labour market. It is also evident that the public employment service is inefficient and not ready to meet the challenges of the labour market. In that regard, the key obstacles to growth and competitiveness are: undeveloped intermediary role of the PI “Republika Srpska Employment Institute”, weak efficiency of active, and particularly passive measures in the labour market, and lack of networking and cooperation between key stakeholders in the labour market.

Based on identified key obstacles, the key reform measure of the Government of Republika Srpska in 2017 for the area of employment and the labour market is:

1. Improving the labour market efficiency.

Improving the efficiency of the labour market will be achieved through establishment of the intermediary role of the PI Republika Srpska Employment Institute, and networking of key stakeholders in the labour market. Measures initiated in 2017 will focus on: strengthening the intermediary role of the PI Republika Srpska Employment Institute; enhancing the legal framework and its harmonisation to the new Law on Labour; designing and implementing new active measures in the labour market of Republika Srpska; strengthening and developing social dialogue, and enhancing the

link of education with the labour market. Strengthening the intermediary role of the Employment Institute will be achieved through relocating records of health insurance and administration for unemployed persons to the Health Insurance Fund. In this way, the Employment Institute will fully perform the mediation function, ensure a better link between employers and active job seekers, enable better supply of the labour force and reduce informal employment. This activity will be realised by the adoption of amendments to the Law on Mediation in Employment and Rights during Unemployment and amendments to other regulations. Support to employment by means of incentives is set forth in the Employment Strategy, and priority will be placed on the long-term unemployed and persons with low employability. The Employment Action Plan will be prepared by the end of January of 2017. Strengthening and development of social dialogue is one of the key activities in 2017. Among other means, this activity will be enabled through normative harmonisation of the Law on the Social and Economic Council with the new Law on Labour. With the goal of achieving improved protection of labour rights, negotiations aimed at signing a new General Collective Agreement will continue in 2017. Apart from that, with the aim of harmonisation with the new Law on Labour, activities will be undertaken in 2017 that will focus on adopting amendments to the Law on Strike and Law on Records in the Area of Labour and Health Insurance. At the same time, an analysis will be conducted of the solutions set forth in the Law on labour, with the aim of removing any possible problems in its implementation. As part of enhancing the work of inspection bodies, special attention will be paid to labour inspection. With the goal of strengthening the intermediary role of the Employment Institute, an analysis of the financial possibilities for increasing the rights of unemployed workers will be conducted. The Government of Republika Srpska will work on strengthening and stimulating tripartite and bipartite social dialogue in accordance with international standards. In cooperation with the Trade Union Federation, Tax Administration of Republika Srpska and the Pension and Disability Insurance Fund, we will work on finding options to end the programme for social welfare of workers. In regard to the time frame for the realisation of this measure, the adoption of the Action Plan for Employment in Republika Srpska for 2017 and the Law on Amendments to the Law on the Social and Economic Council of Republika Srpska will be realised in the first quarter of 2017, as well as the analysis of the implementation of the Law on Labour. In the second quarter, the Law on Amendments to the Law on Mediation in Employment and Rights during Unemployment will be adopted, as well as the Law on Amendments to the Law on Strike. Harmonisation of the organisational structure of the Employment Institute with the adopted structural changes will be realised in the fourth quarter. At this time it is not possible to estimate the fiscal effects of the defined measure, because the effects are mostly indirect, but the increase of efficiency of the labour market will significantly influence the competitiveness of the economy of Republika Srpska. Adopting the Law on Amendments to the Law on Mediation in Employment and Rights during Unemployment, which was planned in 2016, depends on the adoption of the new Law on Health Insurance, which is the reason for the delay in the implementation of this measure. Reforms in the labour market require careful planning and gradual realisation of measures. Interventions in the labour market are extremely sensitive, because they directly influence the economic and social position of the entire population. On the one hand, positive changes in the labour market, in terms of increasing the number of employed persons, reducing unemployment and enhancing the quality of employment, can have a multiplication effect on the overall economic and social situation. On the other hand, negative consequences of implementing reforms in the labour market which can happen in case of reduced salaries of the employed, increased uncertainty of employment, increased instability in the labour market, can cause serious economic and social conflicts in society. All activities planned within the proposed measure, as well as the measure itself, are reflected in the Strategy of Employment of Republika Srpska for the Period 2016–2020.

#### **4.3.9. Social inclusion, poverty reduction and equal opportunities**

Jurisdiction over the area of social protection in Bosnia and Herzegovina lies at the entity and cantonal level, whereas the Ministry of Civil Affairs of Bosnia and Herzegovina has a coordinating role. Due to financial limitations in all levels of government, social protection rights prescribed in the laws of this area are not fully implemented in practice, meaning that some benefits are not paid, or their amounts are reduced. Social protection rights are usually identified based on status, which leads to inequalities in payments of social benefits. Social protection services lack the capacities to estimate the needs of vulnerable groups of the population, as well as the funds necessary to provide adequate support.

The economic crisis has increased social exclusion and risks to the realisation of rights to social protection of vulnerable groups, the most affected groups being persons with disabilities and the elderly, women from rural areas, young people and the long-term unemployed. A large share of the population is living in permanent poverty and/or social exclusion, which is related to the high unemployment rate, a large informal sector and low levels of education.

**Government of Republika Srpska** is implementing Reforms of the Pension and Disability Insurance System in Republika Srpska, which started with the adoption of the Law on Pension and Disability Insurance in 2000 and continued with repeated amendments to the law, as well as with the adoption of the new Law on Pension and Disability Insurance, which entered into force on 1<sup>st</sup> January 2012, and its amendments in September of 2013 and December of 2015. Due to the tightening of conditions for entitlement to old-age pension, the introduction of control mechanisms into the process of exercising the right to disability pension, as well as an expanding circle of persons for whom insurance is compulsory, the reforms have had a positive effect in terms of slowing the growth of the number of beneficiaries of rights, which stopped a negative trend of reducing the number of the insured in relation to the number of beneficiaries of rights. Although this indicator of the system was stabilized in the previous period, in the coming period it is necessary to undertake additional activities in order to increase the number of insured persons. Positive trends continued in the structure of pensions, in the sense that the proportion of old-age pensions in the total number of beneficiaries is increasing, while the percentage of beneficiaries of disability pensions is reducing. Positive trends are observed in the reduction of the number of recognized rights within one calendar year, especially when it comes to old-age and disability pensions. As for disability pensions, there has never been a smaller recorded number of recognized rights in one calendar year as in 2015. The positive trend of increasing the effective age of old-age pension beneficiaries, i.e. beneficiaries of old-age pensions with 40 years of pensionable service, and with 35 years of insurance, should also be noted. In order to ensure the regularity of the payment of pensions, amendments of the necessary legislation were adopted in 2015, and their main goal was the introduction of the Pension and Disability Insurance Fund of Republika Srpska into the treasury system as of 1<sup>st</sup> January 2016. The essence of the changes is to ensure greater safety in the timely provision of funds to pay pensions. The Reform Agenda envisages that the Government of Republika Srpska examines the need to reform the parameters of the pension system. The Government of Republika Srpska adopted the Analysis of Justification of Further Reform of Parameters of the Pension System in Republika Srpska, which shows that there are currently no justified reasons to further change the parameters of the pension system. However, until the end of the transition period, i.e. the end of 2024, it will be necessary to monitor all indicators and trends referring to the age limit for eligibility for old-age pensions with 40 years of pensionable service and 35 years of insurance, as well as the influence of regulations from the area of labour and, if positive trends come to a halt, reanalyse the option of possible gradual increase of the age limit from 60 to 62, or from 58 to 60 years of age. Key problems of the PDI system: unfavourable ratio of the number of insured persons and beneficiaries, incomplete collection of contributions, misuse of payment, informal or unregistered work and the informal economy. In that regard, it is necessary to undertake measures and activities aimed at increasing the number of insured persons in the real sector; maximally tighten the responsibility of the competent authorities for the collection of contributions, and to ensure consistent application of regulations governing labour relations, as well as regulations governing the area of taxes and contributions, and their collection, in order to prevent misuses in connection with payment of contributions that are manifested through non-payment of contributions, delays in payment of contributions and payment of contributions for most employees on the minimal legal basis.

In the area of social protection, based on the Analysis of the Functioning and Capacities of the Existing Network of Centres/Services for Social Work in Municipalities in Republika Srpska, specific problems have been identified which originate from the implementation of the Law on Social Protection, due to some procedures being unclear for some rights, we propose clear and precise formulation of each right, as well as problems connected to an increase in the number of applications of beneficiaries. This situation influences the lack of financial funds in municipal budgets, making regular payments of rights difficult. Problems which are related to citizens in the situation of social need, but are not recognised as beneficiaries in the system, and problems related to the lack of control mechanisms influence the imbalances in the development of social protection and, through that, of the position of beneficiaries. The number of beneficiaries is constantly increasing, but that increase is not accompanied by an increase of funding, so it is necessary to develop new efficient services for beneficiaries. Problems related to irrational expenses in some public institutions can be resolved through a rationalisation of expenses accompanied by more rational operations and promoting a mixed social protection system. Due to all of the above, it will be necessary to provide additional attention and perform additional analyses of developments in this area during 2017.

**Government of the Federation of BiH.** The number of pensioners in FBiH is increasing every year. The total number of pensioners in December of 2015 was 402,044, which is a 1.8% increase relative to the previous year. In the period 2010 – 2015, the number of pensioners continually increased by an average rate of 2%. The elderly population (65+) accounts for around 14.33% of the total population of FBiH, while pensioners account for 17.22% of the total population. The ratio of the number of

pensioners and the number of employed persons in 2015 was 1:1.2, which is a highly unfavourable indicator threatening the economic sustainability of the pension system.

In the structure of incomes, incomes from contributions amount to KM 1,588,905,977 (86.3%), transfers and subsidies from the Budget of the Government of FBiH are KM 247,895,039 (13.5%) and other incomes are KM 4,215,595 (0.23%).

In 2015 in the Federation of BiH, the right based on the status of civilian victim of war was realised by 10,396 beneficiaries, which is a 2.3% decrease in comparison to 2014. The average rate of change of these beneficiaries in the period 2009 – 2015 was -0.3%. In order to finance rights of beneficiaries with civilian victim of war status, a total of KM 37.32 million was allocated, of which KM 26.42 million was allocated from the Federal Budget, accounting for 70% of total allocations for this category, whereas the remaining 30% of funds were allocated from relevant cantonal budgets, in accordance with the Law on Principles of Social Protection, Protection of Civilian Victims of War and Protection of Families with Children.

As of 31<sup>st</sup> December 2015, the total number of beneficiaries<sup>89</sup> of rights based on the Law on Rights of Defenders and Their Families was 89,313, of which 47,859 were beneficiaries of personal disability benefits while 41,454 were beneficiaries of family disability benefits. Taking into consideration beneficiaries who exercise their rights in accordance with the Law on Fundamental Rights of Disabled Veterans and Families of Killed Soldiers (2,035), the total average number of beneficiaries of those rights in 2015 was 91,348 which is a 2.14% decrease in comparison to 2014. For these purposes a total of KM 294.34 million was paid. In the period 2009 - 2015, the number of beneficiaries of veterans' disability benefits was decreasing by an average rate of 1.8%.

According to the Household Budget Survey in FBiH (HBS) from 2011 (latest available data), there were 16.0% poor households (BiH 17.2%, RS 19.6%), whereas there were 17.1% poor individuals (BiH 17.9%, RS 19.5%). Children are the most vulnerable portion of society because they are unable to improve their own situation. The poverty rate among households with three or more children was 21.4%.<sup>90</sup> The number of underage beneficiaries of social protection has dropped by 3% in comparison to 2014, standing at 76,635, which is 24% of the total number of social protection beneficiaries.

#### ***4.3.9.1. Establishing an efficient, financially sound and sustainable system of pension and disability insurance in FBiH***

This reform is proposed/implemented by the Government of the Federation of BiH.

##### ***➤ Short description of measures***

In accordance with negative prognoses regarding the social sustainability of the pension system in the Federation of BiH and unfavourable demographic predictions, it is necessary to reform the existing pension system in the Federation of BiH. It is necessary to reduce the “pressure” on the pension system by gradually tightening the conditions for exercising rights to old-age and family pension, with exceptions which will be adequate in terms of the socioeconomic situation in the Federation of BiH. After that, it is necessary to increase the pension coverage and create the preconditions for introducing fair contribution rates for pension and disability insurance in the part that refers to more years of service. Furthermore, it is necessary to create conditions for a more cost-effective organisation of pension and disability insurance, thereby reducing the costs for insurance holders and ensuring funds for regular payments of PDI.

The Law on Pension and Disability Insurance introduces a new system for calculating pensions by scoring. The new Law prescribes regular and transparent adjustments of pensions in accordance with the Consumer Prices Index (CPI), more strict conditions for retirement, introduction of a penal system, introduction of stimulation for longer employment, stricter conditions for family disability pension, treasury operations of the PDI Fund after two years at most with the obligation of FBiH to compensate for any lack of funds. This reform measure also includes the adoption of the Law on Organisation of the Pension and Disability Insurance in FBiH, with the goal of introducing the principles of

---

<sup>89</sup> Federal Ministry for Issues of The Veterans and Disabled Veterans of The Defensive-Liberation War, Overview of Beneficiaries of Rights to Personal and Family Disability Benefits by Cantons for 2015.

<sup>90</sup> Source: IBHI, Poverty in BiH 2011 – Trends and Achievements (Author's calculations based on the Extended Household Budget Survey 2011)

transparency, publicity and efficiency of operations and the Law on Payment of Unpaid Contributions for PDI for business entities with majority of state capital.

➤ *Activities per year*

2017

- Law on Pension and Disability Insurance
- Law on Organisation of Pension and Disability Insurance
- Law on Payment of Unpaid Contributions for PDI

*Cost estimates and information on the budgetary impact of the activities*

The financial consequences of the Law on Pension and Disability Insurance will amount to between KM 12 and 50 million of budget funds a year. The preparation of the Law on Organisation of Pension and Disability Insurance of FBiH, from the aspect of additional costs, will have no direct influence on the budget because it will be performed as part of regular activities. The Law on Payment of Unpaid Contributions for PDI, based on binding years of employment, depending on coverage, will in the most likely option amount to KM 450 million in the next 30 years.

➤ *Expected impact on competitiveness*

The Law on Binding Years of Employment should unburden companies and ensure uninterrupted continuation of operations.

#### **4.3.9.2. Improving the functioning of the social protection system**

This reform is proposed/implemented by the BiH Council of Ministers and the Government of the Federation of BiH.

##### **BiH Council of Ministers – Ministry of Civil Affairs of Bosnia and Herzegovina**

The MoCA BiH, in cooperation with relevant entity-level institutions, is in charge of coordinating project activities within the scope of the IPA 2011 Project "Support to the Social Service Providers and Enhancement of the Monitoring Capacities in BiH" (EU SOCEM), (2015-2017), which is financed by the Delegation of the European Union to Bosnia and Herzegovina. The goal of the project is to "enhance social protection of sensitive and socially vulnerable groups and enhance monitoring, reporting and promotion of human rights." The purpose of the project is to develop a generic model (best practice model) of assisting the elderly age population and persons with disabilities. Expected results include support to legislative reform in the area of social protection and strengthening the capacities of centres for social work in at least 12 pilot areas to deliver efficient social services. The project provides an opportunity to analyse the legislature in the country and provide recommendations for its harmonisation in accordance with EU's best practices, as well as to strengthen mechanisms based on rights and service provision.

The Sector Planning Document (SPD) "Employment, Education and Social Policy" which has been mentioned in the section on *Employment and the Labour market* is in the stage of adoption and envisages the enhancement of social entrepreneurship for the employment of vulnerable categories, i.e. social inclusion, reduction of poverty and equal opportunities.

Two out of six mid-term strategic areas within the Reform Agenda which are relevant are: (i) labour market and (ii) social welfare and pension reform. These two strategic areas of activities are connected by opening new jobs, increasing employment and enhancing the social position of the population.

**Government of the Federation of BiH.** It is necessary to define and provide minimum financial security of individuals and families to meet their basic needs, define and enable the availability and uniformity of achieving the basic package of rights for families with children in the whole Federation of BiH, enable accessibility and equality of services and the rights within social protection, define the conditions for development of social welfare services, to create equal opportunities for individuals to live independently and actively participate in the community, preserve and improve family relationships and encourage family solidarity, prevent and eliminate the consequences of abuse, neglect and exploitation.

The present system of protection of persons with disabilities has mostly, nearly exclusively focused on financial protection, while support services, for the most part, were driven by non-governmental organizations. Considering how necessary support services are for the inclusion of people with

disabilities and providing support to families, institutionalization of solutions in this area is urgent. Also, families of persons with disabilities bear a significant burden related to disability and therefore it is necessary to establish an appropriate system of providing both material support to families and other rights that facilitate their functioning. Organisations of persons with disabilities are organized and operate in accordance with the Law on Associations and Foundations, which is insufficient due to a clear definition of criteria for their establishment and functioning. Given the importance of these organizations and the recognition of their partnership role in the creation of solutions in the field of disability, the adoption of appropriate legal solutions that would regulate this area and ensure the conditions for establishment, functioning and institutional strengthening is of great importance. The aim is to ensure an existential minimum plus costs incurred as a result of disabilities, through the adoption and implementation of the reform of the Law on Principles of Social Protection within which to define social minimum.

As a prerequisite to improve social protection, it is essential to establish a single registry of beneficiaries of non-contributory benefits. This is a novelty in the current legislation, which will bring significant results in the system for more efficient ways of payment of cash benefits and control of beneficiaries, in order to prevent benefiting from the same rights in various levels of government.

By adopting the Law on a Single Registry of Non-contributory Cash Benefits Users, all cash benefits to veterans and other social categories will be collected in one registry, which includes cash benefits from municipalities and cantons and has the aim of preparing a social chart for each individual in FBiH. Another goal is to enhance the results of dialogue through participation of representatives of persons with disabilities, and introduce a single method of evaluation for persons with disabilities with uniform criteria.

The goal of adopting the Law on Social Work Activities in the Federation of BiH is to standardise services in accordance with needs of beneficiaries, while the Law on Principles of Social Protection in the Federation of BiH will define beneficiaries, the social minimum and minimal financial security.

➤ *Activities per year*

2017

- Law on Foster Care in the Federation of BiH
- Law on Protection of Families with Children in the Federation of BiH
- Law on the Public Institution - Institute for the Admission and Education of Children and Minors
- Strategy for Enhancement of the Rights and Position of Persons with Disabilities in the Federation of BiH 2016-2021
- Law on the Single Registry of Non-contributory Cash Benefits Users
- Law on Organisations of Persons with Disabilities
- Single list of Disabilities and Rulebook on the Application of the List of Disabilities (applied to all categories of persons with disabilities)
- Law on the Protection of Families and Children

2018

- Law on Social Services in the Federation of BiH
- Law on Social Work Activities in the Federation of BiH

2019

- Law on Principles of Social Protection in the Federation of BiH

➤ *Cost estimates and information on the budgetary impact of the activities*

As part of the implementation of the Strategy for Enhancement of the Rights and Position of Persons with Disabilities in the Federation of BiH 2016-2021, expenditures per year will be: 2017 – KM 200,000.00, i.e. KM 10,000.00 KM from the Budget of the Federation of BiH and KM 190,000.00 from donor funds; 2018-2021 – KM 200,000.00, i.e. KM 50,000.00 from the Budget of the Federation of BiH and KM 150,000.00 from donor funds. As part of the implementation of the Law on the Single Registry of Non-contributory Cash Benefits Users, expenditures per year will be: 2017 – KM 1,000,000.00 KM from the Budget of the Federation of BiH for the first year, and in the following period KM 200,000.00 for maintenance, and as part of the implementation of the Law on Organisations of Persons with Disabilities, expenditures will be: 2017 – KM 370,000.00 from the Budget of the

Federation of BiH for the first year, and in the following years there will be an increase with the established minimum of KM 500,000.00.

➤ *Expected social outcomes, including employment-related outcomes*

The proposed reform activities will contribute to the overall improvement of the situation of persons with disabilities and their families, create preconditions and raise awareness about their integration into the labour market (employment), as well as improve the situation of multiply excluded groups such as women and girls with disabilities. People with disabilities will have better conditions for comprehensive social integration and position in society.

➤ *Potential risks associated with the implementation and planned actions*

Bearing in mind that the Constitution of the Federation of BiH divided jurisdiction in the field of social policy between the federal and cantonal authorities, we note that the implementation of these activities can lead to problems related to the lack of support from the cantons in making these laws, particularly in relation to securing the funds necessary for the implementation of legislative solutions.

## 5. BUDGETARY IMPLICATIONS OF STRUCTURAL REFORMS

### ***Government of the Federation of BiH***

Budgetary implications of the Economic Reform Programme 2016-2018 are displayed in Annex -Table 10.

This Programme includes the implications that we have managed to quantify by now. Unfortunately, capacities for this type of analysis are limited so we need further strengthening of knowledge and capabilities to assess the impact of policy changes both on the budgets and other important economic variables.

The total estimated costs of the reform priorities identified by this Programme per year are not specified since we were not able to define all the activities per individual year. The largest share of the costs of the proposed reform priorities will be secured by borrowing, taking into account the borrowing ability of the Federation of BiH.

### ***Government of Republika Srpska***

Budgetary implications of the structural reforms are displayed in Annex – Table 10: Matrix of policy commitments.



## 6. INSTITUTIONAL ISSUES AND STAKEHOLDER INVOLVEMENT

Overview of institutional issues and stakeholder involvement in the process of preparation of the BiH Economic Reform Programme 2017-2019 is presented in Chapter 1 of the Programme. A detailed overview of institutional issues and stakeholder involvement in the Federation of BiH and Republika Srpska is outlined below.

### ***Government of Republika Srpska***

The Government of Republika Srpska has, on its 86<sup>th</sup> session held on 11 August 2016, considered the Information on the activities related to development of the Republika Srpska Economic Reform Programme, and charged all line ministries in the Government to appoint their representatives for preparation of the document, who will be appointed to the Team of Republika Srpska for development of the RS ERP 2017–2019. In line with the Guidance for of the European Commission, and after held consultations, the appointed representatives of the ministries submitted to the coordinator for the preparation of the RS ERP 2017–2019, appointed by the Ministry of Finance, the proposals of key reforms in their respective areas. The coordinator for the Preparation of RS ERP 2017–2019, in cooperation with the ministries and institutions of Republika Srpska, prepared the RS ERP 2017–2019, in line with the deadlines and methodology required by the European Commission, and delivered it for consideration and adoption to the Government of Republika Srpska. In the process of preparation of the document, the representatives of the Organisation for Economic Cooperation and Development (OECD) were consulted, who provided their technical assistance in the preparation.

Considering all the aforementioned and with the intention to fully comply with the methodology and requirements set by the European Commission, the Republika Srpska Economic Reform Programme 2017–2019 will also replace the Economic Policy of Republika Srpska, which the National Assembly of Republika Srpska adopted in the previous period. This way, Republika Srpska will for the first time submit the Economic Reform Programme, developed in line with the European Commission's methodology, to the National Assembly of Republika Srpska for consideration and adoption.

Before submitting the RS ERP 2017–2019 to the Government of Republika Srpska for consideration and adoption, we prepared a preliminary draft of the document which was published on the website of the Government of Republika Srpska on 3 December 2016 to be a subject of public debate.

Public discussions took place from 8 – 13 December 2016, namely with: the Chamber of Commerce of Republika Srpska; the Union of the Employers' Associations of Republika Srpska; the Association of Pensioners of Republika Srpska; the Confederation of Trade Unions of Republika Srpska; the Association of Towns and Municipalities of Republika Srpska; the Students' Union of Republika Srpska; the Youth Council of Republika Srpska. On 13 December 2016, there was a final meeting where, in addition to all the above, also participated representatives of the Veterans' Organisation of Republika Srpska, organisations of families of captured and killed soldiers and missing civilians of Republika Srpska and other organisations of the veterans' categories.

After public debates were held, the line ministries considered all submitted comments and suggestions and prepared the Draft Economic Reform Programme of Republika Srpska 2017–2019 (urgency procedure), which was, on 13 December 2016, considered at the session of the Economic-Social Council of Republika Srpska. The Economic-Social Council of Republika Srpska gave its unanimous support to the proposed economic reform measures and suggested the Government of Republika Srpska to adopt the document.

In its session held on 13 December 2016, the Government of Republika Srpska considered and adopted the Draft Economic Reform Programme of Republika Srpska 2017–2019 (urgency procedure), and forwarded it to the National Assembly of Republika Srpska for consideration and adoption.

The National Assembly of Republika Srpska, in its 21<sup>st</sup> special session held on 22 December 2016, adopted the Republika Srpska Economic Reform Programme 2017-2019, which was subsequently published in the "Official Gazette of Republika Srpska", No. 116/16.

### ***Government of the Federation of BiH***

The 2016-2018 Economic Reform Programme of the Federation of Bosnia and Herzegovina was prepared based on the following strategic documents adopted by the Government of the Federation of BiH:

- Reform Agenda, adopted by all levels of government;

- Work programme of the Government of the Federation of BiH in the period 2015-2018, adopted at the beginning of the mandate of the newly formed Government of FBiH in 2015;
- Budget of the Federation of Bosnia and Herzegovina, which was adopted in a two-step decision making process in the Parliament of the Federation of BiH after organising a public debate;
- Action Plan for the Implementation of the Reform Agenda and the Updated Action Plan for the Implementation of the Reform Agenda (from December 2015);
- Individual sectoral strategies.

The following activities have been undertaken in order to prepare contributions from the Federation of BiH for development of the BiH Economic Reform Programme:

- A round table/workshop was organised in Sarajevo in cooperation with the European Commission and the OECD with the theme of ERP development, where all relevant ministries were present and where the representatives of the European Commission presented the Guidance for Economic Reform Programme;
- All the responsible line ministries submitted their written proposals of reform priorities serving for the preparation of the first draft of the Economic Reform Programme from the Federation of BiH;
- OECD submitted its observations to the Draft Economic Reform Programme from the Federation of BiH at the workshop;
- The final updated text of the ERP of the Federation of BiH with the incorporated remarks of the European Commission and OECD with the proposed tables, in which the responsible line ministries took part;
- Text was published on the website of the Federal Ministry of Finance before the adoption at the Government session, in order to ensure a public debate according to the request of the European Commission;
- After the Government of the Federation of BiH approved the 2016-2018 Economic Reform Programme of the Federation of BiH, the Programme has been submitted to the Directorate for Economic Planning for consolidation.

## ANNEX 1:

### Tables to be contained in the Economic Reform Programme and their updates

**Table 1a: Macroeconomic prospects**

	ESA code	2015	2015	2016	2017	2018	2019
		bn €	Rate of change				
1. Real GDP at market prices	B1*g	14.857	3.0	3.1	3.4	3.8	4.0
2. GDP at market prices	B1*g	14.995	3.9	3.2	4.6	5.2	5.2
<b>Components of real GDP</b>							
3. Private consumption expenditure	P3	12.183	2.2	2.9	3.2	3.5	3.5
4. Government consumption expenditure	P3	3.138	1.0	1.2	0.5	0.8	0.5
5. Gross fixed capital formation	P51	2.429	-9.2	0.6	9.5	10.1	10.9
6. Changes in inventories and net acquisition of valuables (% of GDP)	P52+P53	0.070	:	7.6	-31.6	-12.0	-12.0
7. Exports of goods and services	P6	5.020	6.1	4.7	5.3	5.6	5.5
8. Imports of goods and services	P7	7.984	0.5	2.3	4.8	5.3	5.2
<b>Contribution to real GDP growth</b>							
9. Final domestic demand		17.8	0.3	2.7	4.2	4.6	4.8
10. Change in inventories and net acquisition of valuables	P52+P53	0.1	1.0	0.0	-0.2	0.0	0.0
11. External balance of goods/services	B11	-3.0	1.7	0.4	-0.7	-0.8	-0.8

**Table 1b: Price developments**

Percentage changes, annual averages	ESA code	2015	2016	2017	2018	2019
1. GDP deflator	% yoy	0.9	0.1	1.2	1.3	1.2
2. Private consumption deflator	% yoy	-0.4	-0.7	1.2	1.3	1.3
3. HICP <sup>91</sup>	% yoy	:	:	:	:	:
4. National CPI change	% yoy	-1.0	-1.0	0.5	1.0	1.2
5. Public consumption deflator	% yoy	0.8	0.8	1.5	1.2	1.5
6. Investment deflator	% yoy	0.7	0.6	0.3	0.3	0.3
7. Export price deflator (goods&services)	% yoy	-0.2	-1.8	1.8	2.1	2.3
8. Import prices deflator (goods&services)	% yoy	-2.0	-1.9	1.5	1.5	1.9

<sup>91</sup> BHAS does not publish HICP.

**Table 1c: Labour markets developments**

	ESA code	2015	2015	2016	2017	2018	2019
		level	Rate of change				
1. Population (thousands)			2,983.0	2,840.0	2,890.0	2,940.0	2,965.0
2. Population (growth rate in %)			0.0	-4.8	1.8	1.7	0.9
3. Working-age population (persons)			2,579.0	2,489.0	2,499.0	2,507.5	2,512.0
4. Participation rate			44.1	43.1	43.3	43.5	43.9
5. Employment, persons			822.0	801.0	813.8	829.3	846.7
6. Employment, hours worked			:	:	:	:	:
7. Employment (growth rate in %)			1.2	-2.6	1.6	1.9	2.1
8. Public sector employment (persons)			188.2	187.8	:	:	:
9. Public sector employment (growth in %)			1.3	-0.2	-100.0	:	:
10. Unemployment rate			27.7	25.4	24.7	24.0	23.2
11. Labour productivity, persons		35.3	1.7	5.8	1.7	1.9	1.8
12. Labour productivity, hours worked			:	:	:	:	:
13. Compensation of employees	D1	13.9	2.2	-100.0	:	:	:

**Note:** Data on population number are estimates of BHAS (mid-year). Data for working age population, employment and unemployment rates are taken from the 2015 and 2016 Labour Force Survey. According to the census (2013) the number of population in BiH is 3,531,159. BiH Agency for Statistics does not publish data on the number of the employed per hours worked. Data on public sector employment are not published by the BiH Agency for Statistics. Data stated in Table 1c (line 8) is a sum of the number of employees in public administration, health and education. This piece of data includes not only employees in public schools and health (hospitals) but also the employees in private schools and health care. Hence, the given data do not fully present the number of employees in public sector (the same as in the previous years). Growth rates of the number of employed and unemployed persons (as well as data) in 2015 and 2016 presented in Table 1c do not match the rates/numbers given in the narrative part of ERP since the narrative part (Chapter 2) presents administrative data published by the Statistics, whereas Table 1c presents the survey data (for better comparability with other countries). Compensations of employees are taken from national accounts and expressed in KM billion (projections for this item are not available). Item 4 – Participation rate – relates to participation of workforce in working age population (survey data).

**Table 1d: Sectoral balances**

% of GDP	ESA code	2015	2016*	2017	2018	2019
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	-2.8	-1.2			
of which:						
- Balance of goods and services		-11.2	-4.4			
- Balance of primary incomes & transfers		7.6	2.9			
- Capital account		0.8	0.3			
2. Net lending/borrowing of the private sector	B.9/ EDP B.9					
3. Net lending/borrowing of general government						
4. Statistical discrepancy						

\* BoP for 2016 is: Q1+Q2

**Table 1e: GDP, investment and gross value added**

	ESA code	2015	2016	2017	2018	2019
<b>GDP and investment</b>						
GDP level at current market prices (in domestic currency)	B1g	29.3	30.3	31.6	33.3	35.0
Investment ratio (% of GDP)		16.3	16.0	16.8	17.6	18.7
<b>Growth of Gross Value Added, percentage changes at constant prices</b>						
1. Agriculture		9.0	:	:	:	:
2. Industry (excluding construction)		3.5	:	:	:	:
3. Construction		3.1	:	:	:	:
4. Services		2.4	:	:	:	:

**Table 1f: External sector developments**

		2015	2016	2017	2018	2019
1. Current account balance (% of GDP)	% of GDP	-5.6	-2.9	:	:	:
2. Export of goods	Bn EUR	3.6	1.8	:	:	:
3. Import of goods	Bn EUR	7.4	3.6	:	:	:
4. Trade balance	Bn EUR	-3.8	-1.8	:	:	:
5. Export of services	Bn EUR	1.5	0.7	:	:	:
6. Import of services	Bn EUR	0.4	0.2	:	:	:
7. Service balance	Bn EUR	1.1	0.5	:	:	:
8. Net interest payments from abroad	Bn EUR	-0.1	0.0	:	:	:
9. Other net factor income from abroad	Bn EUR	0.2	0.1	:	:	:
10. Current transfers	Bn EUR	1.8	0.9	:	:	:
11. <i>Of which</i> from EU	Bn EUR	:	:	:	:	:
12. Current account balance	Bn EUR	-0.8	-0.4	:	:	:
13. Capital and financial account	Bn EUR	-0.3	-0.2	:	:	:
14. Foreign direct investment	Bn EUR	-0.2	-0.1	:	:	:
15. Foreign reserves	Bn EUR	0.5	0.1	:	:	:
16. Foreign debt	Bn EUR	:	:	:	:	:
17. <i>Of which</i> : public	Bn EUR	:	:	:	:	:
18. <i>O/w</i> : foreign currency denominated	Bn EUR	:	:	:	:	:
19. <i>O/w</i> : repayments due	Bn EUR	:	:	:	:	:
20. Exchange rate vis-à-vis EUR (end-year)	NCU/EUR	2.0	2.0	2.0	2.0	2.0
21. Exchange rate vis-à-vis EUR (annual average)	NCU/EUR	0.0	0.0	0.0	0.0	0.0
22. Net foreign saving	% GDP	2.0	2.0	2.0	2.0	2.0
23. Domestic private saving	% GDP	0.0	0.0	0.0	0.0	0.0
24. Domestic private investment	% GDP	:	:	:	:	:
25. Domestic public saving	% GDP	:	:	:	:	:
26. Domestic public investment	% GDP	:	:	:	:	:

Source: CBBiH

**Table 1g: Sustainability indicators**

	Dimension	2012	2013	2014	2015	2016
1. Current account balance	% of GDP			-7.1	-5.6	-2.9
2. Net international investment position	% of GDP			-53.6	-52.1	:
3. Export market shares	%, yoy					
4. Real effective exchange rate	%, yoy	-0.8	-1.8	0.2	-0.8	0.7
5. Nominal unit labour costs	%, yoy					
6. Private sector credit flow	% of GDP					
7. Private sector debt	% of GDP					
8. General government debt	% of GDP					

Source: CBBiH

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

	ESA Code	2015	2015	2016	2017	2018	2019
		bn NCU	% of GDP				
<b>Net lending (B9) by sub-sectors</b>							
1. General government	S13	-305.5	-1.0	-0.4	-0.3	0.9	1.2
2. Central government	S1311	136.9	0.5	0.1	0.3	1.4	1.6
3. State government	S1312	:	:	:	:	:	:
4. Local government	S1313	-78.6	-0.3	-0.4	-0.5	-0.4	-0.4
5. Social security funds	S1314	-363.8	-1.2	-0.1	-0.1	-0.1	0.0
<b>General government (S13)</b>							
6. Total revenues	TR	12,003.8	40.9	42.3	40.1	38.8	37.5
7. Total expenditure	TE	12,309.3	42.0	42.7	40.4	37.9	36.3
8. Net borrowing/lending	EDP.B 9	-305.5	-1.0	-0.4	-0.3	0.9	1.2
9. Interest expenditure	EDP.D 41 incl. FISIM	234.4	0.8	1.0	0.9	0.9	0.9
10. Primary balance		-71.1	-0.2	0.6	0.6	1.9	2.0
11. One-off and other temporary measures		:	:	:	:	:	:
<b>Components of revenues</b>							
12. Total taxes (12=12a+12b+12c)		6,036.0	20.6	20.8	20.5	20.1	19.4

12a. Taxes on production and imports	D2	5,034.7	17.2	17.5	16.9	16.6	16.3
12b. Current taxes on income and wealth	D5	958.8	3.3	3.1	3.5	3.4	3.1
12c. Capital taxes	D91	42.5	0.1	0.2	0.1	0.1	0.1
13. Social contributions	D61	4,374.6	14.9	14.6	13.9	13.3	12.8
14. Property income	D4	89.7	0.3	0.3	0.3	0.3	0.3
15. Other (15 = 16-(12+13+14))		1,503.5	5.1	6.5	5.4	5.1	5.0
16=6. Total revenue	TR	12,003.8	40.9	42.3	40.1	38.8	37.5
p.m. Tax burden (D2+D5+D61+D91-D995)		10,410.6	35.5	35.4	34.4	33.4	32.2
<b>Selected components of expenditures</b>							
17. Collective consumption	P32	2,079.8	7.1	7.3	6.9	6.6	6.3
18. Total social transfers	D62 + D63	4,754.4	16.2	15.9	15.2	14.5	13.8
18a. Social transfers in kind	P31=D63	709.0	2.4	2.4	2.3	2.1	2.0
18b. Social transfers other than in kind	D62	4,045.4	13.8	13.6	12.9	12.3	11.8
19=9. Interest expenditure	EDP.D41 + FISIM	234.4	0.8	1.0	0.9	0.9	0.9
20. Subsidies	D3	358.5	1.2	1.3	1.3	1.1	1.0
21. Gross fixed capital formation	P51	452.2	1.5	2.3	1.8	1.3	1.3
22. Other (22 = 23-(17+18+19+20+21))		4,430.0	15.1	14.9	14.3	13.5	13.0
23. Total expenditures	TE	12,309.3	42.0	42.7	40.4	37.9	36.3
p.m. Compensations of public sector employees	D1	3,419.2	11.7	11.6	11.1	10.6	10.1

**Table 2a: General government budgetary prospects – Institutions of BiH**

	ESA Code	2015	2015	2016	2017	2018	2019
		bn NCU	% of GDP				
<b>Net lending (B9) by sub-sectors</b>							
1. General government	S13	62.2	0.2	-0.2	-0.2	-0.2	-0.2
2. Central government	S1311	62.2	0.2	-0.2	-0.2	-0.2	-0.2
3. State government	S1312	:	:	:	:	:	:
4. Local government	S1313	:	:	:	:	:	:
5. Social security funds	S1314	:	:	:	:	:	:
<b>General government (S13)</b>							
6. Total revenues	TR	965.5	3.3	3.0	2.8	2.7	2.5
7. Total expenditure	TE	903.3	3.1	3.1	3.0	2.8	2.7

8. Net borrowing/lending	EDP.B 9	62.2	0.2	-0.2	-0.2	-0.2	-0.2
9. Interest expenditure	EDP.D 41 incl. FISIM	0.7	0.0	0.0	0.0	0.0	0.0
10. Primary balance		62.9	0.2	-0.2	-0.2	-0.2	-0.2
11. One-off and other temporary measures		:	:	:	:	:	:
<b>Components of revenues</b>							
12. Total taxes (12=12a+12b+12c)		750.0	2.6	2.5	2.4	2.3	2.1
12a. Taxes on production and imports	D2	750.0	2.6	2.5	2.4	2.3	2.1
12b. Current taxes on income and wealth	D5	:	:	:	:	:	:
12c. Capital taxes	D91	:	:	:	:	:	:
13. Social contributions	D61	:	:	:	:	:	:
14. Property income	D4	:	:	:	:	:	:
15. Other (15 = 16-(12+13+14))		215.5	0.7	0.5	0.4	0.4	0.4
16=6. Total revenue	TR	965.5	3.3	3.0	2.8	2.7	2.5
p.m. Tax burden (D2+D5+D61+D91-D995)		750.0	2.6	2.5	2.4	2.3	2.1
<b>Selected components of expenditures</b>							
17. Collective consumption	P32	161.0	0.5	0.6	0.6	0.6	0.5
18. Total social transfers	D62 + D63	2.3	0.0	0.0	0.0	0.0	0.0
18a. Social transfers in kind	P31=D 63	:	:	:	:	:	:
18b. Social transfers other than in kind	D62	2.3	0.0	0.0	0.0	0.0	0.0
19=9. Interest expenditure	EDP.D 41 + FISIM	0.7	0.0	0.0	0.0	0.0	0.0
20. Subsidies	D3	:	:	:	:	:	:
21. Gross fixed capital formation	P51	70.6	0.2	0.2	0.2	0.1	0.1
22. Other (22 = 23-(17+18+19+20+21))		668.7	2.3	2.3	2.2	2.1	2.0
23. Total expenditures	TE	903.3	3.1	3.1	3.0	2.8	2.7
p.m. Compensations of public sector employees	D1	638.8	2.2	2.2	2.1	2.0	1.9

**Table 2a: General government budgetary prospects – Federation BiH**

	ESA Code	2015 bn NCU	2015	2016	2017	2018	2019
			% of GDP				
<b>Net lending (B9) by sub-sectors</b>							
1. General government	S13	-332.5	-1.1	0.1	0.3	0.6	0.7
2. Central government	S1311	91.9	0.3	0.6	0.9	1.2	1.2
3. State government	S1312	:	:	:	:	:	:
4. Local government	S1313	-124.0	-0.4	-0.5	-0.6	-0.5	-0.5
5. Social security funds	S1314	-300.4	-1.0	0.0	-0.1	-0.1	-0.1
<b>General government (S13)</b>							
6. Total revenues	TR	7,010.6	23.9	26.0	24.3	23.5	22.6
7. Total expenditure	TE	7,343.1	25.0	25.9	24.0	22.9	22.0
8. Net borrowing/lending	EDP.B9	-332.5	-1.1	0.1	0.3	0.6	0.7
9. Interest expenditure	EDP.D41 incl. FISIM	126.7	0.4	0.6	0.5	0.6	0.6
10. Primary balance		-205.8	-0.7	0.6	0.7	1.2	1.2
11. One-off and other temporary measures		:	:	:	:	:	:
<b>Components of revenues</b>							
12. Total taxes (12=12a+12b+12c)		3,234.7	11.0	11.4	11.3	11.1	10.7
12a. Taxes on production and imports	D2	2,674.8	9.1	9.5	9.1	9.0	8.9
12b. Current taxes on income and wealth	D5	557.6	1.9	1.8	2.2	2.1	1.8
12c. Capital taxes	D91	2.3	0.0	0.0	0.0	0.0	0.0
13. Social contributions	D61	2,876.2	9.8	9.8	9.2	8.8	8.4
14. Property income	D4	22.7	0.1	0.1	0.1	0.1	0.1
15. Other (15 = 16-(12+13+14))		877.0	3.0	4.7	3.7	3.6	3.5
16=6. Total revenue	TR	7,010.6	23.9	26.0	24.3	23.5	22.6
p.m. Tax burden (D2+D5+D61+D91-D995) <sup>92</sup>		6,110.9	20.8	21.2	20.5	19.9	19.1
<b>Selected components of expenditures</b>							
17. Collective consumption	P32	1,574.1	5.4	5.6	5.2	5.0	4.8
18. Total social transfers	D62 + D63	2,652.8	9.0	8.9	8.5	8.1	7.8
18a. Social transfers in kind	P31=D63	:	:	:	:	:	:
18b. Social transfers other than in kind	D62	2,652.8	9.0	8.9	8.5	8.1	7.8
19=9. Interest expenditure	EDP.D41 + FISIM	126.7	0.4	0.6	0.5	0.6	0.6
20. Subsidies	D3	253.5	0.9	0.9	0.9	0.8	0.7
21. Gross fixed capital formation	P51	166.7	0.6	1.2	0.7	0.6	0.6
22. Other (22 = 23-(17+18+19+20+21))		2,569.3	8.8	8.7	8.3	7.9	7.6
23. Total expenditures	TE	7,343.1	25.0	25.9	24.0	22.9	22.0
p.m. Compensations of public sector employees	D1	1,755.7	6.0	6.0	5.7	5.5	5.2

<sup>92</sup> Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate.

**Table 2a: General government budgetary prospects - Republika Srpska**

	ESA Code	2015	2015	2016	2017	2018	2019
		bn NCU	% of GDP				
<b>Net lending (B9) by sub-sectors</b>							
1. General government	S13	-28.7	-0.1	-0.3	-0.4	0.5	0.7
2. Central government	S1311	-10.7	0.0	-0.4	-0.4	0.4	0.6
3. State government	S1312	:	:	:	:	:	:
4. Local government	S1313	45.4	0.2	0.2	0.1	0.1	0.1
5. Social security funds	S1314	-63.4	-0.2	-0.1	-0.1	0.0	0.0
<b>General government (S13)</b>							
6. Total revenues	TR	3,833.3	13.1	12.7	12.4	12.1	11.8
7. Total expenditure	TE	3,862.0	13.2	13.0	12.8	11.6	11.1
8. Net borrowing/lending	EDP.B9	-28.7	-0.1	-0.3	-0.4	0.5	0.7
9. Interest expenditure	EDP.D41 incl. FISIM	105.6	0.4	0.4	0.4	0.3	0.3
10. Primary balance		76.9	0.3	0.1	0.0	0.9	1.0
11. One-off and other temporary measures		:	:	:	:	:	:
<b>Components of revenues</b>							
12. Total taxes (12=12a+12b+12c)		1,869.8	6.4	6.4	6.3	6.2	6.1
12a. Taxes on production and imports	D2	1,453.8	5.0	5.0	4.9	4.9	4.8
12b. Current taxes on income and wealth	D5	375.8	1.3	1.3	1.3	1.2	1.2
12c. Capital taxes	D91	40.2	0.1	0.1	0.1	0.1	0.1
13. Social contributions	D61	1,498.4	5.1	4.8	4.7	4.5	4.4
14. Property income	D4	67.0	0.2	0.2	0.2	0.2	0.2
15. Other (15 = 16-(12+13+14))		398.1	1.4	1.3	1.1	1.1	1.1
16=6. Total revenue	TR	3,833.3	13.1	12.7	12.4	12.1	11.8
p.m. Tax burden (D2+D5+D61+D91-D995) <sup>93</sup>		3,368.2	11.5	11.2	11.0	10.7	10.5
<b>Selected components of expenditures</b>							
17. Collective consumption	P32	298.5	1.0	1.0	1.0	0.9	0.8
18. Total social transfers	D62 + D63	2,025.7	6.9	6.7	6.5	6.1	5.8
18a. Social transfers in kind	P31=D63	709.0	2.4	2.4	2.3	2.1	2.0
18b. Social transfers other than in kind	D62	1,316.7	4.5	4.4	4.2	4.0	3.8
19=9. Interest expenditure	EDP.D41 + FISIM	105.6	0.4	0.4	0.4	0.3	0.3
20. Subsidies	D3	105.0	0.4	0.4	0.4	0.3	0.3
21. Gross fixed capital formation	P51	211.4	0.7	0.8	1.0	0.5	0.6
22. Other (22 = 23-(17+18+19+20+21))		1,115.8	3.8	3.7	3.6	3.3	3.2
23. Total expenditures	TE	3,862.0	13.2	13.0	12.8	11.6	11.1
p.m. Compensations of public sector employees	D1	961.5	3.3	3.2	3.0	2.9	2.8

NOTE: The table contains consolidated data for the level of General Government of Republika Srpska, which covers the level of the Central Government of Republika Srpska (Budget of Republika Srpska, budget of Republika Srpska beneficiaries within and outside the main General Treasury Ledger who have their own accounts, data on funds from projects financed from abroad and funds from escrow accounts), the local government level and social security funds.

<sup>93</sup> Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate.

**Table 2a: General government budgetary prospects – Brčko Distrikt**

	ESA Code	2015	2015	2016	2017	2018	2019
		bn NCU	% of GDP				
<b>Net lending (B9) by sub-sectors</b>							
1. General government	S13	-6.5	0.0	0.1	0.0	0.0	0.0
2. Central government	S1311	-6.5	0.0	0.1	0.0	0.0	0.0
3. State government	S1312	:	:	:	:	:	:
4. Local government	S1313	:	:	:	:	:	:
5. Social security funds	S1314	:	:	:	:	:	:
<b>General government (S13)</b>							
6. Total revenues	TR	194.4	0.7	0.7	0.6	0.6	0.5
7. Total expenditure	TE	200.9	0.7	0.6	0.6	0.6	0.5
8. Net borrowing/lending	EDP.B9	-6.5	0.0	0.1	0.0	0.0	0.0
9. Interest expenditure	EDP.D41 incl. FISIM	1.4	0.0	0.0	:	:	:
10. Primary balance		-5.1	0.0	0.1	0.0	0.0	0.0
11. One-off and other temporary measures		:	:	:	:	:	:
<b>Components of revenues</b>							
12. Total taxes (12=12a+12b+12c)		181,5	0,6	0,6	0,5	0,5	0,5
12a. Taxes on production and imports	D2	156.1	0.5	0.5	0.5	0.5	0.4
12b. Current taxes on income and wealth	D5	25.4	0.1	0.1	0.1	0.1	0.1
12c. Capital taxes	D91	0.0	:	:	:	:	:
13. Social contributions	D61	:	:	:	:	:	:
14. Property income	D4	:	:	:	:	:	:
15. Other (15 = 16-(12+13+14))		12.9	0.0	0.1	0.1	0.1	0.0
16=6. Total revenue	TR	194.4	0.7	0.7	0.6	0.6	0.5
p.m. Tax burden (D2+D5+D61+D91-D995)		181.5	0.6	0.6	0.5	0.5	0.5
<b>Selected components of expenditures</b>							
17. Collective consumption	P32	46.2	0.2	0.1	0.1	0.1	0.1
18. Total social transfers	D62 + D63	73.6	0.3	0.2	0.2	0.2	0.2
18a. Social transfers in kind	P31=D63	:	:	:	:	:	:
18b. Social transfers other than in kind	D62	73.6	0.3	0.2	0.2	0.2	0.2
19=9. Interest expenditure	EDP.D41 + FISIM	1.4	0.0	0.0	:	:	:
20. Subsidies	D3	:	:	:	:	:	:
21. Gross fixed capital formation	P51	3.5	0.0	0.0	0.0	0.0	0.0
22. Other (22 = 23-(17+18+19+20+21))		76.2	0.3	0.2	0.2	0.2	0.2
23. Total expenditures	TE	200.9	0.7	0.6	0.6	0.6	0.5
p.m. Compensations of public sector employees	D1	63.2	0.2	0.2	0.2	0.2	0.2

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

	ESA code	2015	2016	2017	2018	2019
bn NCU						
<b>Net lending (B9) by sub-sectors</b>						
1. General government	S13	-305.5	-112.3	-92.6	306.8	411.0
2. Central government	S1311	136.9	29.9	102.5	476.0	561.2
3. State government	S1312	:	:	:	:	:
4. Local government	S1313	-78.6	-106.9	-148.4	-141.6	-140.9
5. Social security funds	S1314	-363.8	-35.3	-46.8	-27.6	-9.3
<b>General government (S13)</b>						
6. Total revenues	TR	12,003.8	12,797.4	12,685.1	12,925.6	13,115.6
7. Total expenditure	TE	12,309.3	12,909.7	12,777.7	12,618.8	12,704.6
8. Net borrowing/lending	EDP.B9	-305.5	-112.3	-92.6	306.8	411.0
9. Interest expenditure	EDP.D41 incl. FISIM	234.4	291.9	271.1	312.4	302.4
10. Primary balance		-71.1	179.6	178.6	619.2	713.4
11. One-off and other temporary measures		:	:	:	:	:
<b>Components of revenues</b>						
12. Total taxes (12=12a+12b+12c)		6036.0	6292.9	6494.7	6683.3	6797.3
12a. Taxes on production and imports	D2	5034.7	5292.7	5350.2	5529.0	5690.5
12b. Current taxes on income and wealth	D5	958.8	952.6	1108.6	1117.3	1068.7
12c. Capital taxes	D91	42.5	47.6	35.9	37.0	38.1
13. Social contributions	D61	4374.6	4433.2	4391.6	4428.7	4481.5
14. Property income	D4	89.7	96.5	103.6	101.1	101.7
15. Other (15 = 16- (12+13+14))		1503.5	1974.8	1695.3	1712.6	1735.2
16=6. Total revenue	TR	12003.8	12797.4	12685.1	12925.6	13115.6
p.m. Tax burden (D2+D5+D61+D91-D995)		10,410.6	10,726.1	10,886.3	11,111.9	11,278.8
<b>Selected components of expenditures</b>						
17. Collective consumption	P32	2079.8	2209.8	2184.6	2195.3	2194.6
18. Total social transfers	D62 + D63	4754.4	4817.6	4807.5	4816.8	4836.8
18a. Social transfers in kind	P31=D63	709.0	712.3	718.2	715.4	716.7
18b. Social transfers other than in kind	D62	4045.4	4105.3	4089.3	4101.3	4120.1
19=9. Interest expenditure	EDP.D41 + FISIM	234.4	291.9	271.0	312.4	302.4
20. Subsidies	D3	358.5	387.2	413.3	358.4	360.8
21. Gross fixed capital formation	P51	452.2	685.1	584.8	432.0	463.6
22. Other (22 = 23- (17+18+19+20+21))		4430.0	4518.1	4516.5	4504.0	4546.4
23. Total expenditures	TE	12309.3	12909.7	12777.7	12618.8	12704.6
p.m. Compensations of public sector employees	D1	3419.2	3508.8	3513.9	3527.5	3543.7

**Table 2b: General government budgetary prospects – Institutions of BiH**

	ESA kod	2015	2016	2017	2018	2019
		In million KM				
<b>Net lending (B9) by sub-sectors</b>						
1. General government	S13	62,2	-49,0	-62,1	-65,8	-75,3
2. Central government	S1311	62,2	-49,0	-62,1	-65,8	-75,3
3. State government	S1312	:	:	:	:	:
4. Local government	S1313	:	:	:	:	:
5. Social security funds	S1314	:	:	:	:	:
<b>General government (S13)</b>						
6. Total revenues	TR	965,5	899,5	885,5	882,4	873,4
7. Total expenditure	TE	903,3	948,5	947,6	948,2	948,7
8. Net borrowing/lending	EDP.B9	62,2	-49,0	-62,1	-65,8	-75,3
9. Interest expenditure	EDP.D41 incl. FISIM	0,7	1,0	1,1	1,1	1,1
10. Primary balance		62,9	-48,0	-61,0	-64,7	-74,2
11. One-off and other temporary measures		:	:	:	:	:
<b>Components of revenues</b>						
12. Total taxes (12=12a+12b+12c)		750,0	750,0	750,0	750,0	750,0
12a. Taxes on production and imports	D2	750,0	750,0	750,0	750,0	750,0
12b. Current taxes on income and wealth	D5	:	:	:	:	:
12c. Capital taxes	D91	:	:	:	:	:
13. Social contributions	D61	:	:	:	:	:
14. Property income	D4	:	:	:	:	:
15. Other (15 = 16-(12+13+14))		215,5	149,5	135,5	132,4	123,4
16=6. Total revenue	TR	965,5	899,5	885,5	882,4	873,4
p.m. Tax burden (D2+D5+D61+D91-D995)		750,0	750,0	750,0	750,0	750,0
<b>Selected components of expenditures</b>						
17. Collective consumption	P32	161,0	190,6	196,2	201,5	189,2
18. Total social transfers	D62 + D63	2,3	2,0	2,0	2,0	2,0
18a. Social transfers in kind	P31=D63	:	:	:	:	:
18b. Social transfers other than in kind	D62	2,3	2,0	2,0	2,0	2,0
19=9. Interest expenditure	EDP.D41 + FISIM	0,7	1,0	1,0	1,1	1,1
20. Subsidies	D3	:	:	:	:	:
21. Gross fixed capital formation	P51	70,6	65,2	55,0	48,8	49,1
22. Other (22 = 23- (17+18+19+20+21))		668,7	689,7	693,4	694,8	707,3
23. Total expenditures	TE	903,3	948,5	947,6	948,2	948,7
p.m. Compensations of public sector employees	D1	638,8	666,4	669,7	672,3	675,8

**Table 2b: General government budgetary prospects – Federation BiH**

	ESA code	2015	2016	2017	2018	2019
		In million KM				
<b>Net lending (B9) by sub-sectors</b>						
1. General government	S13	-332,5	16,1	84,3	199,9	234,8
2. Central government	S1311	91,9	179,2	291,0	403,6	437,3
3. State government	S1312	.	.	.	.	.
4. Local government	S1313	-124,0	-156,2	-177,3	-177,6	-177,9
5. Social security funds	S1314	-300,4	-6,9	-29,4	-26,1	-24,6
<b>General government (S13)</b>						
6. Total revenues	TR	7010,6	7,865,3	7,690,9	7,833,9	7,925,4
7. Total expenditure <sup>94</sup>	TE	7,343,1	7,849,2	7,606,6	7,634,0	7,690,6
8. Net borrowing/lending	EDP.B9	-332,5	16,1	84,3	199,9	234,8
9. Interest expenditure	EDP.D41 incl. FISIM	126,7	168,8	152,2	195,6	192,7
10. Primary balance <sup>95</sup>		-205,8	184,9	236,5	395,5	427,5
11. One-off and other temporary measures <sup>96</sup>		.	.	.	.	.
<b>Components of revenues</b>						
12. Total taxes (12=12a+12b+12c)		3234,7	3436,3	3573,7	3687,7	3738,4
12a. Taxes on production and imports	D2	2674,8	2887,7	2885,2	3000,9	3111,6
12b. Current taxes on income and wealth	D5	557,6	543,8	686,2	684,5	624,4
12c. Capital taxes	D91	2,3	4,8	2,3	2,3	2,4
13. Social contributions	D61	2876,2	2969,6	2910,7	2928,2	2945,7
14. Property income	D4	22,7	31,6	25,9	26,3	26,7
15. Other (15 = 16-(12+13+14)) <sup>97</sup>		877,0	1427,8	1180,6	1191,7	1214,6
16=6. Total revenue	TR	7010,6	7865,3	7690,9	7833,9	7925,4
p.m. Tax burden (D2+D5+D61+D91-D995) <sup>98</sup>		6,110,9	6,405,9	6,484,4	6,615,9	6,684,1
<b>Selected components of expenditures</b>						
17. Collective consumption	P32	1574,1	1691,5	1646,0	1652,9	1666,0
18. Total social transfers	D62 + D63	2652,8	2707,9	2687,5	2704,7	2721,2
18a. Social transfers in kind	P31=D63	.	.	.	.	.
18b. Social transfers other than in kind	D62	2652,8	2707,9	2687,5	2704,7	2721,2
19=9. Interest expenditure	EDP.D41 + FISIM	126,7	168,8	152,2	195,6	192,7
20. Subsidies	D3	253,5	275,1	297,8	250,7	253,1
21. Gross fixed capital formation	P51	166,7	371,6	209,7	205,4	207,6
22. Other (22 = 23-(17+18+19+20+21))		2569,3	2634,3	2613,4	2624,7	2650,0
23. Total expenditures	TE <sup>99</sup>	7343,1	7849,2	7606,6	7634,0	7690,6
p.m. Compensations of public sector employees	D1	1755,7	1808,8	1809,0	1817,1	1825,9

<sup>94</sup> Adjusted for the next flow of swap-related flows, so the TR-TE=EDP.B9.

<sup>95</sup> The primary balance is calculated as (EDP.B9, item 8) plus (EDP.D41 + FISIM recorded as intermediate consumption, item 9).

<sup>96</sup> A plus sign means deficit-reducing one-off measures

<sup>97</sup> P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91).

<sup>98</sup> Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate.

<sup>99</sup> Adjusted for the next flow of swap-related flows, so the TR-TE=EDP.B9.

**Table 2b : General government budgetary prospects - Republika Srpska**

		ESA code	2015	2016	2017	2018	2019
			In million KM				
<b>Net lending (B9) by sub-sectors</b>							
1.	General government	S13	-28,7	-94,9	-114,8	172,7	251,5
2.	Central government	S1311	-10,7	-115,9	-126,4	138,2	199,2
3.	State government	S1312	:	:	:	:	:
4.	Local government	S1313	45,4	49,3	28,9	36,0	37,1
5.	Social security funds	S1314	-63,4	-28,4	-17,4	-1,6	15,3
<b>General government (S13)</b>							
6.	Total revenues	TR	3,833,3	3,834,1	3,921,1	4,019,1	4,126,6
7.	Total expenditure	TE	3,862,0	3,929,0	4,036,0	3,846,4	3,875,1
8.	Net borrowing/lending	EDP.B9	-28,7	-94,9	-114,8	172,7	251,5
9.	Interest expenditure	EDP.D41 incl. FISIM	105,6	121,6	117,8	115,7	108,6
10.	Primary balance		76,9	26,7	3,0	288,4	360,1
11.	One-off and other temporary measures		:	:	:	:	:
<b>Components of revenues</b>							
12.	Total taxes (12 = 12a+12b+12c)		1,869,8	1,926,6	2,001,0	2,072,6	2,136,0
12.a	Taxes on production and imports	D2	1,453,8	1,498,7	1,564,0	1,624,1	1,674,9
12.b	Current taxes on income and wealth	D5	375,8	385,1	403,4	413,8	425,3
12.c.	Capital taxes	D91	40,2	42,8	33,6	34,7	35,7
13.	Social contributions	D61	1,498,4	1,463,6	1,480,9	1,500,5	1,535,8
14.	Property income	D4	67,0	64,9	77,7	74,8	75,0
15.	Other (15 = 16-(12+13+14))		398,1	379,0	361,6	371,3	379,9
16=6	Total revenue	TR	3,833,3	3,834,1	3,921,1	4,019,1	4,126,6
p.m.:	Tax burden (D2+D5+D61+D91-D995)			3,368,2	3,390,2	3,481,9	3,573,0
<b>Selected components of expenditures</b>							
17.	Collective consumption	P32	298,5	292,1	300,9	297,8	296,3
18.	Total social transfers	D62 + D63	2,025,7	2,035,1	2,052,0	2,044,1	2,047,6
18.a.	Social transfers in kind	P31 = D63	709,0	712,3	718,2	715,4	716,7
18.b.	Social transfers other than in kind	D62	1,316,7	1,322,8	1,333,8	1,328,6	1,330,9
19=9.	Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	105,6	121,6	117,8	115,7	108,6
20.	Subsidies	D3	105,0	112,1	115,5	107,7	107,7
21.	Gross fixed capital formation	P51	211,4	245,3	317,1	174,8	203,9
22.	Other (22 = 23-(17+18+19+20+21))		1,115,8	1,122,8	1,132,6	1,106,4	1,111,0
23.	Total expenditures	TE	3,862,0	3,929,0	4,036,0	3,846,4	3,875,1
	p.m. compensations of employees	D1	961,5	966,1	962,1	965,4	969,3

NOTE: The table contains consolidated data for the level of General Government of Republika Srpska, which covers the level of the Central Government of Republika Srpska (Budget of Republika Srpska, budget of

Republika Srpska beneficiaries within and outside the main General Treasury Ledger who have their own accounts, data on funds from projects financed from abroad and funds from escrow accounts), the local government level and social security funds. Compared to the previous Programme, there have been changes in presentation of data. Namely, within Taxes on production and services (D2), in addition to Indirect taxes transferred to ITA, we have included Taxes on goods and services – arrears (KM 28.9 million in 2015 to KM 13.2 million in 2019), which were previously included in category Other. This change is made to make the records more accurate. Also, compared to the previous Programme, data in category Collective consumption contain expenditures for goods and services, while in the previous Programme they also contained expenditures for gross wages and compensations of employees, which are now transferred to Other expenditures to make the records more accurate. The same as before, the amounts for gross wages and compensations of employees are presented in the last row of the table (p.m. compensations of employees).

**Table 2b: General government budgetary prospects – Brčko Distrikt**

	ESA code	2015	2016	2017	2018	2019
		bn NCU				
<b>Net lending (B9) by sub-sectors</b>						
1. General government	S13	-6.5	15.5	0.0	0.0	0.0
2. Central government	S1311	-6.5	15.5	0.0	0.0	0.0
3. State government	S1312	:	:	:	:	:
4. Local government	S1313	:	:	:	:	:
5. Social security funds	S1314	:	:	:	:	:
<b>General government (S13)</b>						
6. Total revenues	TR	194.4	198.5	187.6	190.2	190.2
7. Total expenditure	TE	200.9	183.0	187.6	190.2	190.2
8. Net borrowing/lending	EDP.B9	-6.5	15.5	0.0	0.0	0.0
9. Interest expenditure	EDP.D41 incl. FISIM	1.4	0.5	0.0	0.0	0.0
10. Primary balance		-5.1	16.0	0.0	0.0	0.0
11. One-off and other temporary measures		:	:	:	:	:
<b>Components of revenues</b>						
12. Total taxes (12=12a+12b+12c)		181.5	180.0	170.0	173.0	173.0
12a. Taxes on production and imports	D2	156.1	156.3	151.0	154.0	154.0
12b. Current taxes on income and wealth	D5	25.4	23.7	19.0	19.0	19.0
12c. Capital taxes	D91	0.0	:	:	:	:
13. Social contributions	D61	:	:	:	:	:
14. Property income	D4	:	:	:	:	:
15. Other (15 = 16-(12+13+14))		12.9	18.5	17.6	17.2	17.2
16=6. Total revenue	TR	194.4	198.5	187.6	190.2	190.2
p.m. Tax burden (D2+D5+D61+D91-D995)		181.5	180.0	170.0	173.0	173.0
<b>Selected components of expenditures</b>						
17. Collective consumption	P32	46.2	35.6	41.5	43.1	43.1
18. Total social transfers	D62 + D63	73.6	72.6	66.0	66.0	66.0
18a. Social transfers in kind	P31=D63	:	:	:	:	:
18b. Social transfers other than in kind	D62	73.6	72.6	66.0	66.0	66.0
19=9. Interest expenditure	EDP.D41 + FISIM	1.4	0.5	:	:	:
20. Subsidies	D3	:	:	:	:	:

21. Gross fixed capital formation	P51	3.5	3.0	3.0	3.0	3.0
22. Other (22 = 23- (17+18+19+20+21))		76.2	71.3	77.1	78.1	78.1
23. Total expenditures	TE	200.9	183.0	187.6	190.2	190.2
p.m. Compensations of public sector employees	D1	63.2	67.5	73.1	72.7	72.7

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

% of GDP	COFOG code	2015	2016	2017	2018	2019
1. General public services	1	11.4	12.0	11.3	10.7	10.3
2. Defence	2	1.0	1.0	1.0	1.0	1.0
3. Public order and safety	3	3.1	3.0	2.9	2.7	2.6
4. Economic affairs	4	2.9	2.1	2.0	1.7	1.6
5. Environmental protection	5	0.3	0.3	0.3	0.3	0.2
6. Housing and community	6	0.8	0.8	0.8	0.6	0.6
7. Health	7	6.0	6.1	5.7	5.4	5.2
8. Recreation, culture and	8	0.7	0.7	0.6	0.6	0.6
9. Education	9	4.1	4.1	3.9	3.7	3.5
10. Social protection	10	11.7	12.5	11.9	11.3	10.8
11. Total expenditure (item 7 = 23 in Table 2)	TE	42.0	42.7	40.4	37.9	36.3

in mill. KM	COFOG code	2015	2016	2017	2018	2019
1. General public services	1	3340,1	3642,3	3577,3	3561,2	3591,6
2. Defence	2	302,3	317,0	310,5	317,7	333,2
3. Public order and safety	3	902,9	909,6	909,8	905,7	905,8
4. Economic affairs	4	850,3	639,5	637,8	572,4	570,0
5. Environmental protection	5	83,9	88,5	86,6	85,0	85,8
6. Housing and community	6	231,9	239,4	238,4	208,5	209,4
7. Health	7	1750,9	1832,7	1808,4	1799,7	1806,9
8. Recreation, culture and	8	208,0	210,9	202,7	201,8	203,1
9. Education	9	1208,7	1249,2	1241,4	1216,8	1224,3
10. Social protection	10	3430,4	3780,6	3764,8	3750,0	3774,6
11. Total expenditure (item 7 = 23 in Table 2)	TE	12309,3	12909,7	12777,7	12618,8	12704,6

### Institutions of Bosnia and Herzegovina

% of GDP	COFOG Code	Year	Year	Year	Year	Year
		2015	2016	2017	2018	2019
1. General public services	1	1.0	1.0	1.0	0.9	0.9
2. Defence	2	0.9	1.0	0.9	0.9	0.9
3. Public order and safety	3	0.9	0.9	0.9	0.8	0.8
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	6	0.0	0.0	0.0	0.0	0.0
7. Health	7	0.0	0.0	0.0	0.0	0.0
8. Recreation, culture and	8	0.0	0.0	0.0	0.0	0.0
9. Education	9	0.0	0.0	0.0	0.0	0.0
10. Social protection	10	0.0	0.0	0.0	0.0	0.0

in mill. KM	COFOG code	2015	2016	2017	2018	2019
1. General public services	1	300,6	303,9	309,0	307,0	299,2
2. Defence	2	272,4	290,9	285,2	292,3	307,4
3. Public order and safety	3	249,3	276,1	275,8	273,3	270,0
4. Economic affairs	4	41,4	41,6	41,6	42,0	40,0
5. Environmental protection	5	6,5	4,4	4,4	4,4	4,4
6. Housing and community	6	0,0	0,0	0,0	0,0	0,0
7. Health	7	5,2	6,3	6,3	6,3	6,3
8. Recreation, culture and	8	13,0	8,5	8,5	8,5	7,0
9. Education	9	3,4	2,4	2,4	2,4	2,4
10. Social protection	10	11,5	14,4	14,4	12,0	12,0
11. Total expenditure (item 7 = 23 in Table 2)	TE	903,3	948,5	947,6	948,2	948,7

### Federation BiH

% of GDP	COFOG code	2015	2016	2017	2018	2019
1. General public services	1	8.5	8.8	8.1	7.8	7.4
2. Defence	2	0.1	0.1	0.1	0.1	0.1
3. Public order and safety	3	1.2	1.2	1.1	1.1	1.0
4. Economic affairs	4	1.0	1.0	1.0	0.9	0.9
5. Environmental protection	5	0.2	0.2	0.2	0.2	0.2
6. Housing and community	6	0.4	0.5	0.4	0.4	0.4
7. Health	7	3.7	3.8	3.6	3.4	3.3
8. Recreation, culture and	8	0.4	0.4	0.4	0.4	0.3
9. Education	9	2.4	2.5	2.3	2.2	2.1
10. Social protection	10	7.2	7.4	6.9	6.6	6.3
11. Total expenditure (item 7 = 23 in Table 2)	TE	25.0	25.9	24.0	22.9	22.0

in mill. KM	COFOG code	2015	2016	2017	2018	2019
1. General public services	1	2.481,6	2.652,8	2.570,6	2.580,9	2.598,9
2. Defence	2	20,0	21,4	20,7	20,8	20,9
3. Public order and safety	3	346,0	369,9	358,4	359,8	362,4
4. Economic affairs	4	296,5	317,0	307,1	308,4	310,5
5. Environmental protection	5	62,8	67,1	65,1	65,5	65,8
6. Housing and community	6	129,4	138,3	134,0	134,6	135,5
7. Health	7	1.088,1	1.163,2	1.127,1	1.131,6	1.139,6
8. Recreation, culture and	8	116,8	124,9	121,0	121,5	122,3
9. Education	9	702,1	750,5	727,3	730,2	735,3
10. Social protection	10	2.099,8	2.244,1	2.175,3	2.180,9	2.199,4
11. Total expenditure (item 7 = 23 in Table 2)	TE	7.343,1	7.849,2	7.606,6	7.634,0	7.690,6

### Republika Srpska

% of GDP	COFOG code	2015	2016	2017	2018	2019
1. General public services	1	1.6	2.0	2.0	1.8	1.8
2. Defence	2	0.0	0.0	0.0	0.0	0.0
3. Public order and safety	3	1.0	0.8	0.8	0.8	0.7
4. Economic affairs	4	1.7	0.9	0.9	0.7	0.6
5. Environmental protection	5	0.0	0.1	0.1	0.0	0.0
6. Housing and community	6	0.3	0.3	0.3	0.2	0.2
7. Health	7	2.2	2.1	2.1	2.0	1.9
8. Recreation, culture and	8	0.2	0.2	0.2	0.2	0.2
9. Education	9	1.6	1.5	1.5	1.3	1.3
10. Social protection	10	4.4	5.0	4.9	4.6	4.4
11. Total expenditure (item 7 = 23 in Table 2)	TE	13.2	13.0	12.8	11.6	11.1

In mill. KM	COFOG code	2015	2016	2017	2018	2019
1. General public services	1	473,0	614,1	625,6	600,2	620,2
2. Defence	2	9,9	4,7	4,6	4,6	4,9
3. Public order and safety	3	294,2	249,5	257,4	254,4	255,2
4. Economic affairs	4	512,4	280,9	289,1	222,0	219,5
5. Environmental protection	5	14,6	17,0	17,1	15,1	15,6
6. Housing and community	6	93,1	97,9	99,9	69,5	69,5
7. Health	7	638,9	643,5	665,5	650,8	650,0
8. Recreation, culture and	8	61,3	62,7	63,2	61,8	63,8
9. Education	9	469,5	460,3	474,6	447,1	449,5
10. Social protection	10	1295,2	1498,4	1538,9	1520,9	1527,0
11. Total expenditure (item 7 = 23 in Table 2)	TE	3862,0	3929,0	4036,0	3846,4	3875,1

**Brčko Distrikt**

% of GDP	COFOG code	2015	2016	2017	2018	2019
1. General public services	1	0.3	0.2	0.2	0.2	0.2
2. Defence	2	:	:	:	:	:
3. Public order and safety	3	0.0	0.0	0.1	0.1	0.1
4. Economic affairs	4	:	:	:	:	:
5. Environmental protection	5	:	:	:	:	:
6. Housing and community	6	0.0	0.0	0.0	0.0	0.0
7. Health	7	0.1	0.1	0.0	0.0	0.0
8. Recreation, culture and	8	0.1	0.0	0.0	0.0	0.0
9. Education	9	0.1	0.1	0.1	0.1	0.1
10. Social protection	10	0.1	0.1	0.1	0.1	0.1
11. Total expenditure (item 7 = 23 in Table 2)	TE	0.7	0.6	0.6	0.6	0.5

In mill. KM	COFOG code	2015	2016	2017	2018	2019
1. General public services	1	84,9	71,5	72,1	73,3	73,3
2. Defence	2	:	:	:	:	:
3. Public order and safety	3	13,4	14,1	18,2	18,2	18,2
4. Economic affairs	4	:	:	:	:	:
5. Environmental protection	5	:	:	:	:	:
6. Housing and community	6	9,4	3,2	4,5	4,4	4,4
7. Health	7	18,7	19,7	9,5	11,0	11,0
8. Recreation, culture and	8	16,9	14,8	10,0	10,0	10,0
9. Education	9	33,7	36,0	37,1	37,1	37,1
10. Social protection	10	23,9	23,7	36,2	36,2	36,2
11. Total expenditure (item 7 = 23 in Table 2)	TE	200,9	183,0	187,6	190,2	190,2

**Table 4: General government debt developments**

% of GDP	ESA code	2015	2016	2017	2018	2019
1. Gross debt		40.6	40.5	40.3	39.7	37.6
2. Change in gross debt ratio		-0.1	-0.1	-0.2	-0.6	-2.1
<b>Contributions to change in gross debt</b>						
3. Primary balance		0.24	-0.6	-0.6	-1.9	-2.0
4. Interest expenditure		0.80	1.0	0.9	0.9	0.9
5. Stock flow adjustments		-1.2	-0.5	-0.5	0.4	-0.9
Of which:						
- Differences between cash and accruals		:	:	:	:	:
- Net accumulation of financial assets		:	:	:	:	:
Of which:						
- Privatisation proceeds		:	:	:	:	:
- Valuation effects and other		:	:	:	:	:
p.m. implicit interest rate on debt		0.24	-0.6	-0.6	-1.9	-2.0
<b>Other relevant variables</b>						
6. Liquid financial assets		:	:	:	:	:
7. Net financial debt (7 = 1 - 6)		:	:	:	:	:

**Table 5: Cyclical developments**

% of GDP	ESA code	2015	2016	2017	2018	2019
1. Real GDP growth (%)	B1g	3.0	3.1	3.4	3.8	4.0
2. Net lending of general government	EDP.B.9	-1.0	-0.4	-0.3	0.9	1.2
3. Interest expenditure	EDP.D.41	0.8	1.0	0.9	0.9	0.9
4. One-off and other temporary measures		0.1	0.0	-0.1	-0.1	-0.1
5. Potential GDP growth (%)		2.5	3.0	3.5	3.7	3.6
Contributions:						
- labour		:	:	:	:	:
- capital		:	:	:	:	:
- total factor productivity faktoraroductivity		:	:	:	:	:
6. Output gap		0.0	-0.8	0.2	0.4	0.7
7. Cyclical budgetary component		0.0	-0.3	0.1	0.1	0.2
8. Cyclically-adjusted balance (2-7)		-1.0	-0.1	-0.4	0.8	1.0
9. Cyclically-adjusted primary balance (8-3)		-0.2	0.9	0.5	1.7	1.8
10. Structural balance (8-4)		-1.1	-0.1	-0.3	0.8	1.0

**Table 6: Divergence from previous programme**

	2015	2016	2017	2018	2019
<b>1. GDP growth (% points)</b>					
Previous	2.5	3.0	3.2	4.0	:
Current	3.0	3.1	3.4	3.8	4.0
Difference	0.5	0.1	0.2	-0.2	:
<b>2. General government net lending (% of GDP)</b>					
Previous	-1,4	-1,2	-0,1	1,1	:
Current	-1,0	-0,4	-0,3	0,9	1,2
Difference	0,4	0,8	-0,2	-0,2	:
<b>3. General government gross debt (% of GDP)</b>					
Previous	41,3	41,7	38,3	33	:
Current	40,6	40,5	40,3	39,7	37,6
Difference	-0,7	-1,2	2,0	6,7	:

**Table 7: Long-term sustainability of public finances**

<b>Percentages of GDP</b>	<b>2007</b>	<b>2010</b>	<b>2020</b>	<b>2030</b>	<b>2040</b>	<b>2050</b>	<b>2060.</b>
Total expenditure	:	:	:	:	:	:	:
<i>Of which:</i>	:	:	:	:	:	:	:
- age-related expenditures	:	:	:	:	:	:	:
- Pension expenditure	:	:	:	:	:	:	:
- Social security pension	:	:	:	:	:	:	:
- Old-age and early pensions	:	:	:	:	:	:	:
- Other pensions (disability, survivors)	:	:	:	:	:	:	:
- Occupational pensions (if in general government)	:	:	:	:	:	:	:
- Health care	:	:	:	:	:	:	:
- Long-term care ( <i>this was earlier included in the health care</i> )	:	:	:	:	:	:	:
- Education expenditure	:	:	:	:	:	:	:
- Other age-related expenditures	:	:	:	:	:	:	:
Interest expenditure	:	:	:	:	:	:	:
Total revenues	:	:	:	:	:	:	:
<i>of which: property income</i>	:	:	:	:	:	:	:
<i>of which: from pensions contributions (or social contributions, if appropriate)</i>	:	:	:	:	:	:	:
Pension reserve fund assets	:	:	:	:	:	:	:
<i>of which: consolidated public pension fund assets (assets other than government liabilities)</i>	:	:	:	:	:	:	:
<b>Assumptions</b>							
Labour productivity growth	:	:	:	:	:	:	:
Real GDP growth	:	:	:	:	:	:	:
Participation rate males (aged 20-64)	:	:	:	:	:	:	:
Participation rates females (aged 20-64)	:	:	:	:	:	:	:
Total participation rates (20-64)	:	:	:	:	:	:	:
Unemployment rate	:	:	:	:	:	:	:
Population aged 65+ over total population	:	:	:	:	:	:	:

**Table 7a: Contingent liabilities**

<b>% of GDP</b>	<b>2016</b>	<b>2017</b>
Public guarantees	:	:
<i>Of which: linked to the financial sector</i>	:	:

**Table 8: Basic assumptions on the external economic environment underlying the programme framework**

	<b>Dimension</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Short-term interest rate	Annual average	0	-0.3	-0.4	-0.4	:
Long-term interest rate	Annual average	1.2	0.7	0.6	0.8	:
USD/EUR exchange	Annual average	1.11	1.11	1.11	1.11	:
Nominal effective exchange rate	Annual average	-7.1	3.6	-0.1	0	:
Exchange rate vis-à-vis the EUR	Annual average	1.9555 83	1.9555 83	1.9555 83	1.9555 83	1.9555 83
Global GDP growth, excluding EU	Annual average	0.7	0.9	2.8	3.7	:
EU GDP growth	Annual average	2	1.7	1.5	1.7	:
Growth of relevant foreign markets	Annual average	:	:	:	:	:
World import volumes, excluding EU	Annual average	1.4	1.5	3.1	3.3	:
Oil prices (Brent, USD/barrel)	Annual average	52.4	42.8	47.4	50.6	:

Note:

Source for items 1, 2, 3, 4, 6, 10:

<https://www.ecb.europa.eu/pub/pdf/other/ecbstaffprojections201609.en.pdf>

Source for items 7 and 9:

[http://ec.europa.eu/economy\\_finance/publications/eeip/pdf/ip038\\_en.pdf](http://ec.europa.eu/economy_finance/publications/eeip/pdf/ip038_en.pdf)

**Table 9: Selected employment and social indicators**

	Data source	2013	2014	2015	2016	2017
1. Labour market participation rate (%) total (pls indicate age bracket)	e	47.5	47.8	48.3	47.6	
- male	e	59.4	59.1	59.5	59.4	
- female	e	35.8	36.9	37.3	36.0	
2. Employment rate (%) total (pls indicate age bracket)		34.4	34.6	34.9	35.4	
- male	e	43.5	44.1	44.1	45.9	
- female	e	25.4	25.4	25.8	25.1	
3. Unemployment rate (%)total (pls indicate age bracket)	e	27.6	27.6	27.9	25.5	
- male	e	26.7	25.3	25.9	22.6	
- female	e	29.1	31.2	30.9	30.2	
4. Long-term unemployment rate (%) total	e	22.9	23.4	22.8		
- male	e	21.9	21.5	21.2		
- female	e	24.7	26.4	25.2		
5. Youth unemployment (15-24 yrs) rate (%) total	e	59.1	62.7	62.3	54.3	
- male	e	59.1	61.0	59.5	52.0	
- female	e	59.2	65.4	67.3	58.9	
6. Young people (please indicate the age bracket of the available figures) not in employment, education or training (NEET), in %, (15-24 yrs)		25.8	26.1	27.7		
7. Early school leavers, in % (Eurostat definition)	e			26.3		
8. Participation rate in early childhood education and care						
9. GINI coefficient		0.31*				
10. Inequality of income distribution S80/S20	e	4.3*				
11. Social protection expenditure in % of GDP	e					
12. Health expenditure in % of GDP	e					
13. At-risk-of-poverty before social transfers, in % of population	e					
14. Poverty rate (Please indicate which data are available for your country)		17.9*				
15. Poverty gap (Please indicate which data are available for your country)		25.2*				

Source: BHAS

\*Data source: 2011 Household Budget Survey. Data calculated using the EU methodology – not income as macroeconomic aggregate, but final consumption of households.

**Table 10: Matrix of policy commitments**

*Council of Ministers of Bosnia and Herzegovina*

Description of policy		2016	2017	2018	2019
<b>1. Reform of public finance management in BiH institutions</b>					
The objective of this Strategy is to enhance the public finance system in order to ensure better functioning, transparency, accountability and efficiency in managing the public resources and thereby contribute to strengthening the macroeconomic stability in BiH. The reform measures presented in this document are based on the Public Expenditure and Financial Accountability Assessment (PEFA) from 2014, Bosnia and Herzegovina 2015 Progress Report of the European Commission, SIGMA/OECD Baseline Measurement Report of the Principles of Public Administration from April 2015 and Progress Report from May 2016, the IMF Country Report from October 2015, as well as the BiH Reform Agenda 2015-2018. A great number of measures and activities foreseen in this Strategy will be financed from the resources of the budget of BiH Institutions. Cost exceeding the budget of BiH Institutions, estimated at KM 32.74 million, will be subject to donor support (EU-IPA and other donors).					
A.	Duration of the reform *	X	X	X	X
B.	Net direct budgetary impact (if any)	0.0	0.0	0.0	0.0
B.1	Direct impact on budgetary revenue	0.0	0.0	0.0	0.0
B.2	Direct impact on budgetary expenditure	0.0	0.0	0.0	0.0
B.3	Possible non-budgetary financing	0.0	6.0	10.0	10.0
- B.3.1	Of which committed IPA funding including WBIF funding	0.0	6.0	10.0	10.0
<b>2. Improving the communication infrastructure</b>					
A.	Duration of the reform *	X	X	X	X
B.	Net direct budgetary impact (if any)	0.0	0.0	0.0	0.0
B.1	Direct impact on budgetary revenue	0.0	0.0	0.0	0.0
B.2	Direct impact on budgetary expenditure	0.0	0.0	0.0	0.0
B.3	Possible non-budgetary financing	0.0	0.0	0.0	0.0
- B.3.1	Of which committed IPA funding including WBIF funding	0.0	0.0	0.0	0.0

<b>3. Increasing energy efficiency and use of renewable energy sources</b>					
A.	Duration of the reform *	X	X	X	X
B.	Net direct budgetary impact (if any)	0.0	0.0	0.0	0.0
B.1	Direct impact on budgetary revenue	0.0	0.0	0.0	0.0
B.2	Direct impact on budgetary expenditure	0.0	0.0	0.0	0.0
B.3	Possible non-budgetary financing	0.0	0.0	0.0	0.0
- B.3.1	Of which committed IPA funding including WBIF funding	0.0	0.0	0.0	0.0
<b>4. Improving the telecommunications market</b>					
For the development of these regulations, the funding is provided from the BiH budget, and will be implemented through the salaries and benefits of the implementers of activities, whereas for the implementation of the digitalisation process funding is secured from several sources (BiH budget; UMTS licenses; the BiH CRA's accumulated surplus income).					
A.	Duration of the reform *	X	X	X	X
B.	Net direct budgetary impact (if any)	0.0	0.0	0.0	0.0
B.1	Direct impact on budgetary revenue	0.0	0.0	0.0	0.0
B.2	Direct impact on budgetary expenditure	0.0	0.0	0.0	0.0
B.3	Possible non-budgetary financing	0.0	0.0	0.0	0.0
- B.3.1	Of which committed IPA funding including WBIF funding	0.0	0.0	0.0	0.0
<b>5. Enhancing agricultural production</b>					
A.	Duration of the reform *		X	X	X
B.	Net direct budgetary impact (if any)	0.0	0.0	0.0	0.0
B.1	Direct impact on budgetary revenue	0.0	0.0	0.0	0.0
B.2	Direct impact on budgetary expenditure	0.0	0.0	0.0	0.0
B.3	Possible non-budgetary financing	0.0	0.0	0.0	0.0

- B.3.1	Of which committed IPA funding including WBIF funding	0.0	0.0	0.0	0.0
<b>6. Introducing electronic signature - eSignature</b>					
A.	Duration of the reform *		X	X	X
B.	Net direct budgetary impact (if any)	0.0	0.0	0.0	0.0
B.1	Direct impact on budgetary revenue	0.0	0.0	0.0	0.0
B.2	Direct impact on budgetary expenditure	0.0	0.0	0.0	0.0
B.3	Possible non-budgetary financing	0.0	0.0	0.0	0.0
- B.3.1	Of which committed IPA funding including WBIF funding	0.0	0.0	0.0	0.0
<b>7. Speeding up the process of BiH's accession to WTO</b>					
A.	Duration of the reform *		X	X	X
B.	Net direct budgetary impact (if any)	0.0	0.0	0.0	0.0
B.1	Direct impact on budgetary revenue	0.0	0.0	0.0	0.0
B.2	Direct impact on budgetary expenditure	0.0	0.0	0.0	0.0
B.3	Possible non-budgetary financing	0.0	0.0	0.0	0.0
- B.3.1	Of which committed IPA funding including WBIF funding	0.0	0.0	0.0	0.0
<b>8. Improving links between education and labour market</b>					
A.	Duration of the reform *		X	X	X
B.	Net direct budgetary impact (if any)	0.0	0.0	0.0	0.0
B.1	Direct impact on budgetary revenue	0.0	0.0	0.0	0.0
B.2	Direct impact on budgetary expenditure	0.0	0.0	0.0	0.0
B.3	Possible non-budgetary financing	0.0	0.0	0.0	0.0

- B.3.1	Of which committed IPA funding including WBIF funding	0.0	0.0	0.0	0.0
<b>9. Improving the labour market efficiency</b>					
A.	Duration of the reform *		X	X	X
B.	Net direct budgetary impact (if any)	0.0	0.0	0.0	0.0
B.1	Direct impact on budgetary revenue	0.0	0.0	0.0	0.0
B.2	Direct impact on budgetary expenditure	0.0	0.0	0.0	0.0
B.3	Possible non-budgetary financing	0.0	0.0	0.0	0.0
- B.3.1	Of which committed IPA funding including WBIF funding	0.0	0.0	0.0	0.0
<b>10. Improving the functioning of the social protection system</b>					
A.	Duration of the reform *		X	X	X
B.	Net direct budgetary impact (if any)	0.0	0.0	0.0	0.0
B.1	Direct impact on budgetary revenue	0.0	0.0	0.0	0.0
B.2	Direct impact on budgetary expenditure	0.0	0.0	0.0	0.0
B.3	Possible non-budgetary financing	0.0	0.0	0.0	0.0
- B.3.1	Of which committed IPA funding including WBIF funding	0.0	0.0	0.0	0.0
<b>Total</b>					
B.	Net direct budgetary impact (if any)	0.0	0.0	0.0	0.0
B.1	Direct impact on budgetary revenue	0.0	0.0	0.0	0.0
B.2	Direct impact on budgetary expenditure	0.0	0.0	0.0	0.0
B.3	Possible non-budgetary financing	0.0	0.0	0.0	0.0

- B.3.1	Of which committed IPA funding including WBIF funding	0.0	0.0	0.0	0.0
---------	---	-----	-----	-----	-----

**Government of the Federation BiH**

Description of policy		2016	2017	2018	2019
<b>1. Reducing the burden on economy</b>					
The activities under this reform measure will be carried out as part of regular duties without any additional costs. From the aspect of revenues of the budget and extra budgetary funds, a neutral effect is foreseen. Since employment growth is expected in the future period, public revenues are set to rise on this basis as well.					
A.	Duration of the reform *		X	X	X
B.	Net direct budgetary impact (if any)	0.0	0.0	0.0	0.0
B.1	Direct impact on budgetary revenue	0.0	0.0	0.0	0.0
B.2	Direct impact on budgetary expenditure	0.0	0.0	0.0	0.0
B.3	Possible non-budgetary financing	0.0	0.0	0.0	0.0
- B.3.1	Of which committed IPA funding including WBIF funding	0.0	0.0	0.0	0.0
<b>2. Ensuring the sustainability of public spending and strengthening financial accountability</b>					
These activities will be carried out by FMF staff, so the implementation costs will be regular costs for salaries of employees (no additional costs). Some activities will bring savings in the budget through elimination of irregularities in budget spending, while some of them will require additional funds planned through various technical assistance projects (IPA fund, other donors) as well as the budget of the Federation BiH available to CSA.					
A.	Duration of the reform *	X	X	X	X
B.	Net direct budgetary impact (if any)	0.0	0.0	0.0	0.0
B.1	Direct impact on budgetary revenue	0.0	0.0	0.0	0.0
B.2	Direct impact on budgetary expenditure	0.0	0.0	0.0	0.0
B.3	Possible non-budgetary financing	0.0	0.0	0.0	0.0

- B.3.1	Of which committed IPA funding including WBIF funding	0.0	0.0	0.0	0.0
<b>3. Creating preconditions for the development of effective and target-oriented public finance system</b>					
The registry of financial reports contributes to transparency of financial reporting, due to the introduction of mandatory public disclosure of data from financial reports and the accompanying documentation for all parties subject to submission of financial reports on the web site of the Financial-Information Agency pursuant to the Law on Accounting and Auditing. These activities will be carried out as part of regular activities and there will be no additional costs. At this point it is not possible to fully determine the fiscal impact of this structural reform and its implications on the budgets.					
A.	Duration of the reform *	X	X	X	X
B.	Net direct budgetary impact (if any)	0.0	0.0	0.0	0.0
B.1	Direct impact on budgetary revenue	0.0	0.0	0.0	0.0
B.2	Direct impact on budgetary expenditure	0.0	0.0	0.0	0.0
B.3	Possible non-budgetary financing	0.0	0.0	0.0	0.0
- B.3.1	Of which committed IPA funding including WBIF funding	0.0	0.0	0.0	0.0
<b>4. Improving the communication infrastructure</b>					
The improvement of transport infrastructure (launching a new investment cycle for Restructuring of railways III to complete the reconstruction of the northern parts of the railway section on corridor Vc) requires EUR 40 million. For construction of the motorway on corridor Vc, the total planned amount is KM 1,514.83 million; in 2017: KM 515.01 million; in 2018: KM 500.73 million; and in 2019: KM 234.71 million. These are funds from loans and public companies.					
A.	Duration of the reform *	X	X	X	X
B.	Net direct budgetary impact (if any)	0.0	0.0	0.0	0.0
B.1	Direct impact on budgetary revenue	0.0	0.0	0.0	0.0
B.2	Direct impact on budgetary expenditure	0.0	0.0	0.0	0.0
B.3	Possible non-budgetary financing	0.0	0.0	0.0	0.0
- B.3.1	Of which committed IPA funding including WBIF funding	0.0	0.0	0.0	0.0
<b>5. Increasing energy efficiency and use of renewable energy sources</b>					

The amount set aside for the development of the Energy Strategy of the Federation of Bosnia and Herzegovina 2015-20135 with projections by 2050 is about KM 600,000 plus the VAT budget funds. JP Elektroprivreda BiH d.d. Sarajevo and JP Elektroprivreda HZ HB d.d. Mostar, for construction of hydro and wind power plants plan to invest the total amount of KM 823.33 million; 2017: KM 307.78 million; 2018: KM 205,00 million; 2019: KM 97.16 million (wind farm “Mesihovina”, HPP “Vranduk”, HPP “Una Kostela”, HPP “Janjići”, PHP “Vrilo”). For the Energy Efficiency Project, the Federal Ministry of Physical Planning will allocate the total amount of KM 31.08 million; 2017: KM 13.11 million; 2018: KM 1.65 million. The construction of new power plants will increase the production of electricity, which will have a positive impact on public revenues.

A.	Duration of the reform *			X	X
B.	Net direct budgetary impact (if any)	0.0	0.0	-0.6	0.0
B.1	Direct impact on budgetary revenue	0.0	0.0	0.0	0.0
B.2	Direct impact on budgetary expenditure	0.0	0.0	0.0	0.0
B.3	Possible non-budgetary financing	0.0	0.0	0.0	0.0
- B.3.1	Of which committed IPA funding including WBIF funding	0.0	0.0	0.0	0.0

#### **6. Enhancing agricultural production**

With regards to introduction of support measures based on payment per hectare and per head, the implementation of this measure will not require additional costs on top of regular allocations from the budget.

For the introduction of rural development measures on principles of EU IPARD, funds from the budget are secured per year.

A.	Duration of the reform *		X	X	X
B.	Net direct budgetary impact (if any)	0.0	-2.5	-2.5	-2.6
B.1	Direct impact on budgetary revenue	0.0	0.0	0.0	0.0
B.2	Direct impact on budgetary expenditure	0.0	-2.5	-2.5	-2.6
B.3	Possible non-budgetary financing	0.0	0.0	0.0	0.0
- B.3.1	Of which committed IPA funding including WBIF funding	0.0	0.0	0.0	0.0

#### **7. Conserving, protecting and improving environmental quality**

The adoption of the Law on the Environmental Protection and Energy Efficiency Fund has no impact on the budget because it will be carried out through regular activities and capacities, at no additional cost. The expected assessment of impact on the budget will be carried out as part of preparation of the law.

A.	Duration of the reform *		X	X	
----	--------------------------	--	---	---	--

B.	Net direct budgetary impact (if any)	0.0	0.0	0.0	0.0
B.1	Direct impact on budgetary revenue	0.0	0.0	0.0	0.0
B.2	Direct impact on budgetary expenditure	0.0	0.0	0.0	0.0
B.3	Possible non-budgetary financing	0.0	0.0	0.0	0.0
- B.3.1	Of which committed IPA funding including WBIF funding	0.0	0.0	0.0	0.0
<b>8. Improving the financial market</b>					
This measure is related to the Letter of Intent; FSAP recommendations and capital standards BASEL II, and the Strategy for introducing BASEL III. The expected fiscal effect is neutral.					
A.	Duration of the reform *		X		
B.	Net direct budgetary impact (if any)	0.0	0.0	0.0	0.0
B.1	Direct impact on budgetary revenue	0.0	0.0	0.0	0.0
B.2	Direct impact on budgetary expenditure	0.0	0.0	0.0	0.0
B.3	Possible non-budgetary financing	0.0	0.0	0.0	0.0
- B.3.1	Of which committed IPA funding including WBIF funding	0.0	0.0	0.0	0.0
<b>9. Improving the business environment</b>					
The amount of KM 1 million will be spent for project of support to development of entrepreneurial zones, while the amount of KM 0.15 million will be allocated from the budget for establishment and development of business support institutions. Additional support to increasing SME competitiveness is planned through a credit-guarantee fund from the budget in the amount of KM 1 million, and loan funds in the amount of KM 2 million, as well as the amount of KM 3.03 million from the current transfers for awarding incentives in order to improve SMEs competitiveness. Regulatory activities will not require any additional costs since they will be part of regular activities. The Law on Tourism and the Law on Catering, and the number of accompanying by-laws, will have neutral impact on budget. The Law on Tourist Fees in FBiH entails regulation of the system and its effect on budget revenues is expected to be positive.					
A.	Duration of the reform *		X	X	
B.	Net direct budgetary impact (if any)	0.0	-5.18	0.0	0.0
B.1	Direct impact on budgetary revenue	0.0	0.0	0.0	0.0
B.2	Direct impact on budgetary expenditure	0.0	0.0	0.0	0.0

B.3	Possible non-budgetary financing	0.0	0.0	0.0	0.0
- B.3.1	Of which committed IPA funding including WBIF funding	0.0	0.0	0.0	0.0
<b>10. Improving links between education and labour market</b>					
The costs of implementing this reform measure are covered within the FBiH Budget and annually amount to: KM 0.9 million for 2017, KM 0.87 million for 2018 and KM 0.86 million for 2019.					
A.	Duration of the reform *	X	X	X	
B.	Net direct budgetary impact (if any)	-0.9	-0.87	-0.86	0.0
B.1	Direct impact on budgetary revenue	0.0	0.0	0.0	0.0
B.2	Direct impact on budgetary expenditure	0.0	0.0	0.0	0.0
B.3	Possible non-budgetary financing	0.0	0.0	0.0	0.0
- B.3.1	Of which committed IPA funding including WBIF funding	0.0	0.0	0.0	0.0
<b>11. Improving the labour market efficiency</b>					
The overall value of the Employment Support Project is KM 110 million.					
A.	Duration of the reform *		X	X	
B.	Net direct budgetary impact (if any)	0.0	0.0	0.0	0.0
B.1	Direct impact on budgetary revenue	0.0	0.0	0.0	0.0
B.2	Direct impact on budgetary expenditure	0.0	0.0	0.0	0.0
B.3	Possible non-budgetary financing	0.0	0.0	0.0	0.0
- B.3.1	Of which committed IPA funding including WBIF funding	0.0	0.0	0.0	0.0
<b>12. Establishing an efficient, financially sound and sustainable system of pension and disability insurance in FBiH</b>					
The financial consequences of the Law on Pension and Disability Insurance will amount to between KM 12 and 50 million of budget funds a year. The preparation of the Law on Organisation of Pension and Disability Insurance of FBiH, from the aspect of additional costs, will have no direct influence on the budget because it will be performed as part of regular activities. The Law on Payment of Unpaid Contributions for PDI, based on binding years of employment, depending on coverage, will in the most likely option amount to KM 450 million in the next 30 years. Detailed analysis will be carried out in the next phase.					

A.	Duration of the reform *		X		
B.	Net direct budgetary impact (if any)	0.0	0.0	0.0	0.0
B.1	Direct impact on budgetary revenue	0.0	0.0	0.0	0.0
B.2	Direct impact on budgetary expenditure	0.0	0.0	0.0	0.0
B.3	Possible non-budgetary financing	0.0	0.0	0.0	0.0
- B.3.1	Of which committed IPA funding including WBIF funding	0.0	0.0	0.0	0.0
<b>13. Improving the functioning of the social protection system in FBiH</b>					
<p>As part of the implementation of the Strategy for Enhancement of the Rights and Position of Persons with Disabilities in the Federation of BiH 2016-2021, expenditures per year will be: 2017 – KM 200,000.00, i.e. KM 10,000.00 KM from the Budget of the Federation of BiH and KM 190,000.00 from donor funds; 2018-2021 – KM 200,000.00, i.e. KM 50,000.00 from the Budget of the Federation of BiH and KM 150,000.00 from donor funds. As part of the implementation of the Law on the Single Registry of Non-contributory Cash Benefits Users, expenditures per year will be: 2017 – KM 1,000,000.00 KM from the Budget of the Federation of BiH for the first year, and in the following period KM 200,000.00 for maintenance, and as part of the implementation of the Law on Organisations of Persons with Disabilities, expenditures will be: 2017 – KM 370,000.00 from the Budget of the Federation of BiH for the first year, and in the following years there will be an increase with the established minimum of KM 500,000.00.</p>					
A.	Duration of the reform *	X	X	X	X
B.	Net direct budgetary impact (if any)	0.0	-1.57	-0.9	-0.9
B.1	Direct impact on budgetary revenue	0.0	0.0	0.0	0.0
B.2	Direct impact on budgetary expenditure	0.0	0.0	0.0	0.0
B.3	Possible non-budgetary financing	0.0	0.0	0.0	0.0
- B.3.1	Of which committed IPA funding including WBIF funding	0.0	0.0	0.0	0.0
<b>Total</b>					
B.	Net direct budgetary impact (if any)	-0.9	-10.12	-4.86	-3.5
B.1	Direct impact on budgetary revenue	0.0	0.0	0.0	0.0
B.2	Direct impact on budgetary expenditure	0.0	0.0	0.0	0.0

B.3	Possible non-budgetary financing	0.0	0.0	0.0	0.0
- B.3.1	Of which committed IPA funding including WBIF funding	0.0	0.0	0.0	0.0

\* Indicate start and, if needed, end with an "X" mark

\*\* Data on the impact of the reform on revenue not available

### **Government of Republika Srpska**

(in million KM)

Description of policy		2016	2017	2018	2019
<b>1. Reducing the burden on economy</b>					
In 2017, with the assistance of the USAID, we will continue the analysis of non-tax charges included in the Registry of tax and non-tax charges of Republika Srpska. The expected fiscal effects will be clearly identified upon completion of the analysis of each individual charge. The current proposal of the Government of Republika Srpska was directed towards reducing the aggregate contribution rate from 33.0% on gross salary to 31.6% on gross salary, i.e. by 1.4 percentage points. According to calculations of the Ministry of Finance of Republika Srpska, financial effects of the proposed changes would lead to decline in revenues of extra budgetary funds in the total amount of about KM 76 million with the need to simultaneously find steady and realistic sources to cover the losses in revenues of extra budgetary funds, primarily the Health Insurance Fund of Republika Srpska.. It is planned, under this measure, to abolish the special Republika Srpska tax, which will bring lower revenues in the budget of Republika Srpska (about KM 10 million).					
A.	Duration of the reform *	X	X		
B.	Net direct budgetary impact (if any)	0.0	0.0	-10.0	-10.0
B.1	Direct impact on budgetary revenue	0.0	0.0	-10.0	-10.0
B.2	Direct impact on budgetary expenditure	0.0	0.0	0.0	0.0
B.3	Possible non-budgetary financing	0.0	0.0	0.0	0.0
- B.3.1	Of which committed IPA funding including WBIF funding	0.0	0.0	0.0	0.0
<b>2. Health sector reform</b>					

Health sector reform started in 2015 in cooperation with the World Bank. The introduction of the treasury system in the health care system is expected to significantly reduce costs and creation of liabilities and put a stop to growth of employment in public health institutions, which will bring a significant fiscal effect.

A.	Duration of the reform *	X	X	X	
B.	Net direct budgetary impact (if any)	0.0	0.0	0.0	0.0
B.1	Direct impact on budgetary revenue	0.0	0.0	0.0	0.0
B.2	Direct impact on budgetary expenditure	0.0	0.0	0.0	0.0
B.3	Possible non-budgetary financing	0.0	0.0	0.0	0.0
- B.3.1	Of which committed IPA funding including WBIF funding	0.0	0.0	0.0	0.0

### ***3. Ensuring the sustainability of public spending and strengthening financial accountability***

Financial effects of harmonizing the number of employees in local self-government units will be visible only after the expiration of the statutory deadline, which will be preceded by the need to secure funds for redundant employees. As for the expected fiscal effects, hardware components for local communities to install PIMIS software have been provided through SIDA and IPA grants. Funds for annual licenses need to be secured.

A.	Duration of the reform *	X	X	X	X
B.	Net direct budgetary impact (if any)	0.0	0.0	0.0	0.0
B.1	Direct impact on budgetary revenue	0.0	0.0	0.0	0.0
B.2	Direct impact on budgetary expenditure	0.0	0.0	0.0	0.0
B.3	Possible non-budgetary financing	0.0	0.0	0.0	0.0
- B.3.1	Of which committed IPA funding including WBIF funding	0.0	0.0	0.0	0.0

### ***4. Improving the communication infrastructure***

As part of Improving the quality of services of the RS Airport, KM 2 million needs to be provided for land expropriation, while the amount of KM 7 million is provided for the design of spatial planning documents, procurement of the Airport's Master Plan, procurement of equipment for better quality of service delivery, construction of cargo facility and expansion of passenger terminal building in Mahovljani. Depending on transport of goods and regularity of new airlines, the income set to be realised in 2017 amounts to KM 3.85 million, and KM 4.06 million in 2018.

Within the activities related to road transport, Republika Srpska ensured funds for construction of the interstate bridge over the river

Sava near Gradiska. Upon completion of construction of the motorway Banjaluka – Doboј, Banjaluka – Prnjavor, the road management companies will generate increased income from toll collection.					
A.	Duration of the reform *	X	X	X	X
B.	Net direct budgetary impact (if any)	0.0	-2.0	0.0	0.0
B.1	Direct impact on budgetary revenue	0.0	0.0	0.0	0.0
B.2	Direct impact on budgetary expenditure	0.0	2.0	0.0	0.0
B.3	Possible non-budgetary financing	0.0	7.0	0.0	0.0
- B.3.1	Of which committed IPA funding including WBIF funding	0.0	0.0	0.0	0.0
<b>5. Enhancing agricultural production</b>					
The implementation of activities within this measure has no direct fiscal effect on the budget. Reducing the number of social purpose aspects (measures) in favour of measures that affect growth of production volume, quality of production and export of key agricultural output will provide more funding for market-oriented production. Drawing up documents for rural development and IPARD Operational structure will secure additional sources of funding for agricultural sector.					
The activities of setting up the Land Parcel Identification System (LPIS), as part of the integrated administration and control system, can achieve significant savings and ensure financial discipline and earmarked spending of the agrarian budget.					
A.	Duration of the reform *		X	X	X
B.	Net direct budgetary impact (if any)	0.0	0.0	0.0	0.0
B.1	Direct impact on budgetary revenue	0.0	0.0	0.0	0.0
B.2	Direct impact on budgetary expenditure	0.0	0.0	0.0	0.0
B.3	Possible non-budgetary financing	0.0	0.0	0.0	0.0
- B.3.1	Of which committed IPA funding including WBIF funding	0.0	0.0	0.0	0.0
<b>6. Improving the financial market</b>					
A.	Duration of the reform *		X	X	X

B.	Net direct budgetary impact (if any)	0.0	0.0	0.0	0.0
B.1	Direct impact on budgetary revenue	0.0	0.0	0.0	0.0
B.2	Direct impact on budgetary expenditure	0.0	0.0	0.0	0.0
B.3	Possible non-budgetary financing	0.0	0.0	0.0	0.0
- B.3.1	Of which committed IPA funding including WBIF funding	0.0	0.0	0.0	0.0
<b>7. Improving the business environment</b>					
As regards the activity of the Introduction of electronic issuing of construction permits, the implementation cost will be known only when its implementation officially begins in Republika Srpska and after all corresponding analyses and estimated are completed. We should try and obtain a significant part of the equipment and software through grants and assistance of the countries that financially support and implement this project in the South East Europe.					
A.	Duration of the reform *		X	X	X
B.	Net direct budgetary impact (if any)	0.0	0.0	0.0	0.0
B.1	Direct impact on budgetary revenue	0.0	0.0	0.0	0.0
B.2	Direct impact on budgetary expenditure	0.0	0.0	0.0	0.0
B.3	Possible non-budgetary financing	0.0	3.0	0.5	0.0
- B.3.1	Of which committed IPA funding including WBIF funding	0.0	0.0	0.0	0.0
<b>8. Improving the efficiency and effectiveness of science research and innovation system</b>					
For the purposes of the Republika Srpska Strategy for Science and Technological Development 2017–2021 and implementation of the proposed measures in the coming years, we need to make a special financial study with projections of possible funding sources and the assessment of acceptable scenarios. The fiscal effects of the proposed reform measures will be visible in the long run, given the specificity of investment in research and development. Within two or three years, through increased research capacities of human resources, financially measurable benefits will be revealed, in terms of the reduced need for the budget support to scientific and research activities and the increasing interest of the real sector in taking over most of the funding, which is expected to result in the same proportion of the budget savings. The second type of financial effects relates to the business sector, which will generate considerable financial benefits by engaging the researchers. Moreover, the use of innovative processes or products, acquired or developed within the business entity, has a strong financial impact and results in intensive growth and development.					
A.	Duration of the reform *		X	X	X

B.	Net direct budgetary impact (if any)	0,0	0,0	0,0	0,0
B.1	Direct impact on budgetary revenue	0,0	0,0	0,0	0,0
B.2	Direct impact on budgetary expenditure	0,0	0,0	0,0	0,0
B.3	Possible non-budgetary financing	0,0	0,0	0,0	0,0
- B.3.1	Of which committed IPA funding including WBIF funding	0,0	0,0	0,0	0,0
<b>9. Improving links between education and labour market</b>					
The process of amending curricula, study programmes and generally improving the quality of the teaching personnel is long, complex and depends on significant financial funds, which can be a potential risk in the implementation of this measure.					
A.	Duration of the reform *		X	X	X
B.	Net direct budgetary impact (if any)	0.0	0.0	0.0	0.0
B.1	Direct impact on budgetary revenue	0.0	0.0	0.0	0.0
B.2	Direct impact on budgetary expenditure	0.0	0.0	0.0	0.0
B.3	Possible non-budgetary financing	0.0	0.0	0.0	0.0
- B.3.1	Of which committed IPA funding including WBIF funding	0.0	0.0	0.0	0.0
<b>10. Improving the labour market efficiency</b>					
At this time it is not possible to estimate the fiscal effects of the defined measure, because the effects are mostly indirect, but the increase of efficiency of the labour market will significantly influence the competitiveness of the economy of Republika Srpska.					
A.	Duration of the reform *		X	X	X
B.	Net direct budgetary impact (if any)	0.0	0.0	0.0	0.0
B.1	Direct impact on budgetary revenue	0.0	0.0	0.0	0.0
B.2	Direct impact on budgetary expenditure	0.0	0.0	0.0	0.0
B.3	Possible non-budgetary financing	0.0	0.0	0.0	0.0
- B.3.1	Of which committed IPA funding including WBIF funding	0.0	0.0	0.0	0.0
<b>Total</b>					

B.	Net direct budgetary impact (if any)	0.0	-2.0	-10.0	-10.0
B.1	Direct impact on budgetary revenue	0.0	0.0	-10.0	-10.0
B.2	Direct impact on budgetary expenditure	0.0	2.0	0.0	0.0
B.3	Possible non-budgetary financing	0.0	10.0	0.5	0.0
- B.3.1	Of which committed IPA funding including WBIF funding	0.0	0.0	0.0	0.0

**Table 11: Summary of structural reform measures**

*Council of Ministers of Bosnia and Herzegovina*

<b>1. Ensuring the sustainability of public spending and strengthening financial accountability</b>	
Short description	The objective of this Strategy is to enhance the system of public finances in order to ensure better functioning, transparency, accountability and efficiency in managing public funds and thereby contribute to improvement of macroeconomic stability in BiH.
Timetable by year	2017: -
	2018: -
	2019: -
Costs of implementation and impact on the annual budget	
Expected impact on competitiveness	
Expected social outcomes including on employment and on social groups in particular on gender	
<b>2. Improving the communication infrastructure</b>	
Short description	A horizontal objective is set by the Framework Transport Policy of BiH 2015-2030, towards the country's integration in the EU, following the Protocol on Land Transport built into the Stabilisation and Association Agreement. The transport sector has to contribute to sustainable and steady economic development through four general objectives: <ul style="list-style-type: none"> <li>5. Ensuring institutional efficiency;</li> <li>6. Ensuring financial sustainability;</li> <li>7. Stimulating economic development; and</li> <li>4. Addressing the environmental and social impacts</li> </ul>
Timetable by year	2017: -
	2018: -
	2019: -

Costs of implementation and impact on the annual budget	It is not possible to estimate the expected fiscal effect of this activity.
Expected impact on competitiveness	-
Expected social outcomes including on employment and on social groups in particular on gender	-
<b>3. Increasing energy efficiency and use of renewable energy sources</b>	
Short description	In February 2016, the Council of Ministers instructed the MoFTER BiH to set up a working group with the goal to define the principles on which, after the adoption of the energy strategy of the Federation BiH, one state-level strategic document will be formed from the two entity level strategies.
Timetable by year	2017: -
	2018: -
	2019: -
Costs of implementation and impact on the annual budget	It is not possible to estimate the expected fiscal effect of this activity.
Expected impact on competitiveness	-
Expected social outcomes including on employment and on social groups in particular on gender	-
<b>4. Improving the telecoms market</b>	
Short description	MTP 2017-2019 foresees the development of: <ul style="list-style-type: none"> <li>- Law on Electronic Communications;</li> <li>- Telecommunications sector policy in BiH 2017-2021; and</li> <li>- Broadband access strategy;</li> <li>- Continuation of the implementation of the Project of the digitalisation of public broadcasting services in Bosnia and Herzegovina, which is important for releasing the radio frequency spectrum from the existing users in digital dividend bands, thus creating conditions for awarding licenses for fourth generation mobile networks (4G).</li> </ul>

Timetable by year	2017: -
	2018: -
	2019: -
Costs of implementation and impact on the annual budget	For the development of these regulations, the funding is provided from the BiH budget, and will be implemented through the salaries and benefits of the implementers of activities, whereas for the implementation of the digitalisation process funding is secured from several sources (BiH budget; UMTS licenses; the BiH CRA's accumulated surplus income), as defined by the Decision on inclusion of the Project of the digitalisation of public broadcasting services in Bosnia and Herzegovina in the multi-year capital investment programme 2011-2014.
Expected impact on competitiveness	-
Expected social outcomes including on employment and on social groups in particular on gender	By stimulating the economic growth through the introduction of new services and opening to investment, telecommunications create conditions for creation of new jobs, boost productivity of the existing business processes, revenues and return on investment. Investment in broadband access directly affects GDP growth, competitiveness of all sectors of the economy and improves the lives of citizens.
<b>5. Enhancing agricultural production</b>	
Short description	Creating the required preconditions for the use of pre-accession funds of the European Union targeted to support the development and raising the competitiveness of the agricultural sector in BiH and development of rural areas in BiH. The main objective is to ensure the development and integration of the BiH agricultural sector into the European and global market.
Timetable by year	2017
	2018:
	2019:
Costs of implementation and impact on the annual budget	Available budgets of the institutions earmarked for support to the development of agriculture and rural development at all levels responsible for agriculture in Bosnia and Herzegovina reaching the amount of KM 160 million are insufficient to support the reform processes and cannot ensure strengthening of competitiveness of the BiH agriculture. The European Union has earmarked the pre-accession funds of up to KM 35 million annually for Bosnia and Herzegovina as a potential candidate for the EU membership. These funds are very important for support to competitiveness of agriculture and development of rural areas. The base funds required for the development of the Strategic Plan for Rural Development of BiH and the IPARD Programme, as well as the establishment of the IPARD implementation structure, amount to around KM 10 million.
Expected impact on competitiveness	The development of agriculture and rural areas, raising the level of productivity and ensuring a sufficient level of competitiveness of domestic agricultural production for entry in a liberalised market is a priority

	and a special interest of Bosnia and Herzegovina. Ensuring the conditions, primarily, through the adoption of the legislative package in the area of agriculture, veterinary, phytosanitary protection, food, fishery (Law on wine; amendments to the Law on Agriculture, food and rural development; Law on food; Law on Veterinary; upgrading regulations on organic production and marine fisheries) which will comply with the EU regulations, and establishing structures (inspection services and services for product quality assessment) which will ensure the achievement of the required level of food quality and safety standards for undisturbed trade in agricultural products and export of all goods of animal and plant origin in the EU market.
Expected social outcomes including on employment and on social groups in particular on gender	-
<b>6. Introducing electronic signature - eSignature</b>	
Short description	The Office for Supervision and Accreditation of eSignature has been established, on the basis of Article 20 of the Law on electronic signature. By-laws required for the operation of the Office for Supervision and Implementation of the Law on e-Signature are the Rulebook on detailed conditions for issuance of qualified electronic certificates; the Rulebook on repository of certification authorities; and the Rulebook on measures and procedures to protect the electronic signature, means for forming the electronic signature and certification system. These Rulebooks have been drafted and sent to the General Secretariat of the Council of Ministers BiH for consideration and adoption.
Timetable by year	2017: -
	2018: -
	2019: -
Costs of implementation and impact on the annual budget	It is not possible to estimate the expected fiscal effect of this activity.
Expected impact on competitiveness	-
Expected social outcomes including on employment and on social groups in particular on gender	-
<b>7. Speeding up the process of BiH's accession to WTO</b>	
Short description	For a number of years Bosnia and Herzegovina has been in negotiation to join the World Trade

	Organisation (WTO), as part of the trade integration processes). Accession to the World Trade Organisation (WTO), i.e. inclusion of BiH in the global multilateral trade system, is a highly complicated process that demands years of negotiation, implementation of numerous reforms, passing of series of laws, establishing new institutions and finding the most favourable solutions for the country in the process of accession, all with the aim of its active and equal participation in international trade flows. At this time, the process of Bosnia and Herzegovina accessing the World Trade Organisation is in its final stage.
Timetable by year	2017: -
	2018: -
	2019: -
Costs of implementation and impact on the annual budget	It is not possible to estimate the expected fiscal effect of this activity.
Expected impact on competitiveness	The segment of negotiations which refers to the area of local incentives in agriculture has been completed and there is further work to be done in that area in order to harmonise agricultural incentive policies in all government levels in BiH in accordance with accepted obligations within the WTO accession negotiations, which should, in the immediate future period, prepare the sector of agriculture in Bosnia and Herzegovina for open market competition at the global and regional level.
Expected social outcomes including on employment and on social groups in particular on gender	-
<b>8. Improving links between education and labour market</b>	
Short description	The labour market is incessantly demanding new and adaptable work force. Education should answer all these demands. In that sense, it is necessary to improve the existing and prepare new strategic documents in all levels of government, with the goal of modernising and integrating BiH's educational systems into the European educational system. On that note, there are strategic documents at the BiH state level which represent a basis for further education enhancement.
Timetable by year	2017: -
	2018: -
	2019: -
Costs of implementation and impact on the annual budget	It is not possible to estimate the expected fiscal effect of this activity.

Expected impact on competitiveness	It is necessary to improve the conditions for the education process, establish partnerships of schools, institutions of higher education and employers, motivate all participants of these processes to take part in trainings and enhance professional training of teachers. Further development of the Lifelong Learning Qualification Framework in BiH would enhance and facilitate more direct networking of the sectors of education, labour and employment. It is well-known that qualification frameworks encompass the development of knowledge, skills and competences based on learning outcomes and represent an answer to the demands of the labour market.
Expected social outcomes including on employment and on social groups in particular on gender	-
<b>9. Improving the labour market efficiency</b>	
Short description	The BiH Council of Ministers adopted the information of the Directorate for European Integration on the possibilities for using the Sector Budget Support of IPA II and sector strategic documents needed to use IPA II. With the goal of realising the conclusions of the Council of Ministers from the aforementioned session, relevant institutions in BiH began preparing a proposal of an action document, i.e. the Sector Reform Contract (SRC) for employment, which would be financed from the IPA 2017 programme for using Sectoral Budget Support.
Timetable by year	2017:
	2018:
	2019:
Costs of implementation and impact on the annual budget	It is not possible to estimate the expected fiscal effect of this activity.
Expected impact on competitiveness	-
Expected social outcomes including on employment and on social groups in particular on gender	-
<b>10. Improving the functioning of the social protection system</b>	
Short description	The goal of the project EUSCEM is to “enhance social protection of sensitive and socially vulnerable groups and enhance monitoring, reporting and promotion of human rights.” The purpose of the project is to develop a generic model (best practice model) of assisting the elderly age population and persons with disabilities. Expected results include support to legislative reform in the area of social protection and

	strengthening the capacities of centres for social work in at least 12 pilot areas to deliver efficient social services.
Timetable by year	2017: -
	2018: -
	2019: -
Costs of implementation and impact on the annual budget	It is not possible to estimate the expected fiscal effect of this activity
Expected impact on competitiveness	-
Expected social outcomes including on employment and on social groups in particular on gender	-

***Government of the Federation BiH***

<b><i>1. Reducing the burden on economy</i></b>	
Short description	Government of the Federation BiH is planning to take the first step to reducing the tax burden on labour by aligning the method of labour taxation with the EU and OECD countries. The tax base will be extended by so far non-taxable allowances (meal allowance, commuting allowance, vacation bonus, etc.) thus providing the conditions for reducing the contribution rates along with achieving the neutral fiscal effect, particularly in terms of fiscal sustainability of extra budgetary funds.
Timetable by year	2017: - Adoption of the Law on Personal Income Tax and the accompanying by-laws - Adoption of the Rulebook on Implementation of the Law on Personal Income Tax, the instructions and other regulations
	2018: - Evaluation and monitoring of the implementation of the Law and the accompanying by-laws.
	2019: -
Costs of implementation and impact on the annual budget	The activities under this reform measure will be carried out as part of regular duties without any additional costs.

Expected impact on competitiveness	Lower burden on the economy will increase the competitiveness of domestic companies and bring greater investment and economic growth.
Expected social outcomes including on employment and on social groups in particular on gender	Employment is expected to rise, since the employer will be discouraged to hire individuals based on fee contract and other similar contracts (the new Law prescribes the same contribution rates for pension and disability and health insurance based on these contracts as for employment). By reducing the cost of labour, the demand for labour will increase and also lead to employment growth.
<b>2. Ensuring the sustainability of public spending and strengthening financial accountability</b>	
Short description	Reforms towards strengthening fiscal accountability and fiscal management aim at introducing higher standards of control in public finance management, developing a stronger system of accountability and greater legality and regularity in budget spending.
Timetable by year	<p>2017:</p> <ul style="list-style-type: none"> <li>- The Law on debt, borrowing and guarantees in the Federation of Bosnia and Herzegovina</li> <li>- Information system for budget preparation BPMIS operational throughout the Federation BiH</li> <li>- The Law on salaries of employees in extra budgetary funds</li> <li>- The regulation that will govern the process of collection of claims under placed loans and form protested guarantees of the Federation BiH</li> <li>- The regulation that establishes the obligation and governs the process of debt and guarantee reporting</li> <li>- The regulation that governs the process of guarantee issuance, including the risk assessment process for issuance of guarantees, tracking the guarantees of the Federation, the method of calculating the percentage of the risk premium, etc.</li> <li>- The regulation pertaining to approval for borrowing and issuance of the guarantees of cantons, cities or municipalities in the Federation BiH</li> </ul> <p>The regulation that establishes the obligation and governs the procedure of recording debt and guarantees and reporting on them</p> <ul style="list-style-type: none"> <li>- Information system for debt management (recording and tracking debt and guarantees, debt reporting, etc.)</li> <li>- FMC Manual</li> <li>- The regulation providing for establishment, financing and management of the Guarantee Fund and other issues related to the Guarantee Fund</li> <li>- Amendments to the applicable regulations in the field of internal audit.</li> </ul>
	<p>2018:</p> <ul style="list-style-type: none"> <li>- Establish a grant programme for cantons that agree to restrictions on salaries and reduction of total employment in public sector.</li> </ul>
	<p>2019:</p> <ul style="list-style-type: none"> <li>- Introduce Pension and Disability Fund in the FBiH budget</li> </ul>

	- Develop the feasibility analysis for introduction of other funds in the FBiH budget (health and employment)
Costs of implementation and impact on the annual budget	These activities will be carried out by FMF staff, so the implementation costs will be regular costs for salaries of employees (no additional costs). Some activities will bring savings in the budget through elimination of irregularities in budget spending, while some of them will require additional funds planned through various technical assistance projects (IPA fund, other donors) as well as the budget of the Federation BiH available to CSA.
Expected impact on competitiveness	More efficient public administration leads to a more competitive private sector.
Expected social outcomes including on employment and on social groups in particular on gender	-
<b>3. Creating preconditions for the development of effective and target-oriented public finance system</b>	
Short description	The implementation of this reform measure entails the establishment of the registry of risks and improving the reporting system and allocation of public revenues in the Federation BiH. The new reporting system will be based on the use of data from the RAS system of the Tax Administration of the Federation BiH and the adaptation of the reporting forms. The preparation of the models of vertical and horizontal allocation of the indirect tax revenues among different government levels in the Federation BiH is under way (technical assistance provided by IMF).
Timetable by year	2017: <ul style="list-style-type: none"> <li>- The Law on Accounting and Auditing in the Federation BiH</li> <li>- The Law on the Registry of Financial Reports</li> <li>- The Registry of fees and taxes in the Federation BiH</li> <li>- The Law on Development Planning</li> <li>- By-legal regulations on development planning and management of development in the Federation BiH</li> <li>- The Law on Allocation of Public Revenues in the Federation BiH</li> </ul>
	2018: <ul style="list-style-type: none"> <li>- Drafting the implementing regulations of the Law on Allocation of Public Revenues in the Federation BiH</li> </ul>
	2019: -
Costs of implementation and impact on the annual budget	These activities will be carried out as part of regular activities and there will be no additional costs. At this point it is not possible to fully determine the fiscal impact of this structural reform and its implications on the budgets.
Expected impact on competitiveness	The goal is to improve awareness and safety of investors and to foster foreign investment inflows.

Expected social outcomes including on employment and on social groups in particular on gender	-
<b>4. Improving the communication infrastructure</b>	
Short description	The Transport Strategy and the accompanying Action Plan 2016-2030 for the Federation BiH was adopted. Procedures for adoption of the amendments to the regulations and enactment of corresponding decisions on new categorisation of roads in the Federation BiH are under way. The activities are undertaken to increase discipline, collection, allocation and earmarked spending of the original revenues for transport infrastructure, and the process of establishing a unit/department for traffic safety within the relevant ministry. The FBIH railway restructuring document is being prepared in cooperation with the World Bank and the Swedish organisation SIDA. The proposal of restructuring policy was presented by the World Bank and the Federation needs to accept one of the proposed models. To put it simply, all the proposed models include the separation of infrastructure from operators, the establishment of a holding company and a synthesized structure.
Timetable by year	2017: <ul style="list-style-type: none"> <li>- To set up a model for reconstruction of railways;</li> <li>- To amend the Law on Railways of FBIH;</li> <li>- To develop an action plan for restructuring of railways – establish the obligations and financial structure;</li> <li>- To re-define original revenues (from oil and registration) and create better assumptions for construction of the road infrastructure;</li> <li>- To continue the construction of the motorway on corridor Vc;</li> <li>- To amend the Ordinance on defining the charge model for motorways;</li> <li>- The amendments to the Law on Roads – finishing;</li> <li>- The Law on the authorities delegated to automobile clubs;</li> <li>- To redefine models of funding the motorways with a focus on concessions and public-private partnership;</li> <li>- The Decision on categorisation of roads and the review of the existing studies that will influence the Decision on categorisation of roads;</li> <li>- To create a database on the situation of aviation infrastructure in FBIH so as to determine the situation and the development needs.</li> </ul>
	2018: -
	2019: -
Costs of implementation and impact on the annual budget	The improvement of transport infrastructure (launching a new investment cycle for Restructuring of railways III to complete the reconstruction of the northern parts of the railway section on corridor Vc) requires EUR 40 million. For construction of the motorway on corridor Vc, the total planned amount is KM 1,514.83 million; in 2017: KM 515.01 million; in 2018: KM 500.73 million; and in 2019: KM 234.71 million.

Expected impact on competitiveness	Development of the communication infrastructure is expected to have a positive impact on competitiveness.
Expected social outcomes including on employment and on social groups in particular on gender	-
<b>5. Increasing energy efficiency and use of renewable energy sources</b>	
Short description	There is a commitment to the adoption of the new document of Energy Strategy of the Federation of Bosnia and Herzegovina in order to ensure better positioning of the Federation BiH in the framework of the energy sector of Bosnia and Herzegovina and the region. Also, it our strategic determinant to work on increasing the generation capacities and rising the share of renewable energy sources in the overall production, thus achieving the indicative target of electricity production from RES in 2017 in line with the APOEF.
Timetable by year	<p>2017:</p> <ul style="list-style-type: none"> <li>- Development of the Energy Strategy of the Federation of Bosnia and Herzegovina 2015-20135 with projections by 2050;</li> <li>- Law on Energy Efficiency of FBiH;</li> <li>- Amendments to the Law on Exploration and Exploitation of Oil and Gas in the Federation BiH;</li> <li>- Activation of projects of integrated use of watercourses (water supply; protection against high waters; protection against low waters; electricity generation, etc) on the catchment of the rivers Bosna and Vrbas, through awarding the concessions to public companies and private investors or through public-private partnership;</li> <li>- SCADA/DMS/OMS with the accompanying communication system – electronic networking of all energy facilities;</li> <li>- Reconstruction of the existing oil terminals and gradual establishing of oil stocks, and the creation of prerequisites for the fulfilment of the Directive 2009/119 EC;</li> <li>- Further restructuring of the concern Elektroprivreda BiH, with emphasis on restructuring of the mines (operational, personnel and financial) through the Programme of Restructuring of the Electricity Sector in FBiH;</li> <li>- Distribution of electricity - "Smart Meters" KM 23.36 million (loan in the amount of KM 19.56 million)</li> <li>- Law on Gas of FBiH</li> <li>- National Energy Efficiency Action Plan (NEAP) in BiH</li> </ul>
	<p>2018: -</p> <ul style="list-style-type: none"> <li>- Distribution of electricity - "Smart Meters" KM 17.48 million (loan KM 13.69 million)</li> <li>- Amendments to the Law on Companies by introducing corporate governance in public companies using the</li> </ul>

	<p>OECD's guidelines on management;</p> <ul style="list-style-type: none"> <li>- Amendments to the Ordinance on Professional Development of Chairman and Members of Supervisory Boards and Managements of Companies with State Capital, and adoption of the Programme for Professional Development of Chairman and Members of Supervisory Boards and Managements of Companies with State Capital;</li> <li>- Reconstruction of the existing oil terminals and gradual establishing of oil stocks, and the creation of prerequisites for the fulfilment of the Directive 2009/119 EC;</li> <li>- Further restructuring of the concern Elektroprivreda BiH, with emphasis on restructuring of the mines (operational, personnel and financial) through the Programme of Restructuring of the Electricity Sector in FBiH;</li> <li>- Feasibility study (ESIA, CBA and preliminary design) for the regional gas pipeline "South Interconnection of Bosnia and Herzegovina and Croatia" – diversification of supply sources.</li> </ul>
	<p>2019:</p> <ul style="list-style-type: none"> <li>- Distribution of electricity - "Smart Meters"</li> </ul>
Costs of implementation and impact on the annual budget	<p>The amount set aside for the development of the Energy Strategy of the Federation of Bosnia and Herzegovina 2015-20135 with projections by 2050 is about KM 600,000 plus the VAT budget funds.</p> <p>JP Elektroprivreda BiH d.d. Sarajevo and JP Elektroprivreda HZ HB d.d. Mostar, for construction of hydro and wind power plants plan to invest the total amount of KM 823.33 million; 2017: KM 307.78 million; 2018: KM 205,00 million; 2019: KM 97.16 million (wind farm "Mesihovina", HPP "Vranduk", HPP "Una Kostela", HPP "Janjići", PHP "Vrilo").</p> <p>For the Energy Efficiency Project, the Federal Ministry of Physical Planning will allocate the total amount of KM 31.08 million; 2017: KM 13.11 million; 2018: KM 1.65 million.</p>
Expected impact on competitiveness	The construction of new power plants will increase the production of electricity, which will have a positive impact on public revenues.
Expected social outcomes including on employment and on social groups in particular on gender	-
<b>6. Enhancing agricultural production</b>	
Short description	This measure is planned to equalise the amount of support for direct payments per hectare for production of crops, vegetables and fruits, as well as wines, including the seed production for owners of farms registered in RAF that meet the general and specific criteria, on the basis of pre-defined minimum land parcels for exercising the right to

	<p>this support measure.  This measure comprises two sub-measures, namely:</p> <ul style="list-style-type: none"> <li>- direct payments per hectare of land area and</li> <li>- direct payments per head of cattle.</li> </ul>
Timetable by year	2017: <ul style="list-style-type: none"> <li>- Direct payments per head for dairy cows in the system of milk collection.</li> </ul>
	2018: <ul style="list-style-type: none"> <li>- Direct payments per hectare (agricultural strategy adopted; the payment software is being developed);</li> <li>- Establishing the agro-fund/agro-bank, equally dispersed across the entire territory, and concluding contracts with commercial banks for financing investment projects in agriculture and rural development;</li> <li>- Taxation of uncultivated agricultural land and streamlining the collected funds in the agro-fund;</li> <li>- LPIS identification of parcels for payments based on use;</li> <li>- GIS for agriculture;</li> <li>- Law on the Organisation of Agricultural Products Market</li> </ul>
	2019: -
Costs of implementation and impact on the annual budget	<p>With regards to introduction of support measures based on payment per hectare and per head, the implementation of this measure will not require additional costs on top of regular allocations from the budget.</p> <p>For the introduction of rural development measures on principles of EU IPARD, funds from the budget are secured per year, for 2017. – EUR 1.29 million, 2018. – EUR 1.24 million, 2019. – EUR 1.35 million.</p>
Expected impact on competitiveness	The expected impact on competitiveness is positive.
Expected social outcomes including on employment and on social groups in particular on gender	-
<b><i>7. Conserving, protecting and improving environmental quality</i></b>	
Short description	This reform measure entails improving the existing legal framework governing the area of waste management, financial mechanisms, and the system of getting environmental permits.

Timetable by year	2017: - Law on the Environmental Protection and Energy Efficiency Fund. The focus is on designated use of the fund resources, which is extended to energy efficiency too. Financing measures to increase energy efficiency in the areas of environmental protection and greenhouse gas emissions is foreseen too, as well as meeting the Energy Community contractual obligations.
	2018: - Establishment of regional waste management centres and environmentally sound closing of unregulated municipal landfills along with the development of infrastructure for selective collection of packaging, electric, electronic and other waste, the establishment of recycling centres using funds from different sources.
	2019: -
Costs of implementation and impact on the annual budget	The adoption of the Law on the Environmental Protection and Energy Efficiency Fund has no impact on the budget because it will be carried out through regular activities and capacities, at no additional cost.
Expected impact on competitiveness	The impact is expected to be positive.
Expected social outcomes including on employment and on social groups in particular on gender	-
<b>8. Improving the financial market</b>	
Short description	The current situation of financial markets requires a revision of the entire set of legal solutions. The expected improvements relate to tighter prudential requirements, strengthening the legal framework governing the operations of banks, MCOs, investment funds, insurance and leasing companies.
Timetable by year	2017: - The Law on Banks - Law on Insurance Mediation - Law on the Banking Agency

	<ul style="list-style-type: none"> <li>- Law on Microcredit Organisations</li> <li>- Law on Leasing (amendments)</li> <li>- Law on Investment Funds (amendments)</li> </ul>
	2018: -
	2019: -
Costs of implementation and impact on the annual budget	The expected fiscal effect is neutral.
Expected impact on competitiveness	The expected impact is positive.
Expected social outcomes including on employment and on social groups in particular on gender	-
<b>9. Improving the business environment</b>	
Short description	Support to development of the entrepreneurial infrastructure in the Federation BiH will be provided in the coming period with the goal to foster economic growth and employment at the local level. This measure also contributes to the implementation of economic priorities defined in the development strategies of local self-government units and the implementation of priorities identified in the strategic documents of the Federation BiH.
Timetable by year	2017: <ul style="list-style-type: none"> <li>- Amendments to the Law on Incentives to Small Businesses, the harmonisation of legislation with the EC recommendations;</li> <li>- Amendments to the Law on Crafts and Related Activities. The goal is to ease doing business of craftsmen in FBiH and create environment for growth of crafts, with a number of by-laws;</li> <li>- Registry of crafts, with the aim of improving business and making better quality policies in the field of SMEs;</li> <li>- Registries on population and registry books;</li> <li>- E website;</li> <li>- Law on Tourism and a number of by-laws;</li> <li>- Law on catering and a number of by-laws;</li> <li>- Law on Tourist Fees in FBiH;</li> </ul>

	<ul style="list-style-type: none"> <li>- Intensify development of entrepreneurial infrastructure (business zones, technological parks, incubators, entrepreneurial centres and clusters) by awarding incentives and improved cooperation with local self-government units;</li> <li>- Produce catalogues and interactive map of Entrepreneurial zones in the Federation BiH with performance indicators;</li> </ul>
	<p>2018:</p> <ul style="list-style-type: none"> <li>- Law on Improving the entrepreneurial infrastructure in FBiH with a number of by-laws;</li> <li>- Establish the Agency for SME Development;</li> <li>- Establish the SME Fund compatible with IPA funds;</li> <li>- Adopt Strategy for Development of Tourism in FBiH;</li> <li>- Registries on space, facilities and GIS maps</li> </ul>
	<p>2019: -</p>
Costs of implementation and impact on the annual budget	<p>The amount of KM 1 million will be spent for project of support to development of entrepreneurial zones, while the amount of KM 0.15 million will be allocated from the budget for establishment and development of business support institutions. Additional support to increasing SME competitiveness is planned through a credit-guarantee fund from the budget in the amount of KM 1 million, and loan funds in the amount of KM 2 million, as well as the amount of KM 3.03 million from the current transfers for awarding incentives in order to improve SMEs competitiveness. Regulatory activities will not require any additional costs since they will be part of regular activities.</p> <p>The Law on Tourism and the Law on Catering, and the number of accompanying by-laws, will have neutral impact on budget. The Law on Tourist Fees in FBiH entails regulation of the system and its effect on budget revenues is expected to be positive.</p>
Expected impact on competitiveness	<p>There are many studies showing that the improvement of business environment has a positive impact on competitiveness of the economy.</p>
Expected social outcomes including on employment and on social groups in particular on gender	<p>Positive impact on employment.</p>
<b>10. Improving links between education and labour market</b>	
Short description	<p>The Federal Ministry of Education and Science has completed its preparation activities for the establishment of the Student and Education Staff Mobility Fund in the Federation of BiH. The text of the Decision to Establish the Fund/Foundation received opinions from the Division for the Harmonisation of BiH Legislation with the EU <i>acquis</i>, the Federal Ministry of Justice and the Federal Ministry of Finance.</p> <p>Through the realisation of the project of establishing the Mobility Fund, a higher level of harmonisation with the</p>

	<p>needs of the labour market will be ensured by means of the career guidance project.</p> <p>In cooperation with cantonal agencies and the Federal Employment Agency, the enrolment policies for secondary schools, universities and enrolment quotas for public secondary schools and universities will be coordinated. Emphasis will be placed on focusing secondary education on professional skills with the goal of harmonising them with employment opportunities and economic needs through the preparation of a career guidance model.</p>
Timetable by year	<p>2017:</p> <ul style="list-style-type: none"> <li>- Establish the Student and Education Staff Mobility Fund which will focus on supporting activities aimed at forming education departments that will conduct classes in the English language, with staff training and promotion of mobility programmes and good practices.</li> <li>- Prepare a career guidance model in cooperation with the cantons, focusing education on the labour market and connecting learning and education outcomes with demands of the labour market.</li> <li>- Guidelines for preparing and adopting textbooks and other teaching resources for primary and secondary schools (adopted by coordination of ministers). The goal is to arrive at the best quality of textbooks in order to contribute to a better quality of the education process and better integration into the labour market.</li> </ul>
	<p>2018:</p> <ul style="list-style-type: none"> <li>- Attract the intellectual and scientific potential of the diaspora and facilitate the visa regime for students, researchers and science professionals in order to improve student and academic mobility and include the scientific potential of the diaspora into the education process.</li> </ul>
	<p>2019: -</p>
Costs of implementation and impact on the annual budget	The costs of implementing this reform measure are covered within the FBiH Budget and annually amount to: KM 0.9 million for 2017, KM 0.87 million for 2018 and KM 0.86 million for 2019.
Expected impact on competitiveness	The expected impact on competitiveness is positive.
Expected social outcomes including on employment and on social groups in particular on gender	-
<b><i>11. Improving the labour market efficiency</i></b>	
Short description	The low activity rate among the population capable of work in the Federation of BiH on the one side, and the failure to harmonise the education system in accordance with the needs of the labour market on the other, demand a new approach to promoting employment, stimulating the demand for labour force by giving incentives to employers, promoting self-employment, strengthening the capacities of public employment services and

	<p>enhancing their functionality. The final goal, apart from increasing employment and enhancing the work of employment services, is also to stimulate the development of the private sector and suppress the gray economy.</p> <p>Apart from the above, planned activities also include amendments to labour-related legislature pertaining to strikes, work safety and protection. The goal is to avoid misuse and damage that both employers and employees can suffer in cases of work stoppages that could have been prevented by dialogue and arbitration.</p>
Timetable by year	<p>2017:</p> <ul style="list-style-type: none"> <li>- Implement employment and self-employment programmes aimed at young people, women and other vulnerable groups of the unemployed</li> <li>- Law on Amendments to the Law on Mediation for Employment and Social Security of Unemployed Persons, with which the amount of the cash benefit for unemployment will be linked to a percentage of salary of each unemployed person</li> <li>- Rulebook on Records in the Area of Employment</li> <li>- Law on Strike</li> <li>- Law on Security and Safety at Work</li> <li>- Law on Peaceful Resolution of Labour Disputes</li> </ul>
	<p>2018:</p> <ul style="list-style-type: none"> <li>- Implement employment and self-employment programmes aimed at young people, women and other vulnerable groups of the unemployed</li> <li>- Prepare an annual report on the effects of the Programme of Active Labour Market Measures, with the goal of increasing employment</li> </ul>
	<p>2019: -</p>
Costs of implementation and impact on the annual budget	The overall value of the Employment Support Project is KM 110 million, financed partly from a World Bank credit and partly from budget funds.
Expected impact on competitiveness	Employment programmes provide support to employers, which in turn influences an increase in their competitiveness in the market. The expected effect of improved legislature pertaining to strikes, safety at work and peaceful resolution of disputes is positive.
Expected social outcomes including on employment and on social groups in particular on gender	It is to be expected that this reform measure will lead to an increase in the number of employed persons in FBiH. Increase of employment contributes to vulnerable groups and their families being lifted from poverty, prevents young people from leaving the country, and influences the economic empowerment of women by creating equal opportunities and equal access to the labour market.

<b>12. Establishing an efficient, financially sound and sustainable system of pension and disability insurance in FBiH</b>	
Short description	In accordance with negative prognoses regarding the social sustainability of the pension system in the Federation of BiH and unfavourable demographic predictions, it is necessary to reform the existing pension system in the Federation of BiH. It is necessary to reduce the “pressure” on the pension system by gradually tightening the conditions for exercising rights to old-age and family pension, with exceptions which will be adequate in terms of the socioeconomic situation in the Federation of BiH. After that, it is necessary to increase the pension coverage and create the preconditions for introducing fair contribution rates for pension and disability insurance in the part that refers to more years of service. Furthermore, it is necessary to create conditions for a more cost-effective organisation of pension and disability insurance, thereby reducing the costs for insurance holders and ensuring funds for regular payments of PDI.
Timetable by year	2017: - Law on Pension and Disability Insurance - Law on Organisation of Pension and Disability Insurance - Law on Payment of Unpaid Contributions for PDI
	2018: -
	2019: -
Costs of implementation and impact on the annual budget	The financial consequences of the Law on Pension and Disability Insurance will amount to between KM 12 and 50 million of budget funds a year. The preparation of the Law on Organisation of Pension and Disability Insurance of FBiH, from the aspect of additional costs, will have no direct influence on the budget because it will be performed as part of regular activities. The Law on Payment of Unpaid Contributions for PDI, based on binding years of employment, depending on coverage, will in the most likely option amount to KM 450 million in the next 30 years.
Expected impact on competitiveness	The Law on Binding Years of Employment should unburden companies and ensure uninterrupted continuation of operations.
Expected social outcomes including on employment and on social groups in particular on gender	-
<b>13. Improving the functioning of the social protection system</b>	
Short description	It is necessary to define and provide minimum financial security of individuals and families to meet their basic needs, define and enable the availability and uniformity of achieving the basic package of rights for families with children in the whole Federation of BiH, enable accessibility and equality of services and the rights within social protection, define the conditions for development of social welfare services, to create equal opportunities for individuals to live independently and actively participate in the community, preserve and improve family relationships and encourage family solidarity, prevent and eliminate the consequences of abuse, neglect and

	exploitation.
Timetable by year	2017: <ul style="list-style-type: none"> <li>- Law on Foster Care in the Federation of BiH</li> <li>- Law on Protection of Families with Children in the Federation of BiH</li> <li>- Law on the Public Institution - Institute for the Admission and Education of Children and Minors</li> <li>- Strategy for Enhancement of the Rights and Position of Persons with Disabilities in the Federation of BiH 2016-2021</li> <li>- Law on the Single Registry of Non-contributory Cash Benefits Users</li> <li>- Law on Organisations of Persons with Disabilities</li> <li>- Single list of Disabilities and Rulebook on the Application of the List of Disabilities (applied to all categories of persons with disabilities)</li> <li>- Law on the Protection of Families and Children</li> </ul>
	2018: <ul style="list-style-type: none"> <li>- Law on Social Services in the Federation of BiH</li> <li>- Law on Social Work Activities in the Federation of BiH</li> </ul>
	2019: <ul style="list-style-type: none"> <li>- Law on Principles of Social Protection in the Federation of BiH</li> </ul>
Costs of implementation and impact on the annual budget	As part of the implementation of the Strategy for Enhancement of the Rights and Position of Persons with Disabilities in the Federation of BiH 2016-2021, expenditures per year will be: 2017 – KM 200,000.00, i.e. KM 10,000.00 KM from the Budget of the Federation of BiH and KM 190,000.00 from donor funds; 2018-2021 – KM 200,000.00, i.e. KM 50,000.00 from the Budget of the Federation of BiH and KM 150,000.00 from donor funds. As part of the implementation of the Law on the Single Registry of Non-contributory Cash Benefits Users, expenditures per year will be: 2017 – KM 1,000,000.00 KM from the Budget of the Federation of BiH for the first year, and in the following period KM 200,000.00 for maintenance, and as part of the implementation of the Law on Organisations of Persons with Disabilities, expenditures will be: 2017 – KM 370,000.00 from the Budget of the Federation of BiH for the first year, and in the following years there will be an increase with the established minimum of KM 500,000.00.
Expected impact on competitiveness	-
Expected social outcomes including on employment and on social groups in particular on gender	The proposed reform activities will contribute to the overall improvement of the situation of persons with disabilities and their families, create preconditions and raise awareness about their integration into the labour market (employment), as well as improve the situation of multiply excluded groups such as women and girls with disabilities. People with disabilities will have better conditions for comprehensive social integration and position in society.

**Government of Republika Srpska**

<b>1. Reducing the burden on economy</b>	
Short description	Reducing the tax burden on economy results from the need to create a more competitive business environment. This way, the existing business entities will be more competitive and, at the same time, by improving the investment climate, Republika Srpska will be more attractive for new investment. Reducing the burden on economy will be implemented through the following activities: 3) Eliminating barriers to businesses; and 2) Reducing the tax burden on labour.
Timetable by year	2017: 1) Analysis of non-tax charges included in the Registry; preparation and adoption of legal and by-legal solutions to reduce or abolish some of the charges included in the Registry. 2) Adoption of the Law on Personal Income Tax; the analysis of possible options for reducing the aggregate contribution rate will be continued and, in the second half of the year, legal solutions drafted and adopted so that these amendments come into force on 1 January 2018.
	2018: -
	2019: -
Costs of implementation and impact on the annual budget	1) The expected fiscal effects will be clearly identified after completion of the analysis of each individual charge 2) As far as fiscal effects are concerned, the current proposal of the Government of Republika Srpska was directed towards reducing the aggregate contribution rate from 33.0% on gross salary to 31.6% on gross salary, i.e. by 1.4 percentage points. According to calculations of the Ministry of Finance of Republika Srpska, financial effects of the proposed changes would lead to decline in revenues of extra budgetary funds in the total amount of about KM 76 million.
Expected impact on competitiveness	1) Due to the decrease in non-tax charges that prove to be unjustified, companies would be more competitive on the international market. 2) Due to the decrease in tax burden on labour, companies would be more competitive on the market.
Expected social outcomes including on employment and on social groups in particular on gender	By eliminating barriers to employment and reducing the tax burden on labour we will create conditions for further investment and new jobs, and a better social status of citizens of Republika Srpska. The implementation of this measure does not compromise gender equality.
<b>2. Health sector reform</b>	
Short description	Health sector reform started in September 2015 with the World Bank as the partner. The reform is being

	implemented in several phases, namely: an analysis of arrears of the health care sector; inclusion of all public health care institutions and the Health Insurance Fund of Republika Srpska into a treasury operations system; and finding options for new models and sources of funding.
Timetable by year	2017: The introduction of all public health care institutions and the Health Insurance Fund of Republika Srpska into a treasury operations system; the adoption of the new Law on Health Care and the New Law on Health Insurance as well as the new Law on Child Protection.
	2018: Finding opportunities for new models and sources of funding in the health sector
	2019: -
Costs of implementation and impact on the annual budget	It is possible that public health care institutions will be more responsible when they are aware that there is control and analysis of balance of their operations. In addition, the introduction of the treasury system in the health sector is expected to significantly reduce costs and creation of new liabilities, and stop growth of employment in public health institutions, which will lead to a considerable fiscal effect.
Expected impact on competitiveness	Better control and greater fiscal accountability will generate savings in the health system, which will be streamlined into raising the quality of health services, as the most important competitive advantage of this reform measure.
Expected social outcomes including on employment and on social groups in particular on gender	The implementation of this measure has started in September 2015, but this is a very complex area, which is also socially sensitive and, at this moment burdened with very pronounced financial stock of arrears, all of which require very professional, thorough and careful situation analysis and well synchronised reform steps, for which we have full support and technical assistance of the World Bank, in order not to endanger social status of health care beneficiaries.
<b>3. Ensuring the sustainability of public spending and strengthening financial accountability</b>	
Short description	Ensuring the sustainability of public spending and strengthening financial accountability aims at additional measures for promotion of fiscal accountability, reduction of public spending and changes in the structure of budget spending in favour of capital spending. This measure is the main pillar of all policies of the Government of Republika Srpska in its term of office 2014-2018, and its implementation in 2017 will be focused on the following activities: <ul style="list-style-type: none"> <li>5) Completion of the implementation of the Law on Fiscal Responsibility;</li> <li>6) Reforms in the public sector, with the establishment of the Registry of public sector employees;</li> <li>7) Reforms in the system of local self-government; and</li> <li>1) The adoption of the Strategy of the public finance management of Republika Srpska</li> </ul>
Timetable by year	2017: <ul style="list-style-type: none"> <li>1) Establishment of the Fiscal Council of Republika Srpska;</li> <li>2) Adoption of the Law on Civil Servants and the accompanying subordinate legislation; establishment of the Registry of public sector employees;</li> </ul>

	<p>3) Adoption of by-laws for the Law on Local Self-Government and the Law on Civil Servants and Employees in the Bodies of the Local Self-Government Units; implementation of the Action Plan of the Strategy for Development of Local Self-Government in Republika Srpska;</p> <p>4) Adoption of the Strategy of the public finance management of Republika Srpska.</p> <p>2018:</p> <p>1) –</p> <p>2) Adoption of the Law on Salaries of Employees in the Administrative Bodies of Republika Srpska;</p> <p>3) Implementation of the Action Plan of the Strategy for Development of Local Self-Government in Republika Srpska;</p> <p>4) Implementation of measures anticipated in the Strategy of the public finance management of Republika Srpska</p> <p>2019:</p> <p>1) –</p> <p>2) –</p> <p>3) Implementation of the Action Plan of the Strategy for Development of Local Self-Government in Republika Srpska;</p> <p>4) Implementation of measures anticipated in the Strategy of the public finance management of Republika Srpska</p>
<p>Costs of implementation and impact on the annual budget</p>	<p>1) Funds will be require for its functioning, but we expect the budget users' savings to be much higher than the costs for its functioning, and expect a positive net fiscal effect;</p> <p>2) The implementation of these activities will create the assumptions for cost-effective public sector with low budget costs. Specific indicators for reducing the budget costs will be possible to determine after the implementation of these measures and the analysis of their effects;</p> <p>3) Financial effects of harmonising the number of employees in the bodies of the local self-government units will be visible only after the expiration of the legally prescribed time frame, which will be preceded by the need to provide funds to pay the redundant employees off;</p> <p>4) Strengthening the budget planning and fiscal discipline is expected to bring savings in the budget system of Republika Srpska.</p>
<p>Expected impact on competitiveness</p>	<p>1) Savings in public spending and changing the structure of expenditures in favour of capital spending may have a positive long-term impact on increasing the competitiveness of Republika Srpska;</p> <p>2) The objective of the public sector reform is to achieve more efficient and effective administration as a basis for delivery of better quality of services to citizens and businesses in all areas;</p> <p>3) It is estimated that in those self-government units where the number of employees get downsized, the funds that were previously set aside for salaries and benefits of employees would be streamlined to capital spending;</p>

	4) Strengthening the budget planning and fiscal discipline is expected to bring savings in the budget system of Republika Srpska, which will, in addition to the fiscal effect, have an impact on competitiveness, because it will be possible to change the structure of budget spending in favour of capital investment.
Expected social outcomes including on employment and on social groups in particular on gender	<ol style="list-style-type: none"> <li>1) By changing the structure of spending in favour of capital investment it is possible to affect the employment and better social position of the citizens of Republika Srpska;</li> <li>2) More efficient and effective public administration will contribute to better competitiveness of the economy and thereby higher employment and better social position;</li> <li>3) Increasing capital spending will effect in higher employment and better social position;</li> <li>4) Changing the structure of budget spending in favour of capital investment will bring funds for new investment and increased employment.</li> </ol>
<b>4. Improving the communication infrastructure</b>	
Short description	<p>The measure of improving the communication infrastructure primarily aims at better communication links of Republika Srpska, as a basic prerequisite for the creation of a favourable business environment, simplifying transport costs of the economy as well as increasing the competitiveness of the entire economy of Republika Srpska. This measure will be implemented through the following activities:</p> <ol style="list-style-type: none"> <li>3) Improving the quality of the services of the Airport of Republika Srpska;</li> <li>4) Activities in the field of road transport (completion of construction of the motorway Banja Luka–Doboj, section Banja Luka–Prnjavor, beginning of construction of the interstate bridge on the river Sava near Gradiska and completion by the end of 2019, as well as completion of construction of the bridge over the river Drina, location Bratunac-Ljubovija).</li> </ol>
Timetable by year	<p>2017:</p> <ol style="list-style-type: none"> <li>1) Adoption of the Master Plan and Spatial Plan for special purpose facility; construction of the cargo facility; the expansion of the passenger terminal; supply and installation of the Airport ground lighting; procurement of vertical cargo loader; procurement of emergency fire truck; procurement of jet fuel tank;</li> <li>2) The activities planned for 2017 are completion of construction of the motorway Banja Luka–Doboj, section Banja Luka–Prnjavor (fourth quarter), completion of construction of the bridge over the river Drina, location Bratunac-Ljubovija (fourth quarter) and beginning of construction of the interstate bridge over the river Sava near Gradiska.</li> </ol>
	<p>2018:</p> <ol style="list-style-type: none"> <li>1) –</li> <li>2) –</li> </ol>

	2019: 1) – 2) –
Costs of implementation and impact on the annual budget	<p>1) KM 2 million need to be provided for land expropriation, while the amount of KM 7 million from credit funds is provided for development of spatial planning documents, procurement of the Airport's Master Plan, procurement of equipment for better quality of service delivery, construction of cargo facility and expansion of passenger terminal building. Depending on transport of goods and regularity of new airlines, the income set to be realised in 2017 amounts to KM 3.85 million, and KM 4.06 million in 2018;</p> <p>2) Upon completion of the construction of the motorway Banja Luka–Doboj, section Banja Luka–Prnjavor, the travelling time on one of the busiest travel routes will be shortened and thus the travel costs reduced too. The safety of traffic participants will be increased as well. Road management companies' income will rise due to increased toll collection. Upon completion of the construction of the interstate bridge over the river Drina, businessmen in this area will be able to transport goods across the border, which has not been the case by now, and this will have positive effects on businesses and farmers of this region and beyond.. The construction of the interstate bridge over the river Sava near Gradiska will enable more comfortable border crossing and reduce costs and travelling time..</p>
Expected impact on competitiveness	<p>1) Increasing the quality of services provided by the Airport of Republika Srpska will reduce transport costs to businesses, enable more efficient communication with other countries, as well as provide for the improvement of tourism offer of Republika Srpska;</p> <p>2) By enabling shorter travel time, lower transport costs and faster border crossing, our businesses will be more competitive in the market.</p>
Expected social outcomes including on employment and on social groups in particular on gender	<p>1) Increasing quality of services will open space for new employment, while the increasing of the tourist offer of Republika Srpska will create opportunities for new employment and self-employment.</p> <p>2) Increasing competitiveness of economy creates the assumptions for growth in employment.</p>
<b><i>5.Enhancing agricultural production</i></b>	
Short description	The enhancement of agricultural production will be implemented through the following activities: improvement of agrarian sector financing; adoption and harmonisation of regulations in the area of agriculture at the level of Republika Srpska and the level of BiH; setting up a land parcel identification system; implementation of the animal identification process through development of the animal marking system; improvement of foreign trade operations and protection of domestic agricultural production; work on documents for rural development and IPARD operational structure.

Timetable by year	2017: Most of the measures have a character of continuous activities by the end of the observed period (2019), except for laws and by-laws to be adopted according to the Republika Srpska Government Work Plan and Programme. Preparation of IPARD Programme and operational structure was directly conditioned by the harmonisation of the coordination mechanism in the process of EU integration.
	2018: Most of the measures have a character of continuous activities by the end of the observed period (2019), except for laws and by-laws to be adopted according to the Republika Srpska Government Work Plan and Programme. Preparation of IPARD Programme and operational structure was directly conditioned by the harmonisation of the coordination mechanism in the process of EU integration.
	2019: Most of the measures have a character of continuous activities by the end of the observed period (2019), except for laws and by-laws to be adopted according to the Republika Srpska Government Work Plan and Programme. Preparation of IPARD Programme and operational structure was directly conditioned by the harmonisation of the coordination mechanism in the process of EU integration.
Costs of implementation and impact on the annual budget	None of the above mentioned activities has direct fiscal effect.
Expected impact on competitiveness	Enhancing agricultural production will affect the increase in competitiveness of agricultural producers from Republika Srpska.
Expected social outcomes including on employment and on social groups in particular on gender	Improved competitiveness and better market position will provide for rise in employment and self-employment and thereby improve the social position of agricultural producers from Republika Srpska.
<b>6. Improving the financial market</b>	
Short description	<p>Improving the financial market will be implemented through two activities:</p> <p>3) The introduction of tighter prudential requirements of the banking business and regulation of the bank restructuring procedure; and</p> <p>1) Set up mandatory transformation of the closed-ended investment funds, created by transformation of the privatization investment funds, into open-ended investment funds.</p> <p>The introduction of tighter prudential requirements of the banking business and regulation of the bank restructuring procedure will be implemented by strengthening the legal framework providing for bank operations, namely: the adoption of the Law on Banks of Republika Srpska, whose development was based on the Basel Committee recommendations; applicable solutions of the EU Directives; positive practice of the countries in the region; as well as proposals made through technical assistance within the existing Stand-by Arrangement of the International Monetary Fund, and modernisation of the Republika Srpska Banking Agency in the part relating to the expansion of the Agency's competencies to bank resolution and improving the internal management and decision making processes.</p>

	Setting up mandatory transformation of the closed-ended investment funds, created by transformation of the privatisation investment funds, into open-ended investment funds arises from the need to remove flaws in operational practice of investment funds so far, and proposals of models for reshaping of the closed-ended investment funds, while not forgetting the need to protect the interests of the funds' shareholders, which resulted in the adoption of the Law on Amendments to the Law on Investment Funds.
Timetable by year	2017: 1) Adoption of the amendments to the Statute of the Banking Agency of Republika Srpska; adoption of by-laws stipulated by the law; harmonisation of operations, organisation and general regulations of banks with the provisions of the law and by-laws of the RS Banking Agency; adoption of by-laws stipulated by the law pertaining to bank resolution; 2) Quarterly reporting on implementation of the approved plans (harmonisation plan and transformation plan) to the Commission.
	2018: 1) Development of the resolution plan for banks having licences on the date of entry into force of this law; development of recovery plans for banks and for banking groups and their submission to the RS Banking Agency for review; development of the resolution plans for banking groups; 2) Quarterly reporting on implementation of the approved plans (harmonisation plan and transformation plan) to the Commission; transformation of the closed-ended investment funds, created by transformation of the privatisation investment funds, into open-ended investment funds.
	2019: 1) Review of the submitted recovery plans; 2) –
Costs of implementation and impact on the annual budget	1) The expected fiscal effect of this activity is neutral. 2) The expected fiscal effect of this activity is neutral.
Expected impact on competitiveness	1) the proposed measure aims at securing steady and secure financial system and protection of depositors, as well as greater market discipline of bank operations. 2) The new working regime of investment funds, after transformation, should result in a more active role of funds in the securities market through restructuring of the portfolio, and harmonise their operations with business rules of this type of financial intermediaries on developed markets.
Expected social outcomes including on employment and on social groups in particular on gender	1) This activity has no impact on employment or social effect. 2) This activity has no impact on employment or social effect.

<b>7.Improving the business environment</b>	
Short description	<p>Improving the business environment will be implemented through the following activities:</p> <p>2) Introducing the online registration of business entities</p> <p>The next medium-term phase of improving the business environment includes the creation of possibility for business to register electronically. This reform comprises several segments: the first segment refers to complete digitalisation of court files on registered business entities in Republika Srpska, their final verification and connection to the electronic form of the business registry, which is essential to the validity of this registry. The second segment refers to the adaptation of the system, application and legislation to the reform, while the third segment refers to the establishment of the qualified issuer of digital certificates (certification body).</p>
Timetable by year	<p>2017:</p> <p>1) Adoption of the Action Plan for on-line registration; preparation of the Certification body for issuing certified digital signature, stamp and seal, work on software solution and completion of digitalisation; beginning of the digitalisation of the court records related to the existing registry of business entities; implementation of procurement procedures for new software solutions; work on software solutions.</p>
	<p>2018:</p> <p>1) Work on software solution for on-line registration; finalisation of the software solution; test-phase of on-line registration.</p>
	<p>2019:</p> <p>1) –</p>
Costs of implementation and impact on the annual budget	<p>1) The implementation of the first two components is entrusted to the World Bank and British Embassy approved donor funds for this project in the amount of KM 3.5 million. The implementation of the third phase will require additional staffing, organisational and other resources and the analysis is ongoing.</p>
Expected impact on competitiveness	<p>1) Efficient and transparent delivery of services by electronic registration, as well as issuing certified digital signature, stamp and seal, will enable businesses a simple and secure process of entering the market and much faster procedure of investing in Republika Srpska. This will directly affect the efficient exchange of services, reduce the time required for registration and positively reflect on their competitiveness.</p>
Expected social outcomes including on employment and on social groups in particular on gender	<p>1) Improved competitiveness will affect the increase in employment and better social status.</p>

<b>8. Improving the efficiency and effectiveness of science research and innovation system</b>	
Short description	By encouraging science and research quality and innovation, we will develop good administrative capacities, which are necessary for successful implementation of research and innovation projects, together with the international partners. We will create conditions for closer cooperation with foreign countries, scientific exchange, cooperation with industry, and attract foreign students. We will encourage mobility of researchers and innovators as a way of acquiring new knowledge and skills, as well as gaining and exchanging experiences. We will create such business climate so as to stimulate enterprises to increase their demand for innovative solutions and research projects by using financial and non-financial tools. We will foster scientific, research and innovative organisations to increase their revenues through the protection of intellectual property rights, contracts on the use of the existing or development of new technologies, and through consulting services. We will encourage smart specialisation, which will serve to recognise our potentials and development of emerging industries.
Timetable by year	2017: Adoption of the Republika Srpska Strategy for Science and Technological Development; the development of the Study on the Establishment of the Fund for Science and Innovation of Republika Srpska; and the analysis of the existing legal framework and identification of the necessary amendments in line with the reform objectives. 2018: - 2019: -
Costs of implementation and impact on the annual budget	The fiscal effects of the proposed reform measures will be visible in the long run, given the specificity of investment in research and development. Within two or three years, through increased research capacities of human resources, financially measurable benefits will be revealed, in terms of the reduced need for the budget support to scientific and research activities and the increasing interest of the real sector in taking over most of the funding, which is expected to result in the same proportion of the budget savings. The second type of financial effects relates to the business sector, which will generate considerable financial benefits by engaging the researchers.
Expected impact on competitiveness	The use of innovative processes or products, acquired or developed within the business entity, has a strong financial impact and results in intensive growth and development. This leads to the additional effect – higher income means greater possibility of investing funds in research and development, thereby continuing the circle of positive activities in this area, but also spilling over from the real to the academic and research sector.
Expected social outcomes including on employment and on social groups in particular on gender	Additional financial effects and effects on competitiveness will have a long-term impact on increase in employment in science, research and innovation system, which will entail improvement of the social status of employees.

<b>9. Improving links between education and labour market</b>	
Short description	<p>Improving links between education and the labour market will be realised through analysing the needs of the labour market and the real sector for the purpose of harmonisation with the policy of enrolment in secondary schools and institutions of higher education, as well as through improving direct cooperation and harmonisation with the needs of economic development and the labour market by strengthening entrepreneurial and innovation components in the area of secondary and higher education. The roles of vocational secondary schools, participants and bodies that will serve as a link between vocational secondary education and the labour market will be defined. The main carriers of this process are Advisory Councils of vocational secondary schools which are consisted of representatives of employees, employers and the local community. Each vocational school forms an Advisory Council in accordance with professions and occupations for which it provides education. The Advisory Council assists the school in planning curriculum, provides council to the school on issues regarding the practical classes and helps strengthen the link between the school and the local labour market, all with the goal of ensuring an adequate education system which concurs with the needs of the labour market and developmental goals. Strengthening the role of the Advisory Council will create the conditions for starting an initiative to introduce new occupations, revise the existing occupation nomenclature and modernise existing professions. Analysis of data on the needs of the labour market by the Chamber of Commerce of Republika Srpska, the employer and the Employment Institute of Republika Srpska will help determine the personnel needs in the future period. Enhancement of the link between employers and vocational secondary schools will be realised continuously by forming a competent body at the Government level, in which the Chamber of Commerce of Republika Srpska will play an active part, with the aim of enhancing the link between vocational education and the labour market. Employers will be engaged in the course of preparing modular programmes to ensure that student have enough practical classes in companies.</p>
Timetable by year	<p>2017: Medium-term measure, with continuous implementation.</p> <p>2018: Medium-term measure, with continuous implementation.</p> <p>2019: Medium-term measure, with continuous implementation.</p>
Costs of implementation and impact on the annual budget	Presently, it is not possible to estimate the fiscal effects, considering that the measure will be realised in the medium term period.
Expected impact on competitiveness	Increasing the efficiency of education, and indirectly the labour market will significantly influence the competitiveness of the economy of Republika Srpska, whose end goal is to reduce the unemployment rate.
Expected social outcomes including on employment and on social groups in particular on gender	Increasing the competitiveness of the economy of Republika Srpska and its attractiveness for foreign investment through improving the labour market efficiency has a direct impact on employment and social position of population.

<b>10. Improving the labour market efficiency</b>	
Short description	<p>Improving the efficiency of the labour market will be achieved through establishment of the intermediary role of the PI Republika Srpska Employment Institute, and networking of key stakeholders in the labour market. Measures initiated in 2017 will focus on: strengthening the intermediary role of the PI Republika Srpska Employment Institute; enhancing the legal framework and its harmonisation to the new Law on Labour; designing and implementing new active measures in the labour market of Republika Srpska; strengthening and developing social dialogue, and enhancing the link of education with the labour market. Strengthening the intermediary role of the Employment Institute will be achieved through relocating records of health insurance and administration for unemployed persons to the Health Insurance Fund. In this way, the Employment Institute will fully perform the mediation function, ensure a better link between employers and active job seekers, enable better supply of the labour force and reduce informal employment. This activity will be realised by the adoption of amendments to the Law on Mediation in Employment and Rights during Unemployment and amendments to other regulations. Support to employment by means of incentives is set forth in the Employment Strategy, and priority will be placed on the long-term unemployed and persons with low employability. As part of enhancing the work of inspection bodies, special attention will be paid to labour inspection. With the goal of strengthening the intermediary role of the Employment Institute, an analysis of the financial possibilities for increasing the rights of unemployed workers will be conducted. The Government of Republika Srpska will work on strengthening and stimulating tripartite and bipartite social dialogue in accordance with international standards. In cooperation with the Trade Union Federation, Tax Administration of Republika Srpska and the Pension and Disability Insurance Fund, we will work on finding options to end the programme for social welfare of workers.</p>
Timetable by year	<p>2017: adoption of the Action Plan for Employment in Republika Srpska for 2017; adoption of the Law on Amendments to the Law on the Social and Economic Council of Republika Srpska; the analysis of the implementation of the Law on Labour; adoption of the Law on Amendments to the Law on Mediation in Employment and Rights during Unemployment (conditioned by the adoption of the Law on Health Insurance), as well as the Law on Amendments to the Law on Strike; Harmonisation of the organisational structure of the Employment Institute with the adopted structural changes ((conditioned by the adoption of the Law on Health Insurance).</p> <p>2018: -</p> <p>2019: -</p>
Costs of implementation and impact on the annual budget	<p>At this time it is not possible to estimate the fiscal effects of the defined measure, because the effects are mostly indirect.</p>

Expected impact on competitiveness	The increase of efficiency of the labour market will significantly influence the competitiveness of the economy of Republika Srpska.
Expected social outcomes including on employment and on social groups in particular on gender	Interventions in the labour market are extremely sensitive, because they directly influence the economic and social position of the entire population. On the one hand, positive changes in the labour market, in terms of increasing the number of employed persons, reducing unemployment and enhancing the quality of employment, can have a multiplication effect on the overall economic and social situation. On the other hand, negative consequences of implementing reforms in the labour market which can happen in case of reduced salaries of the employed, increased uncertainty of employment, increased instability in the labour market, can cause serious economic and social conflicts in society.

**GOVERNMENT OF THE FEDERATION OF BIH  
FEDERAL MINISTRY FOR ISSUES OF VETERANS**

**Table 12: Reporting on the implementation of the structural reform measures of the ERP 2016-2018 (Fill in one per reform)**

	Name of reform measure
Short description of actions planned for 2016	<ol style="list-style-type: none"> <li>1. Law on Amendments to the Law on the Rights of Veterans and Members of Their Families;</li> <li>2. Law on Amendments to the Law on Special Rights of the Military Acknowledgements and Decoration Winners and Members of Their Families; and,</li> <li>3. Law on Amendments to the Law on Control of Legality with respect to Exercise of Rights from Veteran and Disability Protection.</li> </ol> <p>The above stated amendments to these laws relate to harmonisation of individual provisions with the Judgements of the Constitutional Court of the Federation of BiH.</p>
Were the actions planned for 2016 implemented?	The activities related to these laws were implemented partially.
<p>If yes/partially, include:</p> <ul style="list-style-type: none"> <li>- Description of steps taken</li> <li>- Timeline of implemented actions</li> <li>- Difficulties and delays in implementation</li> <li>- Whether the reform will continue in 2017</li> </ul> <p>If no, explain why not</p>	<p>Law on Amendments to the Law on Control of Legality with respect to Exercise of Rights from Veteran and Disability Protection is in Parliamentary procedure.</p> <p>Law on Amendments to the Law on the Rights of Veterans and Members of Their Families is submitted for the opinion.</p> <p>Law on Amendments to the Law on Special Rights of the Military Acknowledgements and Decoration Winners and Members of Their Families is submitted for the opinion.</p> <p>Reforms will continue in 2017.</p>

Actual cost of implementation and impact on the annual budget (indicate deviation from estimated costs if any)	These laws do not require any additional budget funds.
--	--

### FEDERAL MINISTRY OF ENERGY, MINING AND INDUSTRY

**Table 12: Reporting on the implementation of the structural reform measures of the ERP 2016-2018** (Fill in one per reform)

	<b>Name of reform measure: Improving the energy infrastructure</b>
Short description of actions planned for 2016	<ol style="list-style-type: none"> <li>1. Updating and taking the required activities on further implementation of the projects:  -Construction of Wind farm Podveležje (JP EP BiH),  -Construction of Wind farm Mesihovina (JP EP HZHB).</li> <li>2. Issuance and renewal of energy permits for construction of new and reconstruction of the existing production facilities for electricity generation.</li> <li>3. Implementation of the Action Plan for the Use of Renewable Energy Sources in the Federation of BiH.</li> </ol>
Were the actions planned for 2016 implemented?	<ol style="list-style-type: none"> <li>1. <u>Yes</u>/no/partially</li> <li>2. <u>Yes</u>/no/partially</li> <li>3. <u>Yes</u>/no/partially</li> </ol>
If yes/partially, include:  - Description of steps taken	

<p>- Timeline of implemented actions</p> <p>- Difficulties and delays in implementation</p> <p>-Whether the reform will continue in 2017</p> <p>If no, explain why not</p>	<p>YES</p>
<p>Actual cost of implementation and impact on the annual budget (indicate deviation from estimated costs if any)</p>	

**FEDERAL MINISTRY OF FINANCE**

**Table 12: Reporting on the implementation of the structural reform measures of the ERP 2016-2018** (Fill in one per reform)

	<p><b>Name of reform measure</b></p> <p>1. Adoption of regulations for development of financial management and control (FMC)</p>
<p>Short description of actions planned for 2016</p>	<p>1. Adoption of the Law on FMC</p> <p>2. Adoption of by-legal regulations for FMC (Standards of internal control, Rulebook and Manual for FMC)</p>
<p>Were the actions planned for 2016 implemented?</p>	<p>1. <b>Yes</b>/ no/partially</p> <p>2. Yes/ne/<b>partially</b></p>

<p>If yes/partially, include:</p> <ul style="list-style-type: none"> <li>- Description of steps taken</li> <li>- Timeline of implemented actions</li> <li>- Difficulties and delays in implementation</li> <li>- Whether the reform will continue in 2017</li> <li>If no, explain why not</li> </ul>	<ol style="list-style-type: none"> <li>1. Law on FMC adopted in both Houses of Parliament of the Federation of BiH by April 2016 and published in the Official Gazette of the Federation BiH, No. 38/16).</li> <li>2. Standards of internal control aligned with CB CHU and published in the Official Gazette of the Federation BiH, No. 75/16.</li> <li>3. Publishing under preparation of the Rulebook on FMC, publishing set for November 2016.</li> <li>4. Manual for FMC also prepared, needs to be finalized; publishing set for the end of 2016.</li> </ol> <p>1. Law on FMC was in parliamentary adoption procedure for nearly two years.</p>
	<p>Yes, the adoption of the Law on FMC rounds up the framework for establishing PIFC in the Federation of BiH but we also need to adopt by-legal regulations for FMC.</p>
<p>Actual cost of implementation and impact on the annual budget (indicate deviation from estimated costs if any)</p>	<p>Budget of the Federation BiH – these activities were implemented by the staff of CHU of the FMF so the costs of implementation were regular costs for salaries of the employees.</p>

**Table 12: Reporting on the implementation of the structural reform measures of the ERP 2016-2018** (Fill in one per reform)

	<b>Name of reform measure</b>
Short description of actions planned for 2016	<p>2. Strengthening capacities for development of FMC</p> <ol style="list-style-type: none"> <li>1. Analysis of org. status and duties of sectors/services for finances in five large budget users</li> <li>2. Workshops and seminars for employees of units for finances of the budget users</li> <li>3. Issuing instructions and guidance for practical implementation of managerial accountability in the processes of fiscal responsibility</li> <li>4. Organisation of workshops and seminars for managers on the theme of the implementation of managerial accountability in the processes of fiscal responsibility</li> </ol>
Were the actions planned for 2016 implemented?	<ol style="list-style-type: none"> <li>1. <b>Yes/ no/partially</b></li> <li>2. <b>Yes/ no/partially</b></li> <li>3. <b>Yes/ no/partially</b></li> <li>4. <b>Yes/no/partially</b></li> </ol>
<p>If yes/partially, include:</p> <p>-Description of steps taken</p> <p>- Timeline of implemented actions</p>	<ol style="list-style-type: none"> <li>1. One of the activities within the SAFE projected implemented by CHU of FMF with five pilot ministries – report will be prepared by the end of 2016</li> <li>2. One of the SAFE project activities is planned for November. In addition, in September 2016, in organization of CSA, there was a training for employees of units for finances on the theme “Financial management and control” with employees of CHU FMF and FMLSP as lecturers.</li> <li>3. Manual on FMC is under preparation; it is necessary to adopt the updated rules and procedures for budget planning and execution, accounting and financial reporting (new decrees and rulebooks)</li> <li>4. Implementation of workshop – presentations on the results of estimates in the processes of fiscal accountability in five ministries (particularly in the processes of the implementation of transfers, subsidies and grants); promotion of FMC for the attending managers from all federal ministries is set for November 2016, also as part of SAFE project.</li> </ol> <p>The beginning of the implementation of SAFE project was delayed due to complex procedure of concluding and</p>

<p>- Difficulties and delays in implementation</p> <p>-Whether the reform will continue in 2017</p> <p>If no, explain why not</p>	<p>executing international agreements which is, by the law, governed by the BiH Ministry of Finance, so, instead of September 2015, the implementation of the project started in July 2016 and will last by the end of 2016.</p> <p>Yes, legal framework is adopted in 2016 but should be complemented with by-legal regulations..</p>
<p>Actual cost of implementation and impact on the annual budget (indicate deviation from estimated costs if any)</p>	<p>Budget of the Federation BiH – these activities were implemented by the staff of CHU of the FMF so the costs of implementation were regular costs for salaries of the employees; Grant for project “Strengthening Financial Management and Control”</p> <p>Budget funds at disposal of CSA FBiH.</p>

**Table 12: Reporting on the implementation of the structural reform measures of the ERP 2016-2018** (Fill in one per reform)

	<b>Name of reform measure</b>
<p>Short description of actions planned for 2016</p>	<p>3. Strengthening controls in order to ensure fiscal accountability</p> <p>5. Implementation of SAFE project “Strengthening Financial Management and Control”</p> <p>6. Published Standards of internal control in public sector are a precondition and basis for all users of public funds for development of by-legal framework in achieving their objectives and creating conditions for ethically regulated, cost-effective and efficient operations.</p> <p>7. Provided support to all users of public funds (selected pilot institutions) in development of the revised internal rules and procedures.</p>
<p>Were the actions planned for</p>	<p>5. <b>Yes/ no/partially</b></p> <p>6. <b>Yes/ no/partially</b></p> <p>7. <b>Yes/ no/partially</b></p>

2016 implemented?	
<p>If yes/partially, include:</p> <p>-Description of steps taken</p> <p>- Timeline of implemented actions</p> <p>- Difficulties and delays in implementation</p> <p>- Whether the reform will continue in 2017</p> <p>If no, explain why not</p>	<ol style="list-style-type: none"> <li>5. Diagnostic assessment of risks and the existing ex-ante and ex-post controls in budget planning and execution in the categories of grants, subsidies and transfers in selected pilot institutions (August 2016)</li> <li>6. Report for FMF compiled and given recommendations for improved financial management and control over targeted resources (October 2016)</li> <li>7. Implementation of training and workshops on risk management/internal controls for employees of FMF and pilot institutions (planned in November 2016, also as part of implementation of SAFE project).</li> </ol> <p>The beginning of the implementation of SAFE project was delayed due to complex procedure of concluding and executing international agreements which is, by the law, governed by the BiH Ministry of Finance, so, instead of September 2015, the implementation of the project started in July 2016 and will last by the end of 2016.</p> <p>Yes, it is necessary to continue implementing reforms in public finance management as part of the Public Administration Reforms.</p>
Actual cost of implementation and impact on the annual budget (indicate deviation from estimated costs if any)	<p>Budget of the Federation BiH – these activities were implemented by the staff of CHU of the FMF so the costs of implementation were regular costs for salaries of the employees;</p> <p>Grant for project “Strengthening Financial Management and Control”</p>

**Table 12: Reporting on the implementation of the structural reform measures of the ERP 2016-2018** (Fill in one per reform)

	Name of reform measure
Short description of actions planned for 2016	<p>4. Creating preconditions for developing management focused on objectives and results</p> <p>1. Published Standards of public internal financial control are a precondition and basis for all users of public funds for development of by-legal framework in achieving their objectives and creating conditions for ethically regulated, cost-effective and efficient operations</p> <p>2. Publishing of Guidelines for implementation of the process of risk management in users of public funds</p> <p>3. Strategic plans of budget users contain risk-related information</p> <p>4. Risk registries established in pilot institutions</p>
Were the actions planned for 2016 implemented?	<p>8. <b>Yes/ no/partially</b></p> <p>9. <b>Yes/ no/partially</b></p> <p>10. <b>Yes/ no/partially</b></p> <p>11. <b>Yes/ no/partially</b></p>
<p>If yes/partially, include:</p> <p>-Description of steps taken</p> <p>- Timeline of implemented actions</p> <p>- Difficulties and delays in implementation</p>	<p>1. Standards of internal control aligned with CB CHU and published in the Official Gazette of the Federation of BiH, No. 75/16</p> <p>2. By the end of, the adoption of Guidelines for implementation of the process of risk management in users of public funds for the purpose of consistent risk management in all users so as to optimize the use of scarce public funds</p> <p>3. /</p> <p>4. Individual budget users have already started their risk assessment and development of the risk registry, while, after the adoption of the Law on FMC and adoption of accompanying by-legal regulations, all users of public funds will be obliged to to this.</p> <p>Law on FMC was in parliamentary adoption procedure for nearly two years.</p>

- Whether the reform will continue in 2017	Yes
If no, explain why not	
Actual cost of implementation and impact on the annual budget (indicate deviation from estimated costs if any)	Budget of the Federation BiH – these activities were implemented by the staff of CHU of the FMF so the costs of implementation were regular costs for salaries of the employees.

**Table 12: Reporting on the implementation of the structural reform measures of the ERP 2016-2018** (Fill in one per reform)

	<b>Name of reform measure:</b> 5. Improving regulations and methodology for work of internal audit
Short description of actions planned for 2016	In the course of 2016, the Law on Amendments to the Law on Internal Audit in Public Sector in the Federation of BiH was submitted to the adoption procedure.
Were the actions planned for 2016 implemented?	1. Yes/ no/ <b>partially</b>
If yes/partially, include: -Description of steps taken - Timeline of implemented actions - Difficulties and delays in implementation	The adoption of the Law on Amendments to the Law on Internal Audit in Public Sector in the Federation of BiH was implemented partially because the text was adopted in the House of Representatives in 2016, while it has been explained before the House of Peoples and vote on it is pending.  Aftare being adopted by the House of Peoples of the Parliament of FBiH, it will be published in the Official gazette of Federation BiH, followed by the commencement of amending the applicable by-laws pertaining to the internal audit.  The delay in the implementation of this activity was caused by objective circumstances related to the dynamics and schedule of the sessions of the FBiH Parliament, that the Federal Ministry of Finace could not affect.

<p>- Whether the reform will continue in 2017</p> <p>If no, explain why not</p>	<p>Reforms will be continued in a way that the adopted amendments will directly reflect on the applicable by-laws and other regulations governing the internal audit and thereby the existing practice as well. This is why CHU FMF will continue implementing these activities in 2017 too.</p>
<p>Actual cost of implementation and impact on the annual budget (indicate deviation from estimated costs if any)</p>	<p>Budget of the Federation BiH – these activities were implemented by the staff of CHU of the FMF so the costs of implementation were regular costs for salaries of the employees.</p>

**Table 12: Reporting on the implementation of the structural reform measures of the ERP 2016-2018** (Fill in one per reform)

	<p><b>Name of reform measure:</b></p> <p>6. Strengthening capacities of internal auditors.</p>
<p>Short description of actions planned for 2016</p>	<p>In 2016, we have analysed the situation and initiative for adequate organizational positioning of IA (categorization, ToR, salaries) – level of the Federation BiH</p> <p>CHU FMF has realized its impact on high quality establishment of internal audit by providing its opinion on the rulebooks in the part related to internal audit.</p>
<p>Were the actions planned for 2016 implemented?</p>	<p>1. <u>Yes</u>/no/partially</p>
<p>If yes/partially, include:</p> <ul style="list-style-type: none"> <li>-Description of steps taken</li> <li>- Timeline of implemented actions</li> <li>- Difficulties and delays in implementation</li> </ul>	<p>This measure was implemented by making the analysis, drawing up the information on positioning of internal auditors, having meetings with CSA FBiH (HRM project), while these issues were reviewed again in the Consolidated Report of Internal Audit.</p> <p>Also, CHU FMF, by providing its opinion within the scope of its competencies, suggested the proper way for establishing the internal audit units and positioning of internal auditors.</p>

<p>- Whether the reform will continue in 2017</p> <p>If no, explain why not</p>	<p>There were no delays in the implementation.</p> <p>Yes, given the need for continuation of the concrete activities on improving the status of internal auditors: it is planned to submit a concrete request for this issue to be considered by the Working Group appointed by the Government of the Federation BiH for preparation of the amendments to the Law on Salaries, in compliance with the Law on Internal Audit; public sector organizations will continue delivering their rulebooks on internal organization to CHU FMF for opinion.</p>
<p>Actual cost of implementation and impact on the annual budget (indicate deviation from estimated costs if any)</p>	<p>Budget of the Federation BiH – these activities were implemented by the staff of CHU of the FMF so the costs of implementation were regular costs for salaries of the employees.</p>

**Table 12: Reporting on the implementation of the structural reform measures of the ERP 2016-2018** (Fill in one per reform)

	<p><b>Name of reform measure:</b></p> <p>7. Increasing the efficiency of internal audit</p>
Short description of actions planned for 2016	CHU FMF, by collecting annual reports of internal audits, prepared a Consolidated Report for the FBiH Government where, <i>inter alia</i> , it presented an overview of audits published in 2015 and reiterated the need for internal auditors to focus on more risky areas in planning and conducting the internal audits.
Were the actions planned for 2016 implemented?	1. <u>Yes</u> /no/partially
<p>If yes/partially, include:</p> <ul style="list-style-type: none"> <li>-Description of steps taken</li> <li>- Timeline of implemented actions</li> <li>- Difficulties and delays in implementation</li> <li>- Whether the reform will continue in 2017</li> </ul> <p>If no, explain why not</p>	<p>CHU FMF analysed 36 internal audit reports for the previous year, 2015; made an overview of the audited areas and gave recommendations to internal auditors on the need to focus on more risky areas.</p> <p>CHU FMF emphasized the need to improve the performance of internal audits both through presentations and training sessions held by different organizers throughout the year, and through oral and written communication with the stakeholders.</p>
Actual cost of implementation and impact on the annual budget (indicate deviation from estimated costs if any)	Budget of the Federation BiH – these activities were implemented by the staff of CHU of the FMF so the costs of implementation were regular costs for salaries of the employees.

**Table 12: Reporting on the implementation of the structural reform measures of the ERP 2016-2018** (Fill in one per reform)

	<p><b>Name of reform measure:</b>  <b>8. Strengthening the coordinating role of CHU</b></p>
<p>Short description of actions planned for 2016</p>	<p>-The competition for another employee of CHU FMF was published, which is expected to be formally finalized by the end of 2016.</p> <p>-Within the project "Strengthening financial management and control", cooperation was established and strengthened with Sector for budget, Sector for treasury, Office for Audit and in 5 pilot ministries (FMH, FMDPR, FMIVD, FMLSP, FMAWMF);</p> <p>-Established cooperation with the Civil Service Agency of FBiH related to training in PIFC (on 21 September there was the first training "Financial management and control") in cooperation between FMF and CSA FBiH;</p> <p>-the Coordination Board of central harmonization units (CB CHU) has started working again in 2016 with six regular sessions held by October (adopted Plan and Programme for 2016; adopted Framework Budget for 2017; harmonized certain PIFC documents and strengthened cooperation between three CHUs).</p>
<p>Were the actions planned for 2016 implemented?</p>	<p>1. <u>Yes</u>/no/partially</p>
<p>If yes/partially, include:          -Description of steps taken          - Timeline of implemented actions          - Difficulties and delays in implementation          - Whether the reform will continue in 2017          If no, explain why not</p>	<p>All activities were implemented on time – CHU FMF had the only delay in the beginning of the implementation of the project "Strengthening financial management and control" because the implementation started officially only on 1 July 2016 and will last by 31 December 2016 (this delay was caused by procedural reasons – a great number of signatures at different levels reflected on the planned beginning of the project).</p> <p>Yes, these activities require continuity.</p>

Actual cost of implementation and impact on the annual budget (indicate deviation from estimated costs if any)	Budget of the Federation BiH – these activities were implemented by the staff of CHU of the FMF so the costs of implementation were regular costs for salaries of the employees; Grant for project “Strengthening Financial Management and Control” Budget funds available to CSA FBiH.
--	---

**Table 12: Reporting on the implementation of the structural reform measures of the ERP 2016-2018** (Fill in one per reform)

	<b>Name of reform measure:</b> Reducing business costs and shortening the procedures for issuing business licences – Eliminating obstacles to businesses and investment
Short description of actions planned for 2016	<p>1. The registry of taxes and charges should be a basis for regulation of this area and present an overview of all non-tax revenues classified by types, legal framework, payer, distribution, units that collect them, considering the variety of authorities that impose and collect them at the Federal, cantonal and municipal level (ministries, agencies, institutes, public companies and other budget users). Registar taksi i naknada trebao bi biti osnov za uređenje oblasti predstavlja pregled svih neporeznih prihoda klasificiranih po vrstama,</p> <p>2. The draft form of the Registry should be presented at the website of the Federal Ministry of Finance, so that users of public revenues could examine and amend it if needed – the finalized Registry could then be submitted to the Government of the Federation BiH for consideration and verification and officially published on the website of the Federal Ministry of Finance in the form of interactive Registry, which was elaborated in more detail in the same section of ERP 2016-2018.</p>
Were the actions planned for 2016 implemented?	1. Yes, draft Registry is prepared as planned.
If yes/partially, include: -description of steps taken  - Timeline of implemented	

<p>actions</p> <ul style="list-style-type: none"> <li>- Difficulties and delays in implementation</li> <li>- Whether the reform will continue in 2017</li> </ul> <p>If no, explain why not</p>	<p>Reforms will continue in 2017, so as to fully establish and implement the Registry of taxes and charges in the Federation of BiH together with the USAID's FAR project.</p> <p>In cooperation with the USAID's FAR project, a detailed study should be prepared on taxes and charges in the Federation of BiH with criteria for elimination of taxes and charges that are unjustified in terms of the level of collected revenues, too much burden for employees, ease of collection and possibility of being replaced with some other tax revenue, with the proposal for elimination of certain taxes and charges based on the set criteria, which will be a part of the Strategy for reforming public finance management 2016-2020, all with the objective to reduce parafiscal charges.</p> <p>In cooperation with the USAID's FAR project, a detailed study should be prepared on taxes and charges in the Federation of BiH with criteria for elimination of taxes and charges that are unjustified in terms of the level of collected revenues, too much burden for employees, ease of collection and possibility of being replaced with some other tax revenue, with the proposal for elimination of certain taxes and charges based on the set criteria, which will be a part of the Strategy for reforming public finance management 2016-2020, all with the objective to reduce parafiscal charges.</p>
<p>Actual cost of implementation and impact on the annual budget (indicate deviation from estimated costs if any)</p>	<p>This measure is implemented in cooperation with the USAID project of fiscal sector reform (FAR) so there are no additional costs since the activities fall within the workplan of the Ministry with the existing human resources.</p>

**Table 2: Reporting on the implementation of the structural reform measures of the ERP 2016-2018 (Fill in one per reform)**

Name of reform measure	Fiscal framework
------------------------	------------------

Short description of actions planned for 2016	<p>1. Taxation:</p> <p>(a) The new Law on Corporate Income Tax was adopted in February 2016 (“Official Gazette FBiH” No. 15/16); a by-law arising from the Law on Corporate Income Tax was created and published, namely: Rulebook on Transfer Pricing (“Official Gazette FBiH” No. 67/16), while the activities on publishing another by-law – Rulebook on Implementation of the Law on Corporate Income Tax are ongoing (implementation:October).</p> <p>(b) There has been a harmonization in taxation of personal income, so the Rulebook on Amendments to the Rulebook on Implementation of the Law on Personal Income Tax published in the "Official Gazette of the Federation BiH", No. 52/16, amended the amount of compensations set in the General Collective Agreement, the Ordinance on Fees for Official Travel "Official Gazette of the Federation BiH", No 44/16 and 50/16), Decree on Allowances other than Wages "Official Gazette of the Federation BiH", No. 63/10, 22/11, 66/11 and 51/12) and Decree on Fees of Members of the Government of the Federation of Bosnia and Herzegovina and Their Advisors "Official Gazette of the Federation BiH", No. 87/10, 22/11, 45/13 and 9/16).</p>
Were the actions planned for 2016 implemented?	In the taxation domain, activities planned for 2016 were partially implemented, although 2016 is still going on. The planned activities are expected to be implemented in 2016.
<p>If yes/partially, include: description of steps taken, Timeline of implemented actions, Difficulties and delays in implementation, whether the reform will continue in 2017,</p> <p>If no, explain why not</p>	<p>2016 is set to see amendments to income tax regulations in a way to extend the tax base where all income and fees from labour would be taxed so as to enable reducing the contributions on salaries. In the period ending with the third quarter of 2016, there are simulations done of reductions of the total contributions rate in order to achieve a neutral effect on extra budgetary funds, with parallel drawing up of regulations.</p> <p>In October 2016, the prepared Law on Personal Income Tax should enter the procedure towards the FBiH Government. The income tax reform will continue in 2017 too by preparation and adoption of by-laws which will enable the implementation of the personal income tax.</p> <p>Regulations on tax administration have been under intensive preparation with the expectation that they could be released in the procedure to the FBiH Government in the last quarter of 2016. Tax administration reform will be continued in 2017 too by preparation and adoption of by-laws which will enable implementation, and with full implementation in tax administration.</p>

**FEDERAL MINISTRY OF EDUCATION AND SCIENCE**

**Table 12: Reporting on the implementation of the structural reform measures of the ERP 2016-2018 (Fill in one per reform)**

	<p>Name of reform measure: <b>4.2.5.2. Structural reform priority: Education reform</b></p> <p style="text-align: center;"><b>1. Establishing a fund for mobility of students and teachers</b></p>
Short description of actions planned for 2016	<ol style="list-style-type: none"> <li>1. Finalisation of preparations and establishment of the Fund for Mobility of Students and Teaching Staff of the Federation BiH</li> <li>2. Financing/co-financing mobility of students and teaching staff</li> <li>3. Support to the implementation of bilateral and multilateral international agreements and protocols on cooperation in the field of education, science and research.</li> </ol>
Were the actions planned for 2016 implemented?	<ol style="list-style-type: none"> <li>1. partially</li> <li>2. partially</li> <li>3. partially</li> </ol>
<p>If yes/partially, include:</p> <p>-Description of steps taken</p> <p>- Timeline of implemented actions</p> <p>- Difficulties and delays in implementation</p>	<ol style="list-style-type: none"> <li>1. Federal Ministry of Education and Science has finalised the preparatory activities for establishment of the Fund for Mobility of Students and Teaching Staff of the Federation BiH . The opinions are obtained from the Office for Legislation and Harmonisation with the EU Regulations, Federal Ministry of Justice and Federal Ministry of Finance. The Decision on the Establishment of a Fund/Foundation for Mobility was prepared in compliance with the aforementioned opinions, along with the explanatory text.  As regards the establishing, it is pending the adoption of the Decision on the establishment by the FBiH Government, in order to start the other activities stated under Development of a set of criteria for support to and promotion of activities; P3: Creation of a database and examples of previous mobility; P4: Training of the Fund staff on the mobility programmes; P5: Promotion of the mobility programmes and good practices.</li> <li>2. In 2016, the Ministry co-financed, with modest budget funds, the Programme of Support to Implementation of Programme of International Academic and Student Mobility and Exchange through multilateral cooperation and agreements in the higher education area (CEEPUS, etc) as well as bilateral cooperation and agreements in the higher education area . Nevertheless, mobility is still low but its rise is expected by the establishment of the Fund for Mobility.</li> <li>3. See 2</li> </ol> <p>Activities are implemented continuously throughout the budget year.</p>

	<p>This measure planned for a considerable share of funds for operations of the Fund to be co-financed from grants, namely the upcoming structural funds for BiH (IPA II) and other sources. Preparation and adoption of strategic documents for IPA II has not been finalised, and the funds are not operational as yet. The Ministry could not apply for financing from Structural funds but it will be able to apply in the coming period, namely in 2017, if the strategic documents are adopted this year.</p> <p>Regardless of this situation, the Ministry has, using the Programme of support to mobility, supported a small number of students and teachers mobilities in 2016.</p>
-Whether the reform will continue in 2017	Yes
If no, explain why not	
Actual cost of implementation and impact on the annual budget (indicate deviation from estimated costs if any)	Costs of implementation have not had any effect on the annual budget so far.

**Table 12: Reporting on the implementation of the structural reform measures of the ERP 2016-2018** (Fill in one per reform)

	<p>Name of reform measure: <b>4.2.5.2. Structural reform priority: Education reform</b></p> <p style="text-align: center;"><b>2. Career orientation development</b></p>
Short description of actions planned for 2016	<ol style="list-style-type: none"> <li>1. In 2016, we have worked in raising awareness of professional and broader audience on the importance of career orientation development in FBiH and promotion of good practice. Proposals for improving the legal framework, methodology and standards for delivery of career orientation services have been developed.</li> <li>2. We have started developing the proposals for improving the methodology and standards for delivery of career orientation services, i.e. developing the Model of Career Orientation in Education.</li> </ol>
Were the actions planned for 2016 implemented?	<ol style="list-style-type: none"> <li>1. partially</li> <li>2. partially</li> </ol>

<p>If yes/partially, include:</p> <p>-Description of steps taken</p> <p>- Timeline of implemented actions</p> <p>- Difficulties and delays in implementation</p> <p>-Whether the reform will continue in 2017</p> <p>If no, explain why not</p>	<ol style="list-style-type: none"> <li>1. Cooperation with relevant actors related to promotion of career orientation.</li> <li>2. Working Group meeting was held on raising awareness of professional and broader audience on the importance of career orientation development in FBiH and promotion of good practice as well as development of proposals for improving methodology and standards for delivery of career orientation services, i.e. developing the Model of Career Orientation in Education.</li> </ol> <p>Activities are implemented continuously throughout the budget year.</p> <p>No delays in implementation</p> <p>Yes</p>
<p>Actual cost of implementation and impact on the annual budget (indicate deviation from estimated costs if any)</p>	<p>Costs of implementation have not had any effect on the annual budget so far.</p>

**FEDERAL MINISTRY OF ENVIRONMENT AND TOURISM**

**Table 12: Reporting on the implementation of the structural reform measures of the ERP 2016-2018 (Fill in one per reform)**

	<b>Name of reform measure</b>
Short description of actions planned for 2016	<ol style="list-style-type: none"> <li>1. Improving the existing legal framework defining the area of waste management through revision of the laws</li> <li>2. Improving the revision of by-laws in the field of waste management</li> <li>3. Improving the applicable law on the Environmental Protection Fund</li> <li>4. Improving the applicable legal framework in the field of environment by adopting the new Environmental Law.</li> </ol>
Were the actions planned for 2016 implemented?	<ol style="list-style-type: none"> <li>1. Yes/no/<b>partially</b></li> <li>2. Yes/no/<b>partially</b></li> </ol>
If yes/partially, include:  -Description of steps taken  - Timeline of implemented actions  - Difficulties and delays in implementation	

<p>- Whether the reform will continue in 2017</p> <p>If no, explain why not</p>	<p>Yes</p>
<p>Actual cost of implementation and impact on the annual budget (indicate deviation from estimated costs if any)</p>	

**FEDERAL MINISTRY OF JUSTICE**

**Table 12: Reporting on the implementation of the structural reform measures of the ERP 2016-2018 (Fill in one per reform)**

	<p><b>Name of reform measure 4.2.4. Business environment, corporate governance and reduction of the informal economy</b></p>
<p>Short description of actions planned for 2016</p>	<p>1. Activities were carried out at the level of Government of the Federation BiH – a Working Group was formed to work on the preparation of legal solutions for the implementation of this measure.</p>
<p>Were the actions planned for 2016 implemented?</p>	<p>1. Yes/no/<i>partially</i></p>

	2. Yes/no/ <i>partially</i>
<p>If yes/partially, include:</p> <ul style="list-style-type: none"> <li>-Description of steps taken</li> <li>- Timeline of implemented actions</li> <li>- Difficulties and delays in implementation</li> </ul>	Working Group was formed to work on the preparation of legal solutions for the implementation of this measure.
<p>- Whether the reform will continue in 2017</p> <p>If no, explain why not</p>	Yes
<p>Actual cost of implementation and impact on the annual budget (indicate deviation from estimated costs if any)</p>	No concrete data.

**FEDERAL MINISTRY OF TRANSPORT AND COMMUNICATIONS**

**Table 12: Reporting on the implementation of the structural reform measures of the ERP 2016-2018 (Fill in one per reform)**

	<b>Name of reform measure: Policy measure: Improving the transport infrastructure (including the Reform priority – Restructuring of the railways)</b>
Short description of actions planned for 2016	<p>1. The 2016-2030 Transport Strategy and the accompanying Action Plan of the Federation of BiH were developed and set</p> <p>2. Activities on new categorization of roads in the Federation BiH</p> <p>3. Taking actions to increase discipline, collection, allocation and earmarked spending of original revenues for transport infrastructure</p> <p>4. Under the auspices of the World Bank, which finances the development of the study on the restructuring of the railway sector in BiH, led by the Swedish organization SIDA, the second draft of the document was developed and comments submitted. The final documents is expected to be completed in the second week of October, when the document will be presented at the workshop.</p> <p>Government of F BiH established a time frame where the plan for restructuring the railway company "Željeznica FBiH" is set for December 2016.</p>
Were the actions planned for 2016 implemented?	<p>1. Yes/no/partially</p> <p>2. Yes/no/partially</p> <p>3. Yes/no/partially</p> <p>4. Yes/no/partially</p>
<p>If yes/partially, include:</p> <p>-Description of steps taken</p> <p>- Timeline of implemented actions</p> <p>- Difficulties and delays in</p>	<p>1. The 2016-2030 draft Transport Strategy and the accompanying Action Plan of the Federation of BiH were developed and set by the Government of the Federation BiH</p> <p>2. Procedures for adoption of amendments to the existing regulations and adoption of corresponding Decisions on new categorization of roads in the Federation BiH is under way.</p> <p>3. Process of establishing a unit/service for traffic safety within the Ministry is under way</p> <p>4. Process of finalization of the study and the document is under way.</p>

<p>implementation</p> <p>- Whether the reform will continue in 2017</p> <p>If no, explain why not</p>	<p>Reforms will be continued in 2017.</p>
<p>Actual cost of implementation and impact on the annual budget (indicate deviation from estimated costs if any)</p>	<p>Additional impact on the budget is not foreseen – the aforementioned activities will be implemented within the set budget of the Ministry.</p> <p>For Activity 4 - Development of the Study is funded by the World Bank; the next steps after the adoption of the model will come up with actual costs to burden the budget.</p>

**Table 12: Reporting on the implementation of the structural reform measures of the ERP 2016-2018 (Fill in one per reform)**

	<p><b>Name of reform measure</b></p> <p><b>Establishing the eGovernment system/Public Administration Reform</b></p>
<p>Short description of actions planned for 2016</p>	<ol style="list-style-type: none"> <li>1. Decisions on the adoption of the Interoperability Framework.</li> <li>2. Decisions on the adoption of the "Guidelines and Standards for System Architecture and Application Development" and the Instruction on the Application in the FBiH Institutions;</li> <li>3. Decisions on the adoption of "Standards for the Development and Maintenance of the Data Glossary and Initial Data Glossary" in the institutions of the Federation FBiH.</li> <li>4 Agreement on Mutual Cooperation of the Main Bearers of the Project.</li> <li>5. Establishing the Coordination Body</li> <li>6. Establishing the inter-ministerial working group at the level of BiH</li> </ol>

	<p>7.Development of the long-term implementation plan</p> <p>The procedure of establishing the Coordination team is carried out in order to implement the Interoperability Framework. Federal Ministry of Transport and Communications is charged with preparing the long-term implementation plan for the Interoperability project.</p> <p>Agreement on Mutual cooperation of the main bearers of activities of the Federal Ministry of Transport and Communications and the General Secretariat of the FBiH Government has been prepared, soon to be approved at the Government session.</p>
<p>Were the actions planned for 2016 implemented?</p> <p>If yes/partially, include:</p> <p>-Description of steps taken</p>	<p>Partially.</p> <ol style="list-style-type: none"> <li>1. Decisions adopted,</li> <li>2. Decisions adopted,</li> <li>3. Decisions adopted,</li> <li>4. Agreement prepared for the Government,</li> <li>5. Forming of the Coordination Team ongoing – representatives appointed</li> <li>6. Forming of the inter-ministerial working group at the level of BiH ongoing – representatives appointed</li> <li>7. Long-term implementation plan will be prepared as soon as the experts are hired</li> </ol> <p>In order to implement the Interoperability Framework, the Government of the Federation FBiH has appointed the Coordination Team.</p> <p>Federal Ministry of Transport and Communications has started the activities on the long-term implementation plan for the Interoperability project for a three-year period.</p>

<p>- Timeline of implemented actions</p> <p>- Difficulties and delays in implementation</p> <p>-Whether the reform will continue in 2017</p> <p>If no, explain why not</p>	<p>Working meetings held with the purpose of defining the responsibilities and harmonizing the activity plan. Public call for experts under preparation.</p> <p>The Implementation Plan of the Decision on Interoperability will ensure institutional readiness and the interoperability infrastructure to make public registries prepared for electronic services:</p> <ol style="list-style-type: none"> <li>1. registries of companies and legal entities - 2017</li> <li>2. registries on population and registry books - 2017</li> <li>3. registries on space, facilities and GIS maps - 2018</li> </ol>
<p>Actual cost of implementation and impact on the annual budget (indicate deviation from estimated costs if any)</p>	<p>The goal is to secure funds for the implementation of the Interoperability Framework from the international institutions.</p> <p>There was no impact on the FBiH budget so far – there were no costs and deviations. We have received firm promises from the World Bank representatives that they will finance the activities of establishing the Interoperability Framework and engage experts on this project.</p>

**FEDERAL MINISTRY OF AGRICULTURE, WATER MANAGEMENT AND FORESTRY**

**Table 12: Reporting on the implementation of the structural reform measures of the ERP 2016-2018 (Fill in one per reform)**

	<p><b>Name of reform measure</b></p> <p><b>4.2.3. Structural reform area: Sectoral development</b></p> <p><b><i>4.2.3.1.1. Introduction of financial support to agricultural producers based on payments per hectare and per head of cattle</i></b></p>
Short description of actions planned for 2016	<p>1. Direct payments per hectare.</p> <p>2. Direct payments per head.</p>
Were the actions planned for 2016 implemented?	<p>1. No</p> <p>2. Partially</p>
<p>If yes/partially, include:</p> <p>-Description of steps taken</p> <p>- Timeline of implemented actions</p> <p>- Difficulties and delays in implementation</p> <p>-Whether the reform will</p>	<p>Direct payments per head for dairy cows in the system of milk collection.</p> <p>Instead of KM 0.30 per litre of milk, payment of KM 0.28 per litre of milk plus KM 100 per head for dairy cows in the system of milk collection was introduced.</p> <p>Development of the Incentives Programme in March 2016, which was subsequently adopted at the Government and entered into force by being published in the Official Gazette. It has been applicable since the date of publishing.</p> <p>Due to great pressures from the stakeholders and associations, there has been a delay of around 30 days.</p> <p>Measures will be continued according to the plan from ERP</p>

continue in 2017	
If no, explain why not	
Actual cost of implementation and impact on the annual budget (indicate deviation from estimated costs if any)	There were no additional implementation costs.

**Table 12: Reporting on the implementation of the structural reform measures of the ERP 2016-2018** (Fill in one per reform)

	<p><b>Name of reform measure</b></p> <p><b>4.2.3. Structural reform area: Sectoral development</b></p> <p><b>4.2.3.1.2. <i>Introduction of rural development measures based on the principles of EU IPARD</i></b></p>
Short description of actions planned for 2016	The FBiH Rural Development Programme 2016-2020 was submitted to the Government for adoption, but the Government of FBiH reached a conclusion to forward the Programme to the Federal Ministry of Finance to be included in the FBiH Public Investment Programme.
Were the actions planned for 2016 implemented?	1. Partially
If yes/partially, include:	
-Description of steps taken	FMAWMF completed the prescribed forms to apply the Rural Development Programme for the FBiH Public Investment

<p>-Timeline of implemented actions</p> <p>- Difficulties and delays in implementation</p> <p>-Whether the reform will continue in 2017</p> <p>If no, explain why not</p>	<p>Programme.</p> <p>Federal Ministry of Finance requested for financial backing to be secured for the Rural Development Programme in a part related to borrowing in the international capital market as a first step in inclusion in the Public Investment Programme.</p> <p>Yes</p>
<p>Actual cost of implementation and impact on the annual budget (indicate deviation from estimated costs if any)</p>	<p>There were no implementation costs</p>

**Table 12: Reporting on the implementation of the structural reform measures of the ERP 2016-2018** (Fill in one per reform)

	<p><b>Name of reform measure</b></p> <p><i>4.2.4.1. Structural reform priority: Shortening the deadlines and simplifying the procedures for issuing various permits</i></p> <p><b>Measure: M 3. 1. Amendment to the Law on Waters in the part relating to calculation of general and special water fees.</b></p>
<p>Short description of actions planned for 2016</p>	<p>Reducing or abolishing general water fees through amending the Law on Waters and increasing the part of special water fees – through amending the Decision of the Government of the Federation, provided that adequate financing of the water sector is secured.</p>
<p>Were the actions planned for 2016 implemented?</p> <p>If yes/partially, include:</p> <ul style="list-style-type: none"> <li>-Description of steps taken</li> <li>- Timeline of implemented actions</li> <li>- Difficulties and delays in implementation</li> </ul> <p>-Whether the reform will continue in 2017</p> <p>If no, explain why not</p>	<p>NO</p> <p>NO; up to the termination of restrictions on co-financing the environmental sector/waters through IPA II funds and the inclusion of the environmental sector in the Indicative Strategic Document, i.e. the insurance of the EU grant funding sources required for the implementation of water management plans and planned implementation of the EU Water Directives.</p> <p>The draft Law on Amendments to the Law on Waters was prepared and submitted to the Government of the Federation, but without changes or abolishing general water fees. Federal Ministry of Finance did not submit any comments to the prepared draft. We note that the Amendments to the Law on Waters include improvements in methods of control and calculation of water fee payments so as to ensure the needed funds because at the moment as much as 20-25% of these funds are not</p>

	collected.  We point out that, due to restriction in IPA II to the environmental sector, we did not secure adequate co-financing of the water sector, which is conditioned by the adoption of the approximation strategy for the environmental sector at the level of Bosnia and Herzegovina.
Actual cost of implementation and impact on the annual budget (indicate deviation from estimated costs if any)	

**Table 12: Reporting on the implementation of the structural reform measures of the ERP 2016-2018** (Fill in one per reform)

	<p><b>Name of reform measure</b></p> <p><b>4.2.4.1. Structural reform priority: Shortening the deadlines and simplifying the procedures for issuing various permits (forestry)</b></p> <p><b>1. Analysis of the state of para-fiscal charges in the Federation of BiH with proposed measures</b></p> <ul style="list-style-type: none"> <li>- Setting the basis for calculation of general water fees, fees for general useful functions of forests and fees of tourists' communities in a way to make this basis the average net salary in the Federation BiH for the previous year</li> <li>- By amending the regulations, seek to realize a certain minimum of reduction of obligations, which would be gradually introduced through a multi-year period, and should result in disburdening the economy</li> <li>- A sectoral approach should be applied when introducing the basis for calculation of fees for forests in the sense to burden those legal entities with this fee which are closely related to the activity of using and exploiting this asset</li> </ul> <p><b>3. Amendments to regulations in order to change the basis and rates for calculation of fees</b></p> <ul style="list-style-type: none"> <li>- Urgently adopt the Law on Forests at the federal level, which will be harmonised with provisions of the Constitution of the Federation BiH and incorporate the principles of calculation of the forest fees, and determine the adequate distribution of revenues among the budgets</li> </ul>
--	---

<p>Short description of actions planned for 2016</p>	<p><b>1. Analysis of the state of parafiscal charges in the Federation BiH with the proposal of measures</b></p> <ul style="list-style-type: none"> <li>- The Government of the Federation BiH, at its 55<sup>th</sup> session held on 27 May 2016, after considering the Preliminary Draft of the Law on Forests drawn up by this Ministry, defined and submitted the Draft Law on Forests into parliamentary procedure. The House of Representatives of the Parliament of the Federation BiH, at its regular 12<sup>th</sup> session held on 13 July 2016, considered the Draft Law on Forests and adopted a Conclusion on acceptance of the Draft Law on Forests. The House of Peoples has still not considered the Draft Law on Forests. The text of the Draft Law on Forests, in order to achieve general interest and long-term objectives based on the principles of sustainable forest management that will be defined by the Forest Programme of the Federation BiH, cantonal forest development plans and forest management basis, foresees the establishment of dedicated funds for protection, improvement and afforestation and for rural development. Among other fees, a fee for general beneficial functions of forests is set which, if the same text of Law is to be adopted as it is in the Draft, would be paid by all legal and physical persons during the registration of motor vehicles, depending on the carbon dioxide emission (CO<sub>2</sub>) per kilometre. This fee would be charged and paid during the registration of a motor vehicle in the following amounts: 40.0 % on the designated account of the Budget of the Federation BiH and 60.0 % on the designated account of the budget of the canton at whose territory the vehicle is registered.</li>   <li>- If the same text of Law is to be adopted as it is in the Draft, a fee for general beneficial functions of forests would be paid by all legal and physical persons during the registration of motor vehicles, depending on the carbon dioxide emission (CO<sub>2</sub>) per kilometre. Pursuant to previous regulations governing the area of forestry, a fee for general beneficial functions of forests was paid by all legal persons registered for doing business at the territory of the Federation BiH, as well as parts of legal persons with the seat outside BiH who do business in the Federation of BiH, in the amount of 0.1% of the total realized income (Law on Forests 2002-2009), i.e. in the amount of 0.07% of the total realized income (Decree on Forests 2009-2011).</li>   <li>- The text of the Draft Law on Forests does not provide for exemptions from paying a fee for general beneficial functions of forests</li> </ul>
--	---

	<p><b>3. Amendments to regulations in order to change the basis and rates for calculation of fees</b></p> <p>The Government of the Federation BiH, at its 55<sup>th</sup> session held on 27 May 2016, after considering the Preliminary Draft of the Law on Forests drawn up by this Ministry, defined and submitted the Draft Law on Forests into parliamentary procedure.</p> <p>The House of Representatives of the Parliament of the Federation BiH, at its regular 12<sup>th</sup> session held on 13 July 2016, considered the Draft Law on Forests and adopted a Conclusion on acceptance of the Draft Law on Forests. The House of Peoples has still not considered the Draft Law on Forests.</p>
<p>Were the actions planned for 2016 implemented?</p>	<p>1. Yes/no/partially      <b>Partially</b></p> <p>3. Yes/no/partially      <b>Partially</b></p>
<p>If yes/partially, include:</p> <p>-Description of steps taken</p> <p>- Timeline of implemented actions</p> <p>- Difficulties and delays in implementation</p> <p>- Whether the reform will</p>	<p>The Government of the Federation BiH, at its 55<sup>th</sup> session held on 27 May 2016, after considering the Preliminary Draft of the Law on Forests drawn up by this Ministry, defined and submitted the Draft Law on Forests into parliamentary procedure.</p> <p>The House of Representatives of the Parliament of the Federation BiH, at its regular 12<sup>th</sup> session held on 13 July 2016, considered the Draft Law on Forests and adopted a Conclusion on acceptance of the Draft Law on Forests. The House of Peoples has still not considered the Draft Law on Forests.</p> <p>After the Draft Law on Forests is adopted by the Parliament of the Federation BiH, the development of the Proposal of the Law on</p>

continue in 2017	Forests will include the aforementioned measures from the Economic Reform Programme.
If no, explain why not	
Actual cost of implementation and impact on the annual budget (indicate deviation from estimated costs if any)	

#### FEDERAL MINISTRY OF LABOUR AND SOCIAL POLICY

**Table 12: Reporting on the implementation of the structural reform measures of the ERP 2016-2018** (Fill in one per reform)

	<b>Name of reform measure</b> Adoption of the Law on the Single Registry of Non-Contributory Cash Benefit Users
Short description of actions planned for 2016	<ol style="list-style-type: none"> <li>1. At its 42 session held on 25 February 2016, the Government of the Federation BiH has defined the Proposal of the Law on the Single Registry of Non-Contributory Cash Benefit Users into regular parliamentary procedure;</li> <li>2. Upon completion of the harmonization procedure, the Parliament of the Federation BiH is urged to include it into an agenda of the following session of both Houses;</li> </ol> <p>etc.</p>
Were the actions planned for 2016 implemented?	1. <u>Yes</u> /no/partially

	2. Yes/ <u>no</u> /partially
<p>If yes/partially, include:</p> <p>-Description of steps taken</p> <p>Timeline of implemented actions</p> <p>- Difficulties and delays in implementation</p> <p>-Whether the reform will continue in 2017</p> <p>If no, explain why not</p>	<p>In this specific case, this is a regulation providing for the establishment of single database on payments of all non-contributory cash benefits to individual users. An issue of dispute that occurs is related to competencies for keeping the registry and thereby supervising the implementation of the Law after its final adoption</p> <p>Commission for drafting the Law is of the opinion that these issues fall in the scope of competencies of the Federal Ministry of Finance, by invoking the Law on Single Regulation of Rights to Individual Cash Benefits in the Federation.</p> <p>At this point, this body can not anticipate the manner and extent to which the establishment of this registry will affect competitiveness, economic growth and rise in employment.</p> <p>These reforms are planned to continue in 2017 too.</p>
<p>Actual cost of implementation and impact on the annual budget (indicate deviation from estimated costs if any)</p>	/

**Table 12: Reporting on the implementation of the structural reform measures of the ERP 2016-2018** (Fill in one per reform)

	<p><b>Name of reform measure:</b> Law on Pension and Disability Insurance</p>
<p>Short description of actions planned for 2016</p>	<p>1. Public discussion, consideration at the FBiH Government; start of the implementation of the Law</p> <p>2.</p> <p>etc.</p>
<p>Were the actions planned for 2016 implemented?</p>	<p>1. Yes</p>
<p>If yes/partially, include:</p> <ul style="list-style-type: none"> <li>-Description of steps taken</li> <li>- Timeline of implemented actions</li> <li>- Difficulties and delays in implementation</li> <li>- Whether the reform will continue in 2017</li> </ul>	<p>Yes, through possible amendments to the Law, development of implementing legislation, etc.</p>

If no, explain why not	
Actual cost of implementation and impact on the annual budget (indicate deviation from estimated costs if any)	

**FEDERAL MINISTRY OF DEVELOPMENT, ENTREPRENEURSHIP AND CRAFTS**

**Table 12: Reporting on the implementation of the structural reform measures of the ERP 2016-2018 (Fill in one per reform)**

	<p><b>Name of reform measure</b>  <i>4.2.4.2. Structural reform priority: Support to SMEs</i>  <b>2. Support to development of business infrastructure in the Federation of BiH</b></p>
Short description of actions planned for 2016	<p><i>Implementation of the project “Development of entrepreneurial zones in the Federation BiH” and the project “Improving the institutional entrepreneurial infrastructure”</i></p>
Were the actions planned for 2016 implemented?	<p><b>YES</b></p>
If yes/partially, include:	<p><b>1. Government of Federation BiH issued a Decision on the approval of the expenditure programme with criteria for</b></p>

<p>-Description of steps taken</p> <ul style="list-style-type: none"> <li>- Timeline of implemented actions</li> <li>- Difficulties and delays in implementation</li> </ul> <p>-Whether the reform will continue in 2017</p> <p>If no, explain why not</p>	<p><i>allocation of current transfers earmarked by the Budget of the Federation of Bosnia and Herzegovina for 2016 to the Federal Ministry of Development, Entrepreneurship and Crafts</i></p> <ol style="list-style-type: none"> <li>2. <i>Agreement between the UNDP and the Federal Ministry of Development, Entrepreneurship and Crafts on the implementation of the project “Development of entrepreneurial zones in the Federation BiH”</i></li> <li>3. <i>Public tender for selection of beneficiaries implemented</i></li> <li>4. <i>Contracts with beneficiaries of funds signed</i></li> </ol> <p><b>YES</b></p>
<p>Actual cost of implementation and impact on the annual budget (indicate deviation from estimated costs if any)</p>	<p><i>There are no deviations from estimated costs</i></p>

**FEDERAL MINISTRY OF HEALTH**

**Table 12: Reporting on the implementation of the structural reform measures of the ERP 2016-2018 (Fill in one per reform)**

	<b>Name of reform measure</b>
Short description of actions planned for 2016	1. Federal Ministry of Health will prepare the Draft Law on Financial Consolidation of Public Health Institutions
Were the actions planned for 2016 implemented?	1. Yes/no/ <b>partially</b>  2. Yes/no/partially
If yes/partially, include:	<p>At the 29 session of the FBiH Government held on 5 November 2015, the Information on the issue of health sector financing in the Federation BiH was considered and adopted, with particular reference to the issue of financing clinical centres in the Federation of Bosnia and Herzegovina and the need to rehabilitate the established losses in the health sector, together with the proposed conclusions.</p> <p>The aforementioned Information, with the conclusions, was delivered to all cantonal ministries of health. In addition, in order to implement the conclusions under item 2, the Prime Minister of FBiH delivered this Information to all cantonal prime ministers, with the adopted conclusions and a Form – where they need to compile information on performance, debt and public revenues of health institutions at the territory of respective cantons.</p> <p>According to the Conclusion V No. 1510/2015 of 5 November 2015, in item 3, it is stated that the Federal Ministry of Health is charged, in cooperation with the authorised federal line ministries, to prepare the Draft Law on Financial Consolidation of Public Health Institutions in the Federation of BiH, with the note that this law should be applied for the adoption in urgent procedure. In this regard, the interdisciplinary and inter-sectoral expert committee has been appointed to work intensely on the assigned tasks. The task of the Expert Committee is extended to provide the proposal of the project for restructuring the health sector in the Federation.</p> <p>We also note that these conclusions were also discussed at the meeting of the Coordination of Health Ministers in the Federation BiH, held on 16 December 2015, where some cantonal health ministries appointed their members in the aforementioned Commission.</p>

It was of crucial importance for drafting of this Law to achieve a satisfactory level of the required financial data on performance of health institutions and to check them in the Tax Administration of the Federation BiH (FTA). In this regard, it should be pointed out that this Ministry only had available information on financial performance of hospitals as by 30 June 2015, but not from primary health care institutions. At the meeting of the Coordination of Health Ministers in the Federation BiH was agreed to add the already existing data at the end of completing the financial performance reports of health care institutions for 2015, including data on financial performance of the primary health care institutions. Independent reports of audit firms on financial performance of health care institutions will certainly be important in this respect, if they were previously made pursuant to the Law on Accounting and Auditing in the Federation BiH, as well as the Audit reports of the Office for audit of institutions of the FBiH budget, if any health care institutions were audited by this Office.

Namely, the established financial status of public health care institutions should determine the type and extent of payment instruments, or rather, sources and methods of payment of incurred liabilities of health care institutions on various grounds, and accurately define liable persons, and guarantors for these payments, deadlines, as well as terms and conditions for using appropriate modalities for settling the debt incurred by health care institutions. However, the data collected so far from health care institutions are not at satisfactory level, both in terms of data quality or response.

Preparation, adoption and implementation of the Law on Financial Consolidation of Public Health Institutions in the Federation of BiH and the Law on Default Interest Rate on Public Revenues with the goal of creating legal grounds to write off the interest of public health institutions which were incurred based on due outstanding public revenues is the highest priority task of this Ministry, the FBiH Government and all other actors in the health sector. Activities regarding this are in progress and will be continued in 2017 as well.

- Description of steps taken

- Timeline of implemented actions

- Difficulties and delays in implementation

- Whether the reform will continue in 2017

If no, explain why not

Actual cost of implementation and impact on the annual budget (indicate deviation from estimated costs if any)	
--	--

**Table 12: Reporting on the implementation of the structural reform measures of the ERP 2016-2018 (Fill in one per reform)**

	Name of reform measure
Short description of actions planned for 2016	2. Introducing the treasury operations system
Were the actions planned for 2016 implemented?	1. Yes/no/ <u>partially</u> 2. Yes/no/partially
If yes/partially, include:  - Description of steps taken	<p>The Parliament of the Federation adopted the Law on Treasury in the Federation of Bosnia and Herzegovina ("Official Gazette of the Federation of BiH" No. 26/16), which defines that the extra budgetary funds are required to set up a treasury operations system for public funds not later than 12 months of the date of entry into force of this Law.</p> <p>The Institute for Health Insurance and Reinsurance of the Federation of BiH, as extra budgetary fund, has started the activities on preparation of the information system and principles of operations in general for switching to the treasury operations system. Contacts have been established and several meetings held with the staff of the Federal Ministry of Finance.</p>

<ul style="list-style-type: none"> <li>- Timeline of implemented actions</li> <li>- Difficulties and delays in implementation</li> <li>- Whether the reform will continue in 2017</li> </ul> <p>If no, explain why not</p>	<p>Implementation of activities in a timely manner will depend on the quality of support from the Federal Ministry of Finance and received instructions regarding the procedures and technical issues necessary for successful introduction of the treasury operations system, such as not to jeopardise the continuity of the work of the Institute.</p>
<p>Actual cost of implementation and impact on the annual budget (indicate deviation from estimated costs if any)</p>	<ul style="list-style-type: none"> <li>- Currently we do not have information on the budgetary impact of the implementation of this measure.</li> </ul>

GOVERNMENT OF REPUBLIKA SRPSKA

**Table 12: Reporting on the implementation of the structural reform measures of the ERP 2016-2018**

<b>1. Reducing the tax burden on labour</b>	
Short description of actions planned in 2016	In 2016 we continued very detailed analyses with representatives of the IMF with the intention to first exhaust all possibilities from direct taxes. In relation to that, harmonisation of entity-level regulations in the area of corporate income taxes and personal income taxes will continue until the end of 2016 and in 2017, in accordance with recommendations from the IMF, in order to create the preconditions for reducing the tax burden on labour as of 1st August 2018 by the end of 2017.
Were the actions planned for 2016 implemented?	The measure is implemented in phases; therefore, the actions were not fully implemented in 2016.
If yes, include description of steps taken, timeline of implemented actions, difficulties and delays in implementation and whether the reform will continue in 2017; If no explain why not	The harmonisation of corporate income taxes was completed in 2016, and in the first half of 2017 the harmonisation of personal income taxes will also be carried out. Calculations will be performed in the second half of the year which will clearly demonstrate by how much the tax burden on labour can be reduced. The accompanying legislature will be prepared and adopted in the same period.
Actual costs of implementation and impact on the annual budget (indicate deviation from estimated costs if any)	There were no costs of implementation or impact on the budget.
<b>2. Increasing the fiscal responsibility and enhancing the system of internal financial controls in public sector</b>	
Short description of actions planned in 2016	The Rulebook on Fiscal Statements was adopted and a Call for Applications was published to elect the members of the Fiscal Council of Republika Srpska. However, the number of applications from qualified candidates was insufficient and therefore the Fiscal Council of Republika Srpska was not established in 2016. The Law on the System of Internal Financial Controls in the Public Sector of Republika Srpska was adopted, which regulates the system of internal financial control in the public sector, covers financial management and control and internal audits, lays down the methodology and standards and deals with other important issues significant for the establishment, development and implementation of the system of internal financial control in the public sector.

Were the actions planned for 2016 implemented?	Out of all activities planned for 2016, the only action that was not implemented is the establishment of the Fiscal Council of the Republika Srpska.
If yes, include description of steps taken, timeline of implemented actions, difficulties and delays in implementation and whether the reform will continue in 2017; If no explain why not	<ul style="list-style-type: none"> <li>• Adopted Rulebook on Fiscal Statements</li> <li>• Adopted Law on the System of Internal Financial Controls in the Public Sector of Republika Srpska</li> <li>• Published Call for Applications to elect the members of the Fiscal Council of Republika Srpska</li> <li>• Only one candidate applied who fulfilled the requisite conditions of the CfA, and as the result, the Fiscal Council of the Republika Srpska was not established</li> </ul>
Actual costs of implementation and impact on the annual budget (indicate deviation from estimated costs if any)	There were no costs of implementation or impact on the budget, because the Fiscal Council of the Republika Srpska was not established.
<b>3. Combating gray economy</b>	
Short description of actions planned in 2016	Adopted set of legal regulations aimed at combating the grey economy
Were the actions planned for 2016 implemented?	All actions planned for 2016 were implemented.
If yes, include description of steps taken, timeline of implemented actions, difficulties and delays in implementation and whether the reform will continue in 2017; If no explain why not	<ul style="list-style-type: none"> <li>• Adopted Law on Amendments to the Law on Tax Procedure of Republika Srpska</li> <li>• Adopted Law on Amendments to the Law on Inspections in Republika Srpska</li> <li>• Adopted Law on Amendments to the Law on the System of Civil Service</li> <li>• Adopted Law on Amendments to the Law on Craft and Entrepreneurial Activity</li> <li>• Steps have been made to prevent the registration of lower income as a basis for calculation and payment of taxes and contributions, through the new Law on Contributions and the activities of the Tax Administration of Republika Srpska focusing on indirect methods of determining the tax base</li> <li>• Introduced e-services for personal income tax</li> </ul> <p>All planned actions were implemented in 2016.</p>
Actual costs of implementation and impact on the annual budget (indicate deviation from estimated costs if any)	There were no costs of implementation and the expected impact on the budget is better and more efficient collection of tax revenues.

<b>4. Reforming the health system</b>	
Short description of actions planned in 2016	Together with the World Bank, in 2016 we worked on analysing outstanding liabilities, whereas the introduction of the treasury operations system was prolonged for 2017.
Were the actions planned for 2016 implemented?	In regard to actions planned for 2016, the collection of outstanding liabilities was carried out continuously, whereas the introduction of the treasury operations system was prolonged for 2017, due to the local elections and in agreement with the IMF.
If yes, include description of steps taken, timeline of implemented actions, difficulties and delays in implementation and whether the reform will continue in 2017; If no explain why not	The analysis of outstanding liabilities of the health sector of Republika Srpska was prepared by the World Bank. Currently, the focus is on modelling a solution for introducing the treasury operations system into primary health protection and all actions are expected to be completed by the end of the first quarter of 2017. Implementation of the remaining phases of reform will begin after that.
Actual costs of implementation and impact on the annual budget (indicate deviation from estimated costs if any)	There were no costs of implementation and the expected impact on the budget is better and more efficient control of spending funds.
<b>5. Restructuring of the Railways of Republika Srpska</b>	
Short description of actions planned in 2016	A proposal of restructuring the Railways of Republika Srpska was prepared in cooperation with the World Bank, which was adopted by the Government.
Were the actions planned for 2016 implemented?	The proposed model of restructuring was prepared and adopted in 2016, and the implementation of proposed actions will begin in 2017.
If yes, include description of steps taken, timeline of implemented actions, difficulties and delays in implementation and whether the reform will continue in 2017; If no explain why not	The proposal of restructuring the Railways of Republika Srpska was prepared and adopted; however, considering the magnitude of the entire system and a highly sensitive social dimension of the proposed measure, the dynamic of implementation of activities is somewhat slower than planned.
Actual costs of implementation and impact on the annual budget (indicate deviation from estimated costs if any)	There were no costs of implementation, and we expect a reduction of the company's costs of doing business.

<b>6. Re-industrialisation in all the areas of the processing industry</b>	
Short description of actions planned in 2016	In 2016, the Government of Republika Srpska initiated the process of re-industrialisation in all the areas of the processing industry, which aims at initiating/reviving the production, increasing the volume of industrial production and employment. The action will continue in 2017 and 2018.
Were the actions planned for 2016 implemented?	All actions planned for 2016 were implemented.
If yes, include description of steps taken, timeline of implemented actions, difficulties and delays in implementation and whether the reform will continue in 2017; If no explain why not	The process of re-industrialisation in all the areas of the processing industry, which aims at initiating/reviving the production, increasing the volume of industrial production and employment was initiated. Actions will continue to be carried out in the future period, but do not have priority status and, therefore, will not be laid out as a special measure for 2017.
Actual costs of implementation and impact on the annual budget (indicate deviation from estimated costs if any)	There were no costs of implementation, and we expect a reduction of the costs of doing business for the aforementioned enterprises.
<b>7. Modernisation of the legal framework of the banking sector of Republika Srpska and creation of assumptions for implementation of the bank resolution procedure</b>	
Short description of actions planned in 2016	In 2016, the legal framework was modernised which imposed tighter prudential requirements of the banking business, including more adequate assessment of the risk profile of banks, better quality of risk management, consistent application of corporate governance standards, as well as improved the supervisory function of the Banking Agency of Republika Srpska by introducing additional early intervention measures, developing consolidated supervision and creating the assumptions for implementation of the bank resolution procedure.
Were the actions planned for 2016 implemented?	All actions planned for 2016 were implemented.

If yes, include description of steps taken, timeline of implemented actions, difficulties and delays in implementation and whether the reform will continue in 2017; If no explain why not	<ul style="list-style-type: none"> <li>• Adopted Law on Banks of Republika Srpska</li> <li>• Adopted Amendments to the Law on the Banking Agency of Republika Srpska</li> </ul> <p>The implementation of adopted legal solutions will be an action in 2017.</p>
Actual costs of implementation and impact on the annual budget (indicate deviation from estimated costs if any)	There were no costs of implementation, and we expect a reduction of fiscal risks to the budget of Republika Srpska in the coming years.
<b>8. Eliminating the barriers to business and investment</b>	
Short description of actions planned in 2016	The Registry of Para-fiscal Charges was established and the Draft Law on the Tax System of Republika Srpska was adopted, which will provide a legal basis for the Registry.
Were the actions planned for 2016 implemented?	All actions planned for 2016 were implemented.
If yes, include description of steps taken, timeline of implemented actions, difficulties and delays in implementation and whether the reform will continue in 2017; If no explain why not	<ul style="list-style-type: none"> <li>• Established Registry of Para-fiscal Charges</li> <li>• Adopted Draft Law on the Tax System</li> </ul> <p>The action will be continued in 2017 through the adoption of the Proposal of the Law on the Tax System. After that, all charges included in the Registry will be analysed with the goal of eliminating or at least reducing those charges that are determined to be unjustified or without fiscal effect while increasing tax administration costs for employers by the end of 2017.</p>
Actual costs of implementation and impact on the annual budget (indicate deviation from estimated costs if any)	There were no costs of implementation, and we expect unburdening businesses of para-fiscal charges.
<b>9. Adopting and implementing the Law on Bankruptcy</b>	
Short description of actions planned in 2016	The Law on Bankruptcy was adopted, which regulates the resolution procedure and bankruptcy proceedings, the legal effects of opening and conducting the resolution procedure and bankruptcy proceedings, the re-organisation of the debtor based on the bankruptcy plan and international bankruptcy.
Were the actions planned for 2016 implemented?	All actions planned for 2016 were implemented.

<p>If yes, include description of steps taken, timeline of implemented actions, difficulties and delays in implementation and whether the reform will continue in 2017; If no explain why not</p>	<ul style="list-style-type: none"> <li>• Adopted Law on Bankruptcy</li> </ul> <p>The action will not continue in 2017, but the continuous implementation of the new legal framework and its enhancement will take place in the future.</p>
<p>Actual costs of implementation and impact on the annual budget (indicate deviation from estimated costs if any)</p>	<p>There were no costs of implementation, but we expect to lower the costs of bankruptcy proceedings and reduce the “spill-over” of negative effects on other business entities.</p>
<p><b>10. New labour legislation and support to employment in the real sector</b></p>	
<p>Short description of actions planned in 2016</p>	<p>The new Law on Labour increased the flexibility of the labour market, ensured better correlation of level of wages and performance, reduced negative incentives for employment, ensured better protection of the rights of workers and reduced informal employment and, in that way, it significantly contributed to improving the situation of workers and enterprises alike.</p> <p>Support to employment in the real sector is defined in the Employment Strategy and other documents pertaining to employment, and priority is placed on population categories such as the families of fallen soldiers and best students of public universities.</p>
<p>Were the actions planned for 2016 implemented?</p>	<p>All actions planned for 2016 were not implemented and, therefore, the measure will be continued in 2017.</p>
<p>If yes, include description of steps taken, timeline of implemented actions, difficulties and delays in implementation and whether the reform will continue in 2017; If no explain why not</p>	<p>The main reason for the delay in implementation is the inability to reach an agreement concerning the General Collective Agreement, which has slowed down all further planned actions. All actions planned for 2016 that have not been implemented will be continued in 2017.</p>
<p>Actual costs of implementation and impact on the annual budget (indicate deviation from estimated costs if any)</p>	<p>There were no costs of implementation, but we expect to enhance the labour market and achieve direct positive effects on increasing employment.</p>

## ANNEX 2:

### External contributions to ERP 2017-2019

#### *Public consultation of the BiH Council of Ministers*

On 24 January 2017, the Directorate for Economic Planning of the BiH Council of Ministers has published the Draft BiH Economic Reform Programme 2017-2019 on its website. Invitations were sent for any possible suggestions, comments and proposals to non-governmental organisations, the academic community, chambers of commerce as well as business and professional organisations. Given an extremely short deadline for submission of comments, at the time of completion of the document and submission of the BiH Economic Reform Programme 2017-2019, the Directorate for Economic Planning has not received any comments on the proposed text of the document.

#### *Public consultation of the Government of the Federation BiH*

The consultation process on the issue of measures contained in the FBiH Economic Reform Programme was primarily organised within line ministries for each individual measure. In making and adopting any specific measure there is an obligation of the responsible ministry to carry out a consultation process with the stakeholders. In addition, prior to its adoption, the FBiH Economic Reform Programme was published on the website of the Federal Institute for Development Programming with the invitation for submission of comments to all the stakeholders. Unfortunately, there were no comments on the document, which indicates to the need of making further efforts in public presentation of the document before its adoption by the Government.

#### *Public consultation of the Government of the Republic Srpska*

#### **Comments from the public debate**

The Chamber of Commerce of Republika Srpska and the Union of the Employers' Associations:

- Reducing the burden on economy through reducing fiscal and para-fiscal charges (partially accepted):
  - Amending the laws on taxes and contributions in order to restore the pre-crisis level (partially accepted, because reducing the burden on economy will be defined as a package of measures in cooperation with the IMF and other levels of government in BiH)
  - Increasing the non-tax income to the level of the lowest salary (partially accepted, because reducing the burden on economy will be defined as a package of measures in cooperation with the IMF and other levels of government in BiH)
  - Systemic resolution of the issue of maternity leave, namely providing reimbursement of maternity leave payments to employers in gross amount (accepted to open the issue of reimbursement of maternity leave but the amounts are yet to be negotiated)
- Measures to reduce public spending (accepted):
  - Public administration reform (accepted)
  - Restructuring of public expenditure policy (accepted)
  - Restructuring of public companies (accepted)
  - Maximal involvement of domestic economic capacities (accepted)
- Analysis of the implementation of the new Law on Labour and related by-laws (accepted)
- Improving the liquidity of the economy and extra budgetary funds (accepted)
  - The Law on the deadline for settlement of financial obligations (accepted in 2015, but we expect the adoption of the harmonised solution in the Federation of BiH too)

- Introduction of voluntary financial restructuring (accepted)
- Defining the bankruptcy of entrepreneurs (accepted)
- Support measures and incentives to economy (partially accepted)
  - Law on incentives (partially accepted)
  - Providing incentives for employment in economy (accepted and will be provided through the programme with the World Bank)
- Improving the work of labour inspection and judicial bodies and combating the gray economy (accepted)
- Reform of education system (accepted)

The Confederation of Trade Unions of Republika Srpska:

- Increasing the minimum wage (accepted and minimum wage increased)
- Disburdening the economy in favour of increasing the employees' wages and better business environment (accepted)
- Combating the gray economy (accepted)
- Implementation of the programme of social protection (accepted)
- Adopting the Law on Cessation of the Law on special contribution for solidarity (accepted and Law adopted)
- Adopting the Law on the obligation of Republika Srpska to pay contributions to all workers whose employers failed to pay them, regardless of the ownership structure of capital (not accepted)
- Adopting the Law on Mediation in Employment and Rights during Unemployment (accepted)
- Law on prevention of mobbing at work (not accepted)
- Adopting the Law on Health Protection and the Law on Health Insurance (accepted)

The Association of Towns and Municipalities of Republika Srpska:

- Changing the revenue distribution system in favour of municipalities and towns (not accepted),
- More efficient collection of public revenues (accepted),
- They oppose to the health sector reform (not accepted).