



BOSNIA AND HERZEGOVINA

Economic Reform Program for 2018-2020

(ERP B&H 2018-2020)

Sarajevo, January 2018

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1. OVERALL POLICY FRAMEWORK AND OBJECTIVES

Throughout 2016, Bosnia and Herzegovina carried out intensive activities in the EU accession process and submitted its application for EU membership. Consequently, 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.

During 2017, the BiH Council of Ministers, the Government of the Federation of BiH and the Government of the Republika Srpska, based on the agreed coordination mechanism on the EU integration process in Bosnia and Herzegovina, initiated the preparation of answers to the Questionnaire. At this point, the preparation of answers to the Questionnaire has been almost completed and in the final stage of translation.

On 4 October 2017, the BiH Fiscal Council adopted the Global Framework of Fiscal Balance and Policies in BiH 2018-2020, 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 and their harmonisation makes a basic assumption for the budgetary planning of all fiscal policy makers in BiH and thereby determines the essence of fiscal coordination in BiH. Without their compliance, it would be impossible to coordinate fiscal policies and preserve fiscal stability of individual fiscal sovereignties and consequently BiH as a whole.

The budgets of all levels of government were adopted after 31 December 2017. 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. In December 2017, the Law on Excise Duties was adopted as an important element for the implementation of measures under the extended arrangement with the IMF.

During 2017, Bosnia and Herzegovina maintained its macroeconomic and fiscal stability. Available indicators for 2017 suggest that economic growth in the second and early third quarter was similar to growth in the first quarter when (according to BHAS data) the achieved real rate stood at 2.7% (y-o-y). The main driver of economic growth continues to be a strong, over 10% real exports growth in the first half of the year so economic growth at the end of 2017 should reach a real rate of 3.4%.

Following the *Guidance for the Economic Reform Programmes*, the relevant institutions in Bosnia and Herzegovina have prepared the 2018-2020 Economic Reform Programme (ERP). This year's programme is the fourth 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 2018-2020 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 experience from previous years, the Directorate for Economic Planning has sought to strengthen its coordinating role in terms of expanding the scope of coordination in the preparation of the Economic Reform Programme. 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 2018-2020, which is an upgraded version of the Activity Plan from the previous years. The BiH Council of Ministers, at its 119th session held on 31 October 2017, considered and adopted the Information on the Development of ERP 2018-2020 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 the Republika Srpska. The Directorate for Economic Planning introduced new steps in the Activity Plan for ERP 2018-2020, aimed at improving the consolidation of the 2018-2020 Economic Reform Programme and expanding the cooperation of all institutions involved in the development of the Programme.

The 2018-2020 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.

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 to OECD as a provider of technical assistance in the development of the Programme. 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 in the form of the document that the Directorate for Economic Planning had translated and forwarded to all involved in the development of the document to serve a purpose of preparing a better quality second draft.

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 4 and organised workshops 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 2018-2020 Economic Reform Programme adopted by the Entity governments. DEP coordinated the activities throughout the entire process and prior to the adoption of the document at lower levels, so that the contributions in the stage of writing the first drafts were aligned with the *Guidance* of the European Commission. Finally, the BiH Economic Reform Programme 2018-2020 was adopted by the BiH Council of Ministers at its 131st session held on 30 January 2018.

2. MACROECONOMIC FRAMEWORK

Table 1: Macroeconomic indicators 2015-2020

Indicator	Official data	Projections				
	2015	2016	2017	2018	2019	2020
Nominal GDP in million KM	29,666	30,862	31,871	33,366	35,139	37,078
Nominal growth in %	4,6	4,0	3,3	4,7	5,3	5,5
GDP deflator (previous year = 100)	100.7	101.1	99.9	101.3	101.4	101.6
Real GDP in million KM (previous year = 100)	29.456	30.531	31.905	32.946	34.643	36.496
Real growth in %	3.8	2.9	3.4	3.4	3.8	3.9
Inflation measured by consumer price index in %	-1	-1.1	1.1	1.2	1.4	1.5
Consumption in million KM	29,665	30,042	30,832	31,851	32,957	34,142
Real growth in %	1.4	1.4	1.6	2.1	2.0	2.1
Government consumption in million KM	6,284	6,266	6,366	6,494	6,624	6,756
Real growth in %	-0.1	0.1	0.1	0.8	0.5	0.5
Private consumption in million KM	23,382	23,776	24,466	25,357	26,333	27,385
Real growth in %	1.8	1.8	2.0	2.4	2.4	2.6
Investment (Gross) fixed capital formation in million KM	5,097	5,189	5,524	6,125	6,795	7,495
Real growth in %	-3.5	2.5	6.2	10.6	10.5	9.8
Government investment in million KM	535	697	764	1,031	1,320	1,663
Real growth in %	-53.3	31.3	7.9	33.4	26.1	24.1
Private investment in million KM	4,563	4,491	4,761	5,094	5,476	5,832
Real growth in %	10.3	-0.9	5.9	6.9	7.4	6.4
Imports in million KM	15,216	15,636	17,074	18,162	19,310	20,550
Nominal growth in %	-1.7	2.8	9.2	6.4	6.3	6.4
Real growth in %	0.7	7.0	4.7	4.8	4.3	4.2
Exports in million KM	9,884	10,588	11,875	12,981	14,069	15,176
Nominal growth in %	6.3	7.1	12.2	9.3	8.4	7.9
Real growth in %	6.8	9.5	9.1	7.1	5.5	4.5
National Gross savings in % of GDP	12.7	14.8	15.0	15.7	16.9	18.0
Current account balance in million KM	-1,572	-1,308	-1,455	-1,443	-1,500	-1,630
Growth in %	-21.4	-16.8	11.2	-0.8	3.9	8.7
Current account balance in % of GDP	-5.3	-4.2	-4.6	-4.3	-4.3	-4.4

2.1 Recent developments

REAL SECTOR

According to preliminary data of BHAS, in 2016 BiH recorded a modest economic growth of 3.1% (measured by production approach). This growth was mainly driven by exports and final consumption with modest gross fixed capital formation. Increased domestic demand and exports have led to a real growth of imports which, despite a growth of export (due to a basis twice the size) have led to a real increase in the foreign trade deficit of over 2%. Strong growth of budget expenditures on public works of approximately 30% has been the main factor of overall investment increase, given the slight decrease in private investments.

Available indicators for 2017 suggest that economic growth in the second and early third quarter has been similar to the first quarter when (according to BHAS data) the achieved real rate stood at 2.7% (y-o-y). The main driver of growth was a strong, over 10% real growth of commodity exports in the first half of the year, which was somewhat followed by modest rise in private consumption and investment. By contrast, a 36% leap in foreign debt servicing after seven months seemed to have jeopardised primarily public investments but probably consumption growth as well. In any case, growing rates of domestic demand and exports led to real growth of commodity exports of over 4% in the first half of the year. Ultimately, given the strong exports growth, this led to a real decline in foreign trade deficit of around 4% too.

Acceleration of economic activity is expected to continue in the second half of the year so that, according to DEP projections, economic growth at the end of 2017 should reach a real rate of 3.4%. This growth should be driven by strong real growth of exports set to 9.1% and rise in domestic demand set to 2.3%. Growth in domestic demand and imports should result in real increase in imports of 4.7% and thereby a real reduction of foreign trade deficit of 4.5%. Private sector should play a primary role in rising domestic demand through real growth of consumption set to 2% and gross fixed capital formation set to 5.9%. At the same time, leap in foreign debt servicing could jeopardise the public sector's contribution so a real stagnation of public consumption is projected to be accompanied by modest real growth of public works set to only 7.9%. Failure to meet obligations under the IMF arrangement was one of the factors for reducing the growth projections of public works by over 20% relative to the March projections. This reduction is offset by a more favourable projection of foreign trade given its rapid acceleration (above the expectations) in the first seven months of 2017.

Industrial production

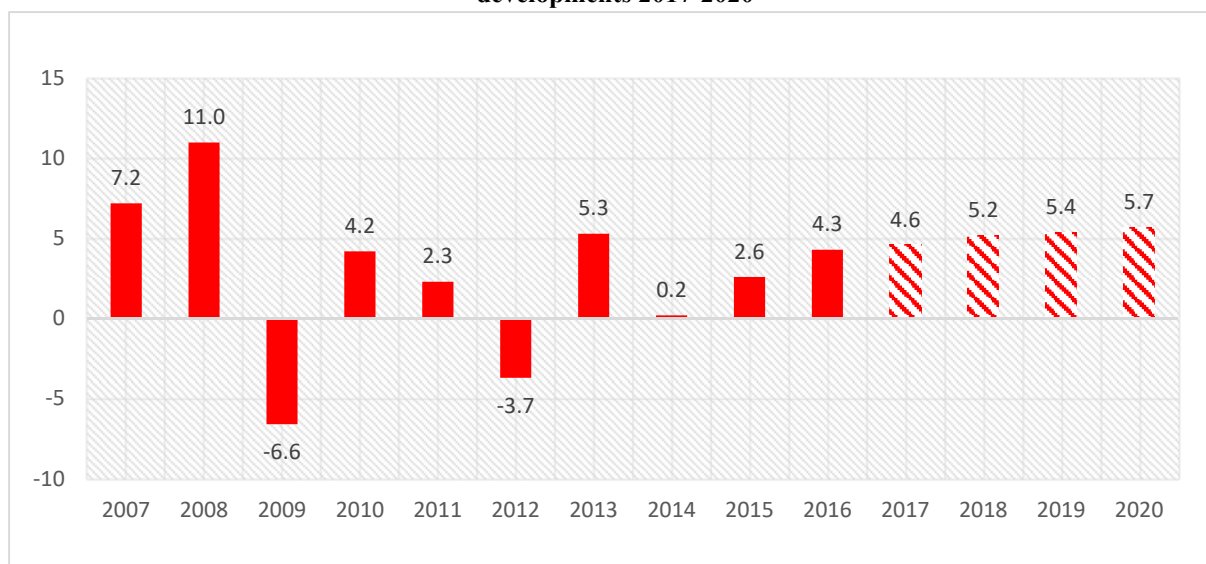
Favourable external developments and the growth of domestic demand in 2016 led to an increase in the overall economic activity in Bosnia and Herzegovina reflected in GDP growth, rise in employment and higher levels of foreign trade with the world. Thus, according to BHAS data, a 4.3% increase in physical volume of industrial output recorded within industrial production was followed by rise in employment therein.¹ This increase was achieved due to expansion of production in all three sectors: mining sector 3.4%, manufacturing industry 3.1% and electricity generation sector 8.5%.

The growth trend of physical volume of industrial output from previous years has evidently continued in 2017 as well. Thus, in the course of the first 7 months this year, the industrial output growth has amounted to 2.6% relative to the same period of the previous year. This continued trend of production growth in BiH is mostly a consequence of positive developments in the international economic environment. This statement is supported by the fact that the overall

¹ Agency for Statistics of Bosnia and Herzegovina, Release "Index of Industrial Production Volume in Bosnia and Herzegovina for December 2016", 26/01/2017

industrial output growth was achieved mainly due to a 3.1% increase in production within manufacturing industry relative to the same period of the previous year. In addition to the manufacturing industry, during the observed period the mining sector saw a production increase by 6.8% mainly resulting from the increased production in coal and metal mines. On the other hand, due to unfavourable hydrological situation, the electricity generation sector recorded stagnation. Bearing in mind the current situation in the context of BiH industrial sector and positive outlook on the markets of our main trading partners, it is realistic to expect this growth trend to continue at the same or somewhat faster pace relative to the previous year.

Graph 1: Industrial production developments in BiH for the period 2007-2016 and projection of developments 2017-2020



Source: Agency for Statistics of BiH and DEP projections, September 2017

Labour market

The BiH Agency for Statistics has revised the 2016 data on the number of employed persons in BiH. The average number of employed persons stood at 725.9 thousand, with the growth rate of 1.8% y-o-y. Rising domestic demand, increasing volume of industrial output and trade greatly affected the number of employed persons. Thus, the rise in the number of employed persons in the fields of manufacturing industry, wholesale and retail trade, repair of motor vehicles and motorcycles made the most significant contribution to the overall employment growth in BiH. Along with the increase in the number of employed persons, the number of registered unemployed persons declined by 3.8% y-o-y. The registered unemployment rate in 2016 decreased relative to the previous year to stand at 41.8%. In the domain of wages, it is observed that the real growth of average net wage in BiH (2.1%) was higher than the nominal growth (0.9%) due to deflation.

With rising volume of industrial output and foreign trade in BiH, the number of employed persons in **2017** has continued to increase at a somewhat faster growth rate relative to the previous year.² The average number of employed persons in BiH in H1 2017 stood at 739.9³ thousand, which is by 2.5% more than in H1 2016, while the number of registered unemployed persons declined by 5.5% y-o-y. The most significant rise in employment in H1 2017 was recorded in the activities of manufacturing industry and wholesale and retail trade, which also employ about 38% of the total number of employed persons in BiH, indicating the importance

² In 2016, the employment growth rate stood at 1.8% (revised data).

³ Administrative data.

of developments in these activities on the labour market. These developments have affected the decrease in the number of the unemployed persons, that is, the reduction of the unemployment rate in BiH, which amounted to 40.3% in the observed half-year. At the same time, the survey rate of unemployment in 2017, standing at 20.5% is also lower relative to the previous year. The real growth of average net wages in H1 2017 was somewhat slower than the nominal growth (1.7% y-o-y) due to inflation. Based on the half-year developments on the labour market, the expected 2017 annual rise in employment and average net wages in BiH could be approximately the same as in H1 2017.

Prices

In 2016, a 1.1% y-o-y deflation was recorded in BiH, with the intensity of deflation in the second half of the year somewhat weaker than in the first half, indicating a gradual stabilisation of the price level in BiH. The fall in the general price level was mainly contributed by the sections of transport, food and non-alcoholic beverages, clothing and footwear. As in the previous year, the CPI index was significantly determined by reduced crude oil prices on the global market (-16% y-o-y). The fastest rise in prices in BiH has been recorded in the section of alcoholic beverages and tobacco (7.4% y-o-y) as a result of continuation of harmonisation of excise duties on tobacco and tobacco products with the EU regulations.

After several years of downward trends in general price level, BiH saw inflation (1.1% y-o-y) in the period January – July 2017. Although several sections of CPI Index had an impact on rise in inflation, the most significant contribution was recorded in the transport section with the growth rate of 7.1% y-o-y in the observed period. Global crude oil price in H1 2017 rose by 32%⁴ y-o-y, supporting the general price level growth. In addition, a 4.5% y-o-y rise in prices in the section of alcohol and tobacco, due to continuation of harmonisation of excise duties⁵ on tobacco and cigarettes with the EU regulations has essentially determined the level of inflation in BiH. Growth rate of prices in the section of food and non-alcoholic beverages was somewhat slower compared to the previously mentioned sections (0.4% y-o-y) but, having a large share in the CPI Index, affected the development of inflation. Similar trends in CPI index in BiH are expected by the end of the year. Taking into account the forecasts of⁶ EC, ECB and IMF on crude oil and food prices, the expected inflation in BiH in 2017 is set at 1.1%. At the same time, inflation in EU is set at 1.8%, implying that prices will grow at a faster pace than in the previous year.

Bank loans and deposits

Somewhat more favourable situation than in 2016 positively reflected on the developments in the banking sector. Credit activity in the first seven months of 2017 is characterized by somewhat faster growth compared to the previous year. Total loans at the end of July of the current year amounted to KM 18.1 billion, of which loans to non-financial companies account for 47.1%, loans to households 46.6%, general government 5.6% and other loans 0.5%. Deposit activity also records somewhat faster annual growth. In seven months of 2017, total deposits amounted to KM 18.6 billion, of which household deposits account for 58.8%, deposits of non-financial companies account for 23.2%, general government 10.2% and other deposits 7.8%.

⁴ Source: IMF database (Crude Oil, simple average of three spot prices).

⁵ The increase in excise duties on cigarettes and tobacco as of 1 January 2017. The minimum excise duty for a pack of 20 pieces of cigarettes is KM 2.42, while a special excise for the same package is KM 1.35. The excise for a smoking tobacco is KM 96.8 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 2017.

⁶ European Economic Forecast, Spring 2017. godine, June 2017 - ECB staff macroeconomic projections, IMF Outlook, July 2017.

EXTERNAL SECTOR

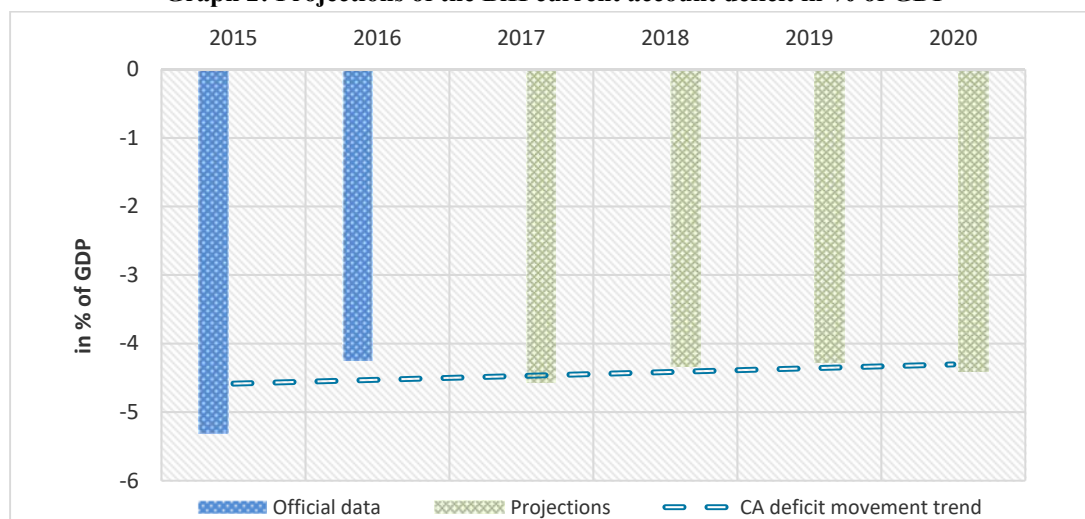
Balance of payments

Data from the BiH balance of payments for the first quarter of 2017 as well as data from the previous year point to continuation of positive development trends in foreign trade and the country's balance of payments as a result of favourable impulses from the international environment (global prices and economic growth of the main foreign trade partners).

According to data available at the time of writing these projections⁷ and DEP forecasts for the remaining three quarters of 2017, the current account deficit within balance of payments of Bosnia and Herzegovina would amount to KM 1.4 billion, which would represent a 7% y-o-y increase.

The current account deficit in Q1 2017 amounted to KM 330 million, which represents a 5% decrease relative to the same period of the previous year. This contraction of the current account deficit is primarily caused by foreign trade deficit movements (goods and services), i.e. rise in imports by 12.7% and rise in exports by 17.4% (y-o-y). Current net inflows from abroad in Q1 2017 recorded a 10% growth as a result of the increase of current cash inflows by 8.5% (increase based on remittances from citizens living abroad and social benefits from abroad) and the increase of cash outflows by 2.7% (mostly based on reinvested earnings from direct investments).

Graph 2: Projections of the BiH current account deficit in % of GDP



Source: DEP projections

Foreign trade

The increase of economic activity in Bosnia and Herzegovina over 2016 propelled more intensive foreign trade as well. Its main features were: expansion of the overall trade volume and rise in exports and imports, which lead to a mild increase in foreign trade deficit and improved coverage of imports by exports, so that the impact of external sector on economic growth was negative in real terms. It should also be pointed out that 2016 was marked by a sharp fall in global prices, which to a large extent reflected on the overall performance of the BiH external sector at the end of 2016.

Favourable external conditions in our main trading partners, i.e. rise in export demand, as well as expansion in production at the BiH supply side in terms of industrial output growth, have

⁷ At the time of writing these projections, only data for Q1 were available

enabled the growth trend in BiH foreign trade to continue in 2017. Based on available BHAS data for the first seven months, it can be concluded that the upward trend in BiH foreign trade is quite impressive, even when compared to the previous year. Namely, according to preliminary data of BHAS for the period January-July 2017, there are notable double-digit growth rates of the overall trade, imports and exports in nominal terms. It is also worth pointing out that global prices rose during 2017 so the real growth rates were somewhat lower than the nominal ones. Thus, according to data for the first half of the year, the export prices rose by 4.3% while the rise in import prices stood at 6.9% relative to the same period of the previous year.

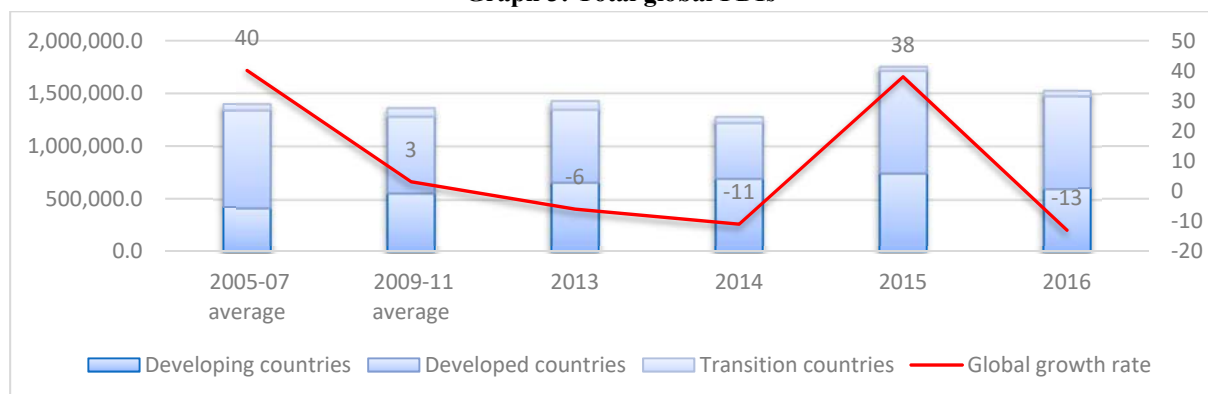
The assumptions of international institutions such as the IMF, WB and EC are that the world trade growth should continue, which will have positive impact on the region and ultimately Bosnia and Herzegovina too as well as its foreign trade. According to DEP projections, in 2017 Bosnia and Herzegovina is expected to see a 9.1% real increase in overall exports, with growth rates in exports of goods set at 10.7% and exports of services at 5.9%. On the other hand, along with this expansion of exports, the expected increase in economic activity and domestic demand should result in a 4.7% real increase in overall exports (goods 4.8%, services 3.0%) relative to the previous year. These developments in imports and exports would result in contraction of a foreign trade deficit by 4.5%, coverage of imports by exports would amount to 69.5%, while contribution of foreign trade to the overall economic growth would be positive and stand at 0.7 pp.

Foreign direct investments

After the 10.8% y-o-y fall of FDIs in 2016, data for the first quarter of 2017 seem optimistic. According to CBBH data, FDIs in the Q1 2017 amounted to over KM 200 million, recording a growth of over 28% relative to the same period of the previous year, with the fact that the share of reinvested earnings rose by 5.6%. These results from the first quarter seem promising after the 10.8% y-o-y fall of FDIs in 2016.

The fall in investments last year is a consequence of unfavourable business environment, weak competitive position of BiH (according to ratings of international institutions) and less than favourable credit rating. The investment was also affected by global fall of foreign investment which, according to UNCTAD, recorded a 13% y-o-y contraction in 2016.

Graph 3: Total global FDIs



Source: UNCTAD, CBBiH and DEP estimates

The amount of FDIs is certainly affected by the fact that the announced construction of several large-scale electricity projects has failed to start, as well as investments in large tourist and recreational centres. It is encouraging that new investments have been planned in renewable energy sources along with growing investment in tourist and residential settlements. Privatisation of partly state-owned companies "Bosnalijek" d.d. Sarajevo and "Fabrika

duhana" d.d. Sarajevo⁸ was completed while privatization of the remaining state-owned companies continues.

FDIs in 2017 are set to about 1.7% of GDP. Several construction projects have been announced in the field of renewable energy sources, such as wind park WP"Gradina"⁹ (memorandum of understanding signed with co-owners Chinese CMEC and CAIDC) and WP"Kupres1"¹⁰ financed by the company Kamen Dent (Croatian Group DIV). There is also WP "Trusina", owned by the company "EOL Prvi" with investment of the UK company "Kermas"¹¹. The announced construction of "SFE (Solar fotovolta.) Bančić"¹² Ljubinje by the Capital Group is particularly interesting. The Italian company "Pyrox"¹³ has started the project (Eur 150 mn) of pellet production in the cogeneration process. Companies continue to invest real estate and construction of several small residential settlements in the outskirts of Sarajevo.

2.2 Medium-term macroeconomic scenario

REAL SECTOR

In 2018 growth is projected to continue at the level of 2017 with a real rate of 3.4%. The underlying assumption for this is the continuation of economic growth at a similar pace in the European Union and our immediate environment. Namely, according to the DG ECFIN Spring forecast for 2018, the EU28 growth should stand at 1.9%, identical to the rate projected for 2017. Situation is similar in the euro area, set to grow 1.8%, which is only slightly higher than the 2017 projection. In this context, the outlook is somewhat mixed at the level of individual countries important for economic developments in BiH. On the one hand, Germany and Italy are expected to see acceleration of growth relative to 2017 by 0.3 and 0.2 pps. respectively while Austria is forecast to see the identical rate as in the previous year. In addition, Serbia as an important non-EU country from our neighbourhood is also set to accelerate growth by 0.3 pp. By contrast, economic growth in Slovenia and Croatia is set to see a mild slowdown in 2018, by 0.2 and 0.3 pps. respectively.

Trends in our environment represent the main factor of economic developments in BiH through several important channels. Foreign trade is the primary factor in this respect given that the export demand from the environment represents an important growth factor (to a large extent) of the export-oriented industry and consequently the employment too. Its importance is reflected in the fact that exports account for approximately one third, while imports account for one half of the BiH GDP. In addition to foreign trade, the environment is also an important source of funding for BiH domestic demand. At the same time, remittances and other current inflows from abroad make up between one third and one fifth of the disposable income of citizens, while foreign direct investments and other foreign capital inflows make a significant source of the investment financing. In parallel, an important factor in public works financing is favourable loans from international financial institutions such as the IMF, the World Bank, the EIB, the EBRD etc. Although BiH currently has a concluded arrangement with the IMF, its failure to meet the set conditions has unfortunately stopped the payment of funds and also blocked the approval of loans by other international creditors, to whom this arrangement often serves to assess the creditworthiness and seriousness of the government in the implementation of economic reforms.

<http://www.fds.ba/bs/mediji/press?id=162>⁸

⁹ WP Gradina, Vran-Dukic d.o.o. 70 MW about EUR 150 million

¹⁰ Kamen dent d.o.o., about EUR 70 million

¹¹ Value of WP Trusina, Eol prvi, about EUR 65 million

¹² <http://fipa.gov.ba/novosti/aktivnosti/default.aspx?id=8180&langTag=en-US>.

¹³ <http://www.fipa.gov.ba/novosti/aktivnosti/default.aspx?id=9227&langTag=en-US>.

DEP assumptions for 2018, in addition to economic growth projections in external environment and the absence of adverse weather conditions, also include strengthening of reform processes, which will unlock the implementation of the arrangement with the IMF and strengthen public investment growth to a real rate of 33.4%. Furthermore, strong export growth is expected to pick up at a rate of 7.1% which is, due to a strong base effect (caused by strong growth of over 9% in the previous two years) somewhat lower relative to 2017 forecast. The expected export growth, along with better business environment and generally greater optimism regarding the implementation of the arrangement with the IMF could fuel a mild strengthening of private investment growth to a real rate of 6.9% in 2018. Together with strong growth of public works, this should bring to the 10.6% overall real growth of gross fixed capital formation. Thus, investments along with final consumption would be the main drivers of the projected 3.4% economic growth in 2018. At the same time, the expected contribution of foreign trade is neutral given the decelerated export growth and slight strengthening of import growth.

Favourable external environment and the absence of adverse weather conditions, along with better business environment, were the underlying assumptions for projections of economic growth for the period 2019-2020. In this regard, growth projected in 2019 is set at 3.8% and 3.9% in 2020. The main driver of this growth should be domestic demand at a real rate of 3.4-3.5% with neutral (slightly negative) impact of foreign trade. Strengthening the investment at a rate of 10-11% should result from both private and public sector. This should be a consequence of a better business environment stemming from accelerated implementation of economic reforms, and greater access to favourable funding from international financial institutions spurred by the progress in the EU integration process.

It is important to point out that the projected economic growth for BiH is quite modest given the very low base. Namely, the standard of living in BiH, measured in per capita GDP (in purchasing power parity) stands at merely 30% of the European average, which is at the bottom of the list of countries published by EUROSTAT. In order to converge towards the European average at a reasonable pace (for example, reaching the average in around 30 years), BiH needs to reach average economic growth that will be at least three times higher than the European rate (1.9% in 2016) considering the base which is one third of the European average. However, one could say that some progress was made in 2016 compared to the previous five years, when the average annual economic growth rate in BiH was only 1.5%.

Industrial production

According to available forecasts of relevant international institutions, the period 2018-2020 in the immediate and broader international economic environment is expected to see further continuation of economic growth. Thus, during this period, according to the latest WIIW report, the Western Balkans countries are expected to see economic growth of over 3%.¹⁴ These external developments, with internal dynamics reflected in improvement of business environment, should result in rising production in the BiH manufacturing industry, which is mainly export-oriented. This will entail the expansion of investments (both foreign and domestic), higher utilization of capacities, rise in employment and ultimately the expansion of physical volume of industrial output in BiH. In addition, planned investments in infrastructure and energy should also significantly contribute to strengthening of both the construction sector in BiH and those branches of BiH industry that are closely related to construction. Moreover, the energy generation sector, which was one of the drivers of industrial production in the previous period, is expected to continue its positive growth trend in production and additionally strengthen

¹⁴ WIIW-The Vienna Institute for International Economic Studies, "Economic forecasts for the Western Balkans" 2017. Vienna.

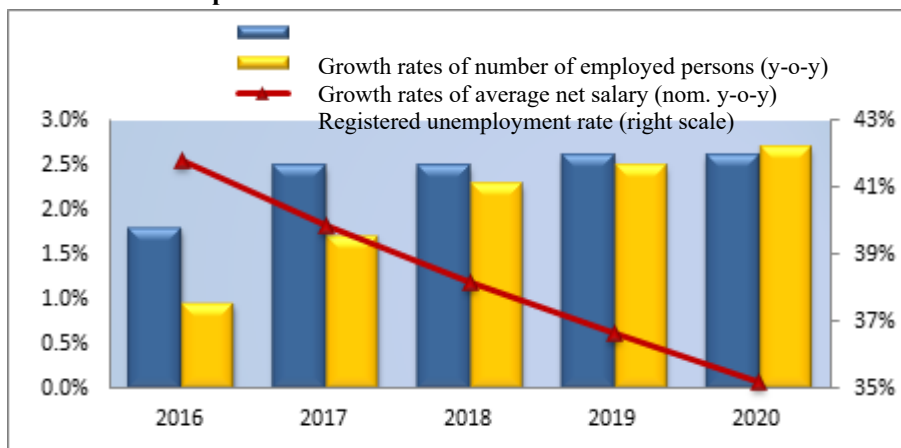
industrial production in BiH in the observed period. Bearing in mind all these circumstances during this period the expected growth rates of physical volume of industrial output, according to DEP projections, are set at over 5% on an annual basis.¹⁵

Labour market

Medium-term scenario as regards labour market in BiH is based on the assumed developments in trade, industrial output, domestic demand, investment and in general the overall business environment. Since in **2018** the volume of investment, that is, the volume of industrial output in BiH is set to grow, this would have a positive impact on employment. In addition, rising trade volume would positively contribute to developments in the labour market, i.e. creating conditions for new jobs, particularly in the private sector. As in the previous year, the growth in the number of employees in the public¹⁶ sector should not contribute significantly to the rise in the overall employment. With the assumed economic growth, the EU countries are also expected to see a gradual reduction in the unemployment rate.¹⁷ Based on the assumed overall economic developments in EU and the domestic market, BiH can expect a gradual reduction in the registered unemployment rate to continue, which could be lower than the pre-crisis unemployment rate. The number of employed persons could increase by 2.5% y-o-y, with 2.3% nominal growth of net salary.

With the assumed acceleration of economic growth in the period **2019-2020**, positive developments are set to continue. The employment in the private sector activities is expected to prevail in the observed period, with greater job creation opportunities. The employment headcount in 2019-2020 could rise by about 2.6% y-o-y, followed by reduction in the unemployment rate. As in the previous years, net wages in BiH are expected to see a gradual increase. However, the growth rate of net wages in public¹⁸ sector activities could be somewhat slower compared to other areas of activities. Thus, the developments in manufacturing, trade and services sectors would significantly determine the level of average net wages in BiH in the observed period (2.5%-2.7% y-o-y in 2019-2020).

Graph 4: The main labour market indicators in BiH



Source: BHAS for 2016 and DEP projections for 2017-2020

Prices

BiH inflation forecasts in **2018** are based on assumptions of trends in global prices of crude oil and food, which have significantly affected the overall level of prices over the past years. The

¹⁵ DEP projection, September 2017

¹⁶ The public sector in the analysis includes public administration, education and health.

¹⁷ Source: European Economic Forecast, Spring 2017

¹⁸ The public sector in the analysis includes public administration, education and health.

EC Spring forecast indicate that the price of crude oil on the global market in 2018 could be slightly higher than in 2017 (0.8%) while food prices could go down by 0.2%. The IMF and the ECB also forecast crude oil prices to stabilise in 2018. Thus, the inflation in EU could remain almost the same level as in the previous year and stand at 1.7%.¹⁹ In addition to the prices of crude oil and food, in developing the inflation projections in BiH, we have taken into account the continuation of harmonisation of excise duties on tobacco and tobacco products. In the period of development of these projections there were no announcements of rise in prices of utilities that could affect the overall level of prices in BiH. Bearing in mind the aforementioned, BiH is expected to see roughly the same level of inflation in 2018 as in the previous year (1.2%).

The available IMF forecasts²⁰ on the energy price movements in the **period 2019-2020**, point to a stabilisation of crude oil prices. Crude oil prices are expected to rise by 3%-3.5% in the observed period. In addition, the prices of food should not have any major oscillations, which would generally affect the stable level of prices both in the EU and in BiH. The baseline scenario in the domain of prices does not envisage large changes in prices of electricity, communication and other utilities over 2019 and 2020 so the expected inflation in BiH is set to 1.4%-1.5%.

Table 2: Movements in global prices of oil, food and inflation

	2016.	2017.	2018.	2019.	2020.
Crude oil, (growth rate y-o-y)	-16.2%	24%	0.8%	n/a	n/a
Food index (growth rate y-o-y)	-2.6%	3.1%	-0.2%	n/a	n/a
CPI EU	0.3%	1.8%	1.7%	n/a	n/a
CPI BiH	-1.1%	1.1%	1.2%	1.4%	1.5%

Source: European Economic Forecast, Spring 2017, DEP projections for BiH

Bank loans and deposits

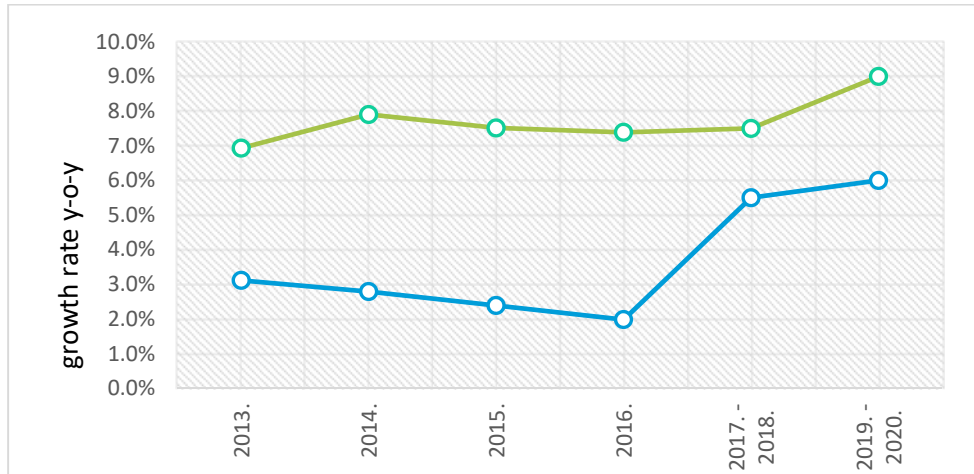
With the assumption of further positive economic developments in BiH and its main foreign trading partners, the growth of total banking sector loans and deposits is set to go on. The growth rate of total loans for the period 2017 – 2018 could range between 5.5 and 6.0%. Similar developments are expected in the period 2019 – 2020 too, i.e. growth rates of total loans 5.5% - 6.5%.

GDP growth, improved labour market conditions in terms of growth in real wages and employment should result in further expansion of household deposits. Better economic conditions (growth of foreign trade, industrial output) should reflect positively on the expansion of deposits of non-financial companies. Deposits of these two sectors account for the largest share of deposits in BiH bank accounts and their growth would result in growth of total deposits. Growth of total deposits in the period 2017 – 2018 is expected to stand at 7.0% - 8.0% y-o-y, and in the period 2019 – 2020 up to 10.0% y-o-y.

¹⁹ European Economic Forecast, Spring 2017

²⁰ IMF projections, July 2017

Graph 5: Movements of total loans and deposits (y-o-y)



Source: Central Bank of BiH for the period 2013 – 2016; DEP estimates for the period 2017 – 2020

EXTERNAL SECTOR

Balance of payments of Bosnia and Herzegovina

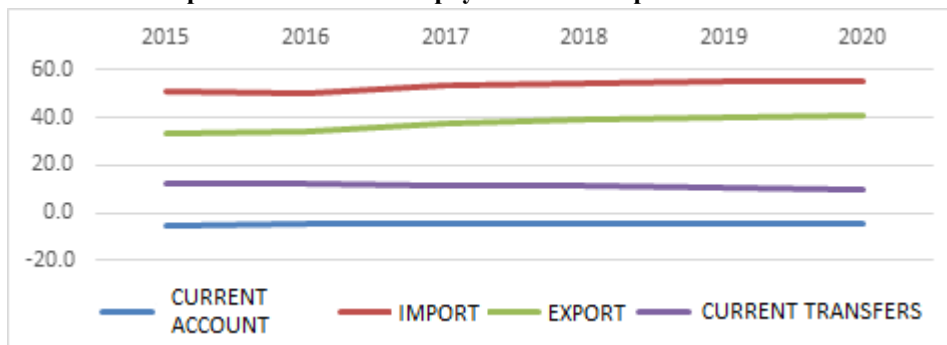
According to DEP projections, the volume of foreign trade is set to expand in the period 2018-2020, so the foreign trade deficit in this interval is set to record growth of 0-0.25%, as a result of the increase in the nominal import rate (6.3-6.4%) and rise in exports (7.9-9.3%).

The share of current account deficit in GDP for 2016 amounted to -4.2%²¹ and, according to DEP projections, it can be expected to remain close to the same level over the next four years.

The current net inflows from abroad in the period 2017-2020 (as a share in GDP) are expected to range in the interval 10.1-11.7%.

Financing of the current account deficit is expected to be largely enabled, the same as during the previous years, by financial inflows from abroad (through social benefits and remittances from citizens living abroad, foreign direct investments and items – other investments).

Graph 6: BiH balance of payments for the period 2015-2020



Source: DEP projections

Foreign trade

The available forecasts of international institutions point to a continuing growth trend in global economy, which will have positive impact on the region and ultimately Bosnia and Herzegovina too. These external developments, along with internal dynamics reflected in improvement of business environment represent the main stronghold of the expected economic progress in BiH. Thus, over this period, average economic growth is expected to exceed 3.5% in real terms, investment is set at nearly 10% at an annual level, followed by rise in employment and acceleration of foreign trade with the world. Increase in production on the demand side in BiH will result in expansion of export potentials within most export-oriented branches of BiH

²¹ Source of data: CBBiH

manufacturing industry. In addition to the manufacturing industry, this period is set to see a rise in output and exports of the BiH electricity generation sector. Bearing in mind these circumstances, according to DEP projections, in the period 2018-2020 BiH could expect to see the expansion of overall exports at annual growth rates of 7.1%, 5.5% and 4.5% respectively in real terms. On the other hand, elevated level of economic activity will result in rise of domestic demand in the household and corporate sector and turn BiH exports further up. Import growth rates are expected to be somewhat lower than the export rates and range from 4.8% in 2018, 4.3% in 2019, to 4.2% in 2020. Considering such trends in imports and exports, this period, except for 2018 (the expected 0.3% decline), is expected to see widening of foreign trade deficit ranging from 1.2% in 2019 to 3.6% at the end of 2020, so the expected contribution of foreign trade to economic growth is slightly negative. However, 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 overall coverage of imports by exports on the long run. Thus, by the end of 2020, the share of BiH exports in GDP is expected to amount to 40.9%, while the share of imports would remain at around 55%, which will result in the overall coverage of imports by exports rising up to 73.8%.

Foreign direct investment

In the period 2017-2020, FDI could range (after a 10.8% y-o-y decline in 2016) from 1.7%, 1.9%, 2.1% , to 2,3% of GDP respectively.

FDI in 2018 could stand around 1.9% of GDP. There is a possibility for implementation of construction projects by Comsar energy to begin (repeatedly announced construction of "TPP Ugljevik 3"²² as well as "HPP Ulog" and "HPP Mrsovo"). If electricity price on the market goes up, there is a possibility for the implementation of several previously postponed electricity generation projects to begin, such as "TPP Ugljevik 3" (total value of over KM 1 billion) and "HPP Ulog" and "HPP Mrsovo". There is a possibility of privatization and restructuring of the part of "BH Telekom" d.d. Sarajevo and "HT Telekom" d.d. Mostar whose sales are mentioned as part of the implementation of the adopted Reform Agenda²³. It is also possible to expect a continuation of the privatization of the minority share of the state-owned capital in companies from the previous year, where the most interesting ones are "Sarajevo osiguranje" d.d., "Energoinvest" d.d. Sarajevo and "Aluminij" d.d. Mostar. There is also a sale of the share of the state-owned capital of the iron mine of Ljubija.

FDI in 2019 is set up to 2.1% of GDP and to 2,3% of GDP in 2020. Foreign financing could bring investment in highways on the principle of the public-private partnership, with the beginning of the 80 km long construction of the road Banja Luka Prijedor - N. Grad on the principle of the public-private partnership with the Chinese company "China Shadong Int. Econ.& techn. Cooper.Group Ltd."²⁴. The construction would start with the 50km long section from Banja Luka to Prijedor. There are plans for construction of the section of the road (39km) Žepče-Doboj-Jug on the basis of the concession contract²⁵.

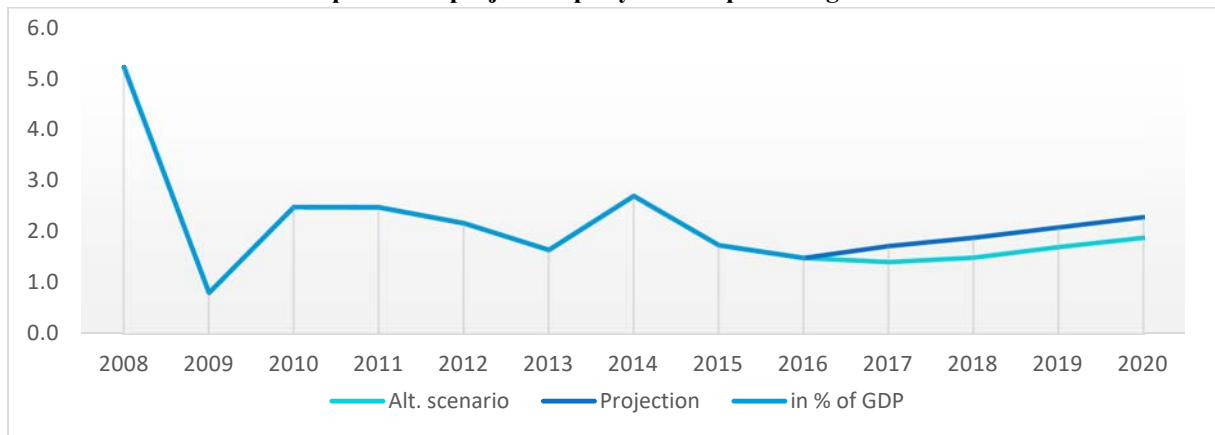
²² "TPP Ugljevik 3" construction contract "China Power Engineering Consulting Group Corporation".

²³ Value of the project not included in the projection.

²⁴ <http://www.autoputevirs.com/aprs/Doc.aspx?cat=5&subcat=24&id=24&lang=cir&txt=274>

²⁵ <http://www.jpautoceste.ba/projekt/>.

Graph 7: FDI projection per year as a percentage of GDP



Source: BHAS, CBBiH and DEP estimates

2.3 Alternative scenario and risks

The main risks to materialisation of these projections are related to (non) materialisation of the external sector assumptions related to economic growth in our environment, global price developments, weather conditions, etc.

Table 3: Main macroeconomic indicators

Indicator	Official data		Projections			
	2015	2016	2017	2018	2019	2020
Nominal GDP in million KM	29,666	30,862	31,846	33,211	34,839	36,493
Nominal growth in %	4.6	4.0	3.2	4.3	4.9	4.7
GDP deflator (previous year = 100)	100.7	101.1	99.8	101.5	101.6	101.5
Real GDP in mn KM (previous year = 100)	29,456	30,531	31,897	32,712	34,278	35,944
Real growth in %	3.8	2.9	3.4	2.7	3.2	3.2
Inflation measured by consumer price index in %	-1	-1.1	1.1	1.5	1.6	1.7
Consumption in million KM	29,665	30,042	30,832	31,851	32,821	33,761
Real growth in %	1.4	1.4	1.9	1.8	1.6	1.5
Government consumption in Million	6,284	6,266	6,366	6,494	6,598	6,677
Real growth in %	-0.1	0.1	0.1	0.8	0.1	0.1
Private consumption in million KM	23,382	23,776	24,466	25,357	26,223	27,084
Real growth in %	1.8	1.8	2.4	2.1	2.0	1.9
Gross fixed capital formation in million KM	5,097	5,189	5,524	6,087	6,486	6,870
Real growth in %	-3.5	2.5	6.2	9.9	6.2	5.6
Government investment in million KM	535	697	764	993	1,112	1,201
Real growth in %	-53.3	31.3	7.9	28.5	10.3	6.4
Private investment in million KM	4,563	4,491	4,761	5,094	5,374	5,670
Real growth in %	10.3	-0.9	5.9	6.9	5.4	5.4
Imports in million KM	15,216	15,636	17,280	18,382	19,296	20,389
Nominal growth in %	-1.7	2.8	10.5	6.4	5.0	5.7
Real growth in %	0.7	7.0	5.9	4.8	4.1	3.5
Exports in million KM	9,884	10,588	12,056	13,049	13,980	14,977
Nominal growth in %	6.3	7.1	13.9	8.2	7.1	7.1
Real growth in %	6.8	9.5	10.0	6.0	5.5	3.8
National gross savings in % of GDP	12.7	14.8	14.9	15.3	16.5	17.7
Current account balance in million KM	-1,572	-1,308	-1,479	-1,596	-1,576	-1,668
Growth in %	-21.4	-16.8	13.1	7.9	-1.2	5.8
Current account balance in % of GDP	-5.3	-4.2	-4.6	-4.8	-4.5	-4.6

In the period 2018-2020, the key risk for materialization could be the internal dynamics in Bosnia and Herzegovina, manifested through a complicated decision-making system. Any possible standstill in the reform processes would almost certainly reflect on economic growth as well. Materialisation of this risk would result in slightly slower growth of final consumption and investment, i.e. their contribution to economic growth would be positive but somewhat weaker than in the baseline scenario, while the contribution of the foreign trade balance would be mildly

negative. Thus, in the event of materialization of these risks, BiH economic growth could be subdued by half a percentage point.

All developments in the **labour market** in the period 2018-2020 will be determined by the developments in industrial output, investment, foreign trade and generally in reaching the assumed economic growth. Any downturn in these areas relative to the baseline scenario could have a negative impact on the unemployment rate, i.e. decelerate the employment rate and wages as well. Moreover, the intensity of implementation of the economic reforms in BiH may affect the developments in the labour market. Deviations/failure to implement the planned reforms over this period could postpone the positive changes in the labour market. These are the main risks for the labour market projections.

Inflation trends in BiH assumed in the baseline scenario for 2018-2020 are primarily based on steady prices of crude oil and food, as well as external factors. Additionally, domestic factors that could affect price movements should also be taken into account. Any deviation from the forecasted crude oil prices would affect the overall price level in BiH. Faster growth in crude oil prices than assumed in the baseline scenario would contribute to rise in inflation. Along with external factors, it is important to mention that changes in utility prices, increase in excise duties (oil, etc.) could increase the level of inflation in BiH.

Decelerated economic growth in the period 2018 – 2020 would reflect on the **banking sector** as a slowdown in growth of bank assets due to the moderation of loan placement growth. Bank lending would slow down due to worse developments in the labour market, which would have a bad impact on the household sector, while the contraction of export growth would reflect adversely on the corporate sector. These two sectors make the main market for BiH banks and the factors that affect their performance indirectly reflect on both loan demand and supply. Due to potential growth of non-performing loans (categories C-E), banks would reduce their loan supply. Increasing unemployment, and stagnation or decline in wages would lead to a reduction in household demand for loans. In an alternative scenario, annual credit growth rates are expected to be much lower. The same applies to growth of deposits.

Risks for foreign trade. The external environment, which represented the main structural determinant of BiH economy in the past (through trade and financial flows), will most likely continue to represent the key determinant of economic growth in the future (medium term) as well. Thus, the key risk for materialization of the economic growth in BiH projected in the baseline scenario is the possible weakening of the export demand, which would lead to a decrease in the exports of BiH goods to foreign markets, particularly exports to the markets of EU countries. As for 2018, if this assumption is materialized, and the fact that imports would keep the growth rate from the baseline scenario, one can conclude that the contribution of the foreign trade balance to GDP growth would be slightly negative as opposed to the baseline scenario when its effect would be neutral. In addition to this external risk, there are also risks related to internal dynamics in Bosnia and Herzegovina. More specifically, in the event that BiH authorities do not adopt necessary legal changes (amendments to the Law on Excise Duties) in the public finance domain, this could jeopardize the further implementation of the arrangement with the IMF and prevent the inflow of international credit funds for public investment financing. In other words, this would lead to somewhat slower growth in final consumption and to a lesser extent investment, which would lower their contribution to GDP and decelerate economic growth.

The main risks for changes in the **balance of payments** of BiH, for the increase of the current account deficit, lie in the foreign trade deficit, i.e. changes in rates of exports and imports of

goods and services, as well as changes in prices in the global market. Favourable business environment and higher employment rate of the BiH diaspora could lead to rise in rates of current transfers from abroad and consequently the expansion of disposable income. The main risks for financing the current account deficit lie in reducing the BiH foreign assets abroad, insufficient inflow of foreign direct investment, difficult access to trade credits and inability of borrowing on the international financial market.

Risks for FDI. The worsening of the economic situation in the EU as a consequence of Brexit, the continuation of sanctions against Russia, along with the still present geo-political crisis (Syria, N. Korea) pose a real danger to global capital movements. Energy prices reduction, particularly electricity, and lower interest for investment in electricity generation sector would also reflect on investment in BiH. The expected economic growth slowdown of the PR China could also be reflected in reduced interest and participation in financing through loans for infrastructural and energy facilities in BiH. The construction of "TPP Ugljevik 3" would be cancelled (coal mining price) and "HPP Mršovo" by the same company as well as cancellation of the construction of "HPP Ulog" by the "EFT Group".

Failure to adopt the required state level law and energy strategy and the introduction of sanctions by the Energy Community as a consequence of this will most likely reflect on further activities in this field²⁶. There is also a danger for BiH to stay on the "gray list" of FAFT²⁷ (Financial Action Task Force) and MONEYVAL which in practice means that operations between BiH banks and some foreign banks is made more difficult or slow. Lowering of credit rating would also have a negative impact in FDI inflow. In the alternative, negative scenario, FDI would range from 1.4% in 2017, 1.5% in 2018, 1.7% in 2019 to 1.9% in 2020.

²⁶ <http://www.derk.ba/ba/legislativa/energetska-zajednica>

²⁷ <http://www.fatf-gafi.org/countries/a-c/afghanistan/documents/fatf-compliance-june-2017.html#bosnia-and-herzegovina>

3. FISCAL FRAMEWORK

3.1. Policy, strategy and medium-term objectives

One of the priority areas of the Reform Agenda for Bosnia and Herzegovina 2015 – 2018, agreed by all levels of government in Bosnia and Herzegovina, is fiscal consolidation. The objective of fiscal consolidation is to reduce the budget deficit and lower the level of public debt in the medium term.

Table 4: Fiscal framework of the general government in Bosnia and Herzegovina 2016-2020

Fiscal indicators (% of GDP)	2016	2017	2018	2019	2020
Total income	39.7	39.8	38.1	36.6	35.2
Total spending	38.5	38.9	36.7	34.9	33.4
Fiscal balance	1.2	0.9	1.4	1.7	1.9
Interest expenditures	0.8	1.0	0.9	0.9	0.8
Primary fiscal balance	2.0	1.9	2.3	2.6	2.7

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

The fiscal consolidation measures taken by now have yielded some results so surplus was recorded in 2016. This is the result of the steady growing trend of indirect tax collection and continued application of limited public spending at all levels of government. In the next medium term, fiscal consolidation measures and maintenance of the surplus zone will continue.

In the area of indirect taxes, the process of aligning the policy of taxation of tobacco products with the EU standards is continued, which entails the following: 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. The process of aligning the excise duties on cigarettes with the EU standards is set to be finalised in 2020, when the total excise duty for all categories of cigarettes should reach the minimum EU excise. In the area of customs policy, implementation of the adapted Stabilisation and Association Agreement (SAA)²⁸ is continued.

On the expenditure side, measures to limit current expenditure will continue (salaries and compensations) with the restriction of public sector employment. The intention is to improve the quality of public finances by the end of the observed period by increasing the fiscal space (surplus) to finance investments and the contribution of public finances to the function of growth. The following text explains in more detail the fiscal strategies of individual administrative levels in Bosnia and Herzegovina.

Institutions of BiH – Fiscal policy of the institutions of BiH is focused on stable and transparent financing of the BiH institutions, management and control of public finances and fulfilment of international financial obligations. For the purpose of macroeconomic stability and fiscal sustainability and in line with the Global Fiscal Balance and Policies in Bosnia and Herzegovina 2018-2020, a restrictive spending policy is continued.

Federation of BiH- Fiscal policy of FBIH is focused on fiscal consolidation in order to reduce the budget deficit and decrease the level of public debt as well as the restructuring of the tax

²⁸ Agreement applicable as from 1 February 2017.

system and burden. Although the fiscal policy goals over the past years mainly were focused on the implementation of the rationalisation of budget expenditures, introduction of fiscal discipline and improved fiscal transparency, in the period 2018-2020, additional focus will also be on slowing the growth of debt, increasing tax and financial discipline and reducing the tax burden on labour and investments.

The main fiscal policy challenges in FBiH that significantly affect the implementation of the set objectives are the complexity of the constitutional structure of the Federation of BiH as well as the competencies between different levels of government. Having invested significant efforts in public finance reform in the previous period, in 2017 the Government of FBiH adopted the Public Finance Management Reform Strategy of FBiH 2017-2020, whose objective is to provide a comprehensive and integrated framework for planning, coordination, implementation and monitoring of progress in implementation of the activities. The focus of the Public Finance Management Reform Strategy of FBiH 2017-2020, *inter alia*, is on restructuring of the tax system and tax burden, which is planned to be implemented in two segments: reducing the tax burden on labour and investments, and improving administrative and institutional tax system framework.

Reducing the tax burden on labour is designed to expand the taxable income base and, at the same time, to shift the tax burden from lower income to richer income recipients, by introducing progressive taxation. On the other hand, social security contributions that burden the very price of labour on the market would be reduced, but there is the expressed risk of lack of extra budgetary funds revenues to cover the losses arising from the reduced contributions.

Improving administrative and institutional tax system framework is designed so as to directly affect the suppressing of the gray economy and tax evasion by changing the processes and procedures and, on the other hand, the reorganisation and strengthening of the FBiH Tax Administration would create a more proactive and efficient role of the control body, which would generally reflect in improved collection of public revenues.

The risks of implementation of the aforementioned fiscal policy objectives largely reflect in political environment, but economic and social factors should not be disregarded either. The importance of improved revenue collection can be seen as a countermeasure to the risk of PDI Institute's entry in the budget of the Federation of BiH foreseen by the adoption of the new Law on Pension and Disability Insurance, which is planned in the period two years after the adoption of the Law. The Law on PDI is currently in the Parliamentary procedure and it is planned to enter into force as from 2018.

In the field of public revenues, the activities are ongoing on reviewing the legislative solutions regarding the allocation and distribution of public revenues in the Federation of BiH, in order to prepare the most optimal proposal to improve the existing vertical and horizontal distribution system of indirect tax revenues for all users in the Federation of BiH, with special emphasis on solving the external debt repayment system.

Republika Srpska - This section of the Document represents a consolidated budget framework of the general government²⁹ of Republika Srpska for 2018–2020. The general government sector

²⁹ 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

encompasses consolidated budgets of sub-sectors: central government, local self-government units and extra-budgetary funds.

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 150th session held on 1 November 2017, the Government of Republika Srpska adopted the Revised Framework Budget Document of Republika Srpska for the period 2018–2020, 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 ERP RS 2018–2020. Data for 2016 represent budget execution on all observed levels of government. Data for 2017 are in line with the adopted budgets. Data for the period 2018–2020 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 may be up to 3% of GDP. The consolidated deficit of the General Government of Republika Srpska relative to GDP of Republika Srpska in 2016 was 0.9% of GDP. According to the projections, the anticipated deficit/surplus is set to range between 0.6% deficit to 2% surplus.

Republika Srpska remains committed 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, the share of spending of the observed levels of government is expected to decrease from 40.7% in 2016 to 34.4% in 2020. When it comes to debt policy, the key goal of Republika Srpska is certainly related to the process of the EU accession, which means that the long-term commitment of Republika Srpska is to keep the level of public debt below 60 per cent of GDP of Republika Srpska.

Observing the consolidated General Government sector in the period 2017–2020, the major share of the total revenues is made up by tax revenues, i.e. indirect taxes (from 39.8% to 41.5%) and direct taxes (from 11.4% to 11.8%). The significant part of revenues is represented by social security contributions (from 35.5% to 36.1%), while the remaining share pertains to non-tax revenues (from 10.4% to 11.8%) and grants (from 0.4% to 0.8%). Revenues from social security

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 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.

contributions in accordance to purpose are spent as allocations for social protection, despite the fact that social contributions exceed revenues on this basis.

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 2018-2020, the following is planned in the area of taxation: When it comes to taxation of profit of legal persons (enterprises), the Law on Corporate Income Tax (Official Gazette of RS, 94/15) was adopted and it came into force on 1 January 2016, as well as the Law on Amendments to the Law on Corporate Income Tax (Official Gazette of RS, 1/17) which came into force on 1 January 2017. Amendments to the Law on Corporate Income Tax more clearly define the tax payer, residency and sources of taxable income in Republika Srpska, which practically clearly determines the taxation of income within BiH, i.e. the rules of corporate income tax payment are largely harmonised between Republika Srpska and FBiH, thus fully preventing the double taxation. This Law also sets new method of determining and recognising the depreciation cost for tax purposes according to the group depreciation system, which represents an increase in tax relief relative to the previous system due to the depreciation method itself, as well as increase of depreciation rates. Tax incentives in the form of tax deductions for investment in immovable property, plants and equipment for manufacturing activity were changed and, to some extent, narrowed down so, according to provisions of the applicable Law, taxpayers may use this deduction if they make the above investment in the amount which exceeds 50% of their tax base in the current tax year, in which case their tax liability will be reduced by 30%. The rule is also set to prevent misuse of the so called "thin capitalisation" in a way that, for legal entities whose interest expenses exceed the amount of 30% of the tax base, the interest expense is recognised to that amount. Finally, this Law also specifies the rules of international taxation, i.e. the taxation of non-residents who generate income or profit in Republika Srpska through a permanent establishment or directly, without establishing an organisational unit. In 2018, amendments are planned to the part related to tax exemption on reinvested gains.

In 2015, the Law on Personal Income Tax was adopted (Official Gazette of Republika Srpska, 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 2018 and 2020 with the aim of re-defining taxation of capital gains. Also, these Amendments the Law on Personal Income Tax 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% of average gross salary), introduces the basis for entrepreneurs (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. 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 in the

coming period so as to decrease the aggregate contribution rate in order to reduce the tax burden on labour in Republika Srpska to the 2008 level.

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 the observed period, under the Law on Contributions, the change of the contribution rate for child protection is planned, i.e. its increase from current 1.5% to 1.7% while the contribution rate for unemployment is planned to be decreased from 1% to 0.8%. This change will result in the redistribution of part of the contribution revenues, which will contribute to the financing of the increased rights in the child protection area, i.e. as from 1 January 2018, the maternity allowance will be increased to KM 405 for every unemployed mother. At the same time, the amendments to this legal solution will gradually relieve business entities from the obligation of paying the maternity leave in gross amount.

In 2015, the Law on Tax on Immovable Property (Official Gazette of RS, 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% - 0.20%) in relation to the span in the previous law (0.05% to 0.5%) 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 Republika Srpska Administration for Geodetic and Property Affairs for the needs of completing the fiscal cadastre of immovable property. No changes are planned to the Law on Tax on Immovable Property in the period 2018–2020. Instead it is planned to intensify the activities of reporting the unreported immovable properties in Republika Srpska. In the period between 2018 and 2020, 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 was adopted within the framework of conducting reforms of the economic system of Republika Srpska and decreasing the scope of gray 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. It is planned to intensify the activities on establishing a greater level of e-services and e-communication of tax payers with Tax Administration, as well as to intensify tax controls

of natural persons, entrepreneurs or legal entities by applying indirect methods for determining the tax base.

No changes of regulations related to fiscal cash registers were planned in the period between 2018 and 2020. 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 2017, the Law on the Tax System of Republika Srpska was adopted, which sets a legal basis for the adoption of a Register of tax and non-tax charges in Republika Srpska as well as general legislation regarding the introduction, modification or abolition of tax and non-tax charges in Republika Srpska. The provisions of this Law represent the legal elaboration of the constitutional principles related to taxation, primarily the principle of legality and the principle of proportionality. Namely, the provisions of this Law prescribe the obligation of all those who process or propose all general legislation (laws, decrees, rulebooks or decisions) that introduce, amend or abolish certain tax or non-tax charges, to make an analysis of justifiability of introducing or changing these charges, based on which the Ministry of Finance gives its opinion and the body in charge for the adoption of such an act makes a final decision whether the introduction or change of that tax or non-tax charge is justified or not.

Also, the provisions of this Law provide for establishment of the Register of tax and non-tax charges and, after the expiration of transition deadlines, prescribes that the charges that are not contained in the Register do not create a payment obligation, and the processor or proponent of the act containing such a charge is obliged to initiate the procedure for removing this charge from the legal system. Tax and non-tax charges that cannot be contained in the Register are those that have been adopted contrary to the principles of the Law on the Tax System of Republika Srpska. It is planned to make an analysis of justifiability of tax and non-tax charges from the Register of the Government of Republika Srpska in the first half of 2018, based on which it will be proposed to abolish and reduce a certain non-tax charge in Republika Srpska in the second half of 2018.

3.2. Budget implementation in 2017

According to the ITA report for nine months of 2017, the amount of KM 4.296 billion of net indirect tax revenues was collected, representing an increase of KM 233.2 million or 5.7% compared to the same period of 2016. The net VAT revenues collection is characterised by steady growth trend, with 6.1% growth achieved for nine months. A high rate of gross VAT growth of 8.5% was recorded as a result of growth of VAT on imports by 11.8%, while domestic VAT grew at a rate of 3.7%. Net VAT grew slower than gross collection due to strong growth in VAT refunds of 16.1%. Revenues collected from customs increased by 9.9% in nine months of 2017. The rising growth trend is the result of the recovery of imports from third countries³⁰ and imports of goods from EU that customs duties still have to be paid on³¹. Although a significant decline in customs revenues in trade with the EU was expected due to the application of the adapted SAA, the loss of customs revenue from trade with Croatia was annulled by a rise in collection of custom duties on imports of goods from other EU member states. In the period January – September 2017, revenues from excise duties grew at a rate of 4.4%. The main generators of growth were excise duties on tobacco products, whose collection increased by 5.5%, and excise duties on petroleum products, with an increase of 2.7%. Pay toll revenues from

³⁰ According to the BiH Agency for Statistics, imports from China increased in the period January – September 2017 by 7.2%, while the total imports from Asian countries increased by 95%. Imports from Russia also recorded a strong growth of 16%. Source: www.bhas.ba

³¹ According to the BiH Agency for Statistics, imports from EU in the period January – September 2017 grew at a rate of 10.9%. Source: www.bhas.ba.

prices of petroleum products rose by 7.9% compared to the nine months of 2016. Revenues from excise duties on alcohol and alcoholic beverages recorded a positive growth of 7.1%, while revenues from excise duties on non-alcoholic beverages went up by 9.4%. Revenues from excise duties on beer also recorded a positive growth of 4.5%, where revenues from excise duties on imported beers fell by 0.9% and revenues from excise duties on domestic beers increased by 15.1%.

According to the projection of 2017 budget execution, the **institutions of BiH** will realise total revenues in the amount of KM 914.4 million, which is by KM 20.3 million less compared to the revenues realised in 2016 in the amount of KM 934.7 million. Given that tax revenues are at the same level as in 2016 (KM 750.0 million), a decrease was recorded in non-tax revenues, dominated by reduced revenues from the profit of the Central Bank of BiH by KM 10.4 million and reduced donations by KM 4.6 million relative to the realisation in 2016.

On the other hand, estimates of the realisation of the total expenditures of the institutions of BiH in 2017 amount to KM 935.5 million, which is by 3% higher relative to expenditures realised in 2016. The largest item in total expenditures is the salaries and compensations to employees where it is important to note that the level of salaries and compensations will remain the same as in 2016, in the amount of KM 643 million. The increase in total expenditures relates to capital investments which, in addition to budget funds, are financed from donations and loans (state prison), and to material expenses. The increase in material expenses is the result of recording the costs of maintenance and licences on material expenses, according to the recommendation of the Audit Office of the Institutions of BiH, which was previously recorded on capital expenditures.

The projected deficit of KM 21.1 million will be financed from the surplus of revenues over expenditures in 2016.

The budget of the Federation of BiH³² for 2017 amounts to KM 2,747.6 million, which is an increase by KM 132.8 million or 5% relative to the 2016 budget of the Federation of BiH.

Total realised revenues, proceeds and financing of the FBiH budget in the first three quarters of 2017 amount to KM 1,791.3 million, i.e. 65% of the amount planned in the 2017 Budget of the Federation of Bosnia and Herzegovina.

Execution of revenues by main categories in the period January – September 2017 is as follows:

- KM 1,168 million of tax revenues (corporate income tax and revenues from indirect taxes);
- KM 343.4 million of non-tax revenues (fees, duties, penalties and other non-tax revenues);
- KM 280.2 million of proceeds from financing (received credits and loans);

Relative to the same period of the previous year, total realised revenues increased by 18% or KM 270.2 million. The largest increase was recorded in revenues from indirect taxes (KM 134 million), followed by revenues from end-users for loan repayment (KM 89.1 million). Also, on the financing side, there was a receipt based on succession (payment of the Government of the Russian Federation on the basis of the clearing debt) in the amount of KM 120 million, so the financing was higher by KM 40.1 million than in the same period of 2016. Significant growth was also recorded in revenues from income tax (KM 10.8 million).

Expenditures and outlays realised in the period January – September 2017 amount to KM 1,612.2 million, i.e. 59% of the amount planned in the 2017 budget of the Federation of BiH.

³² Budget of the Federation of BiH refers to the central Government of the Federation of BiH. Consolidated budget of FBiH is attached in tables in the Annex (tables 2A, 2B and 3).

Execution of expenditures by main categories in the observed period is as follows:

- KM 963.4 million of current expenditures (salaries and remunerations, contributions, material expenditures, current transfers, expenditures for interest);
- KM 8.6 million of capital expenditures (expenditures for procurement of fixed assets and capital grants);
- KM 2.7 million of expenditures for financial assets; and
- KM 637.5 million of expenditures for debt repayments.

In comparison with execution in the same period of the previous year, total expenditures and outlays record an increase by 4% or KM 64.9 million. KM, as a consequence of increased healthcare transfers, subsidies to private companies and entrepreneurs, and debt repayments. Observed by main categories, growth relates to current expenditures (5% relative to the same period of 2016), capital expenditures (6% growth) and expenditures for debt repayments (3%). It is important to point out that all the liabilities based on external and internal debt of the Federation of BiH have been duly serviced and, on 30 September 2017 there were no arrears.

The largest part of the fiscal framework of the General Government of Republika Srpska is comprised of the budget of Republika Srpska. The budget of Republika Srpska for 2017 was adopted by the National Assembly of Republika Srpska on 24 December 2016, in the amount of KM 3,200.0 million. The budget of Republika Srpska for 2017 plans a surplus in the amount of KM 67.1 million, while at the level of the Central Government and the General Government, the planned deficit amounts to KM 81.3 million and KM 64.2 million respectively.

Total revenues of the budget of Republika Srpska in 2017 amount to KM 2,591.1 million, and their structure comprises the following: Tax revenues in the amount of KM 1,582.6 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 787.1 million; Revenues from financial and non-financial assets in the amount of KM 71.8 million; and Other revenues in the amount of KM 149.6 million.

Total expenditures and outlays of the budget of Republika Srpska in 2017 amount to KM 2,523.9 million, and their structure comprises the following: Gross salaries and remunerations of employees planned in the amount of KM 718.6 million; Expenditures for goods and services are planned in the amount of KM 98.8 million; Social protection contributions are planned in the amount of KM 1,252.6 million; Expenditures for interests in the amount of KM 102.6 million; Subsidies are planned in the amount of KM 101.3 million; Transfers in the amount of KM 136.9 million; Net expenditures for non-financial assets in the amount of KM 74.4 million as the result of securing funds for purchasing a multi-purpose helicopter, the reconstruction of the barracks "Zalužani" and funds planned within the framework of Public Investments; Other expenditures planned in the amount of KM 38.7 million, represented by current budget reserve, outlays based on court verdicts and grants.

According to reports on the execution of the budget of Republika Srpska for the first six months of 2017, total revenues are realised at the level of 96%, of which tax revenues are realised at the level 98%, social security contributions at the level of 97%, revenues from financial and non-financial assets at 31% and other revenues at 100%. On the expenditures side, realisation of total expenditures amounts to 88%, current expenditures to 93%, and expenditures for non-financial assets to 10%.

3.3. Medium-term budgetary outlook

Global Framework of Fiscal Balance and Policies in BiH is based on macro-economic projections and projections of revenues from indirect taxes as the most important revenues of all administrative levels in Bosnia and Herzegovina.

Revised projections³³ of revenues from indirect taxes for the period between 2017 and 2020 are based on the revised forecasts of macro-economic indicators (DEP, September 2017) 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 2017, the collection is planned in the amount of KM 5.812 million, i.e. by 5.1% more than in 2016 (Table 1). It is expected for VAT to grow at the rate of 5.5% in 2016, mainly because of the positive current trend in collection of VAT on imports and decelerated growth of refunds. The reason for this is postponement of refunds in September 2017 due to extensive controls by ITA. On the basis of current trends in collection and export projections, it is expected for the revenues from customs to maintain the current growth trend in the fourth quarter of 2017 too, thus resulting in growth of 9.6% at the annual level. Growth in revenues from excise duties is expected to slow down due to lower collection of excise duties on tobacco products and petroleum products in the fourth quarter of 2017 as a consequence of the weakening and seasonality of external factors that were driving the growth of excise revenues in the second and third quarter of 2017 (consumption of non-residents in border and transit traffic and the tourist season in Croatia). Moreover, the fourth quarter is further expected to see lower consumption of petroleum products by both residents and non-residents due to the hike in retail prices caused by rising oil prices in the global market.

Table 5: Revised projections of revenues from indirect taxes, October 2017

Type of revenues (net)	In KM mn					Projected growth rate (in %)			
	Performanc	Projection				2017	2018	2019	2020
	2016	2017	2018	2019	2020				
VAT	3,433.8	3,621.9	3,770.5	3,933.2	4,113.1	5.5%	4.1%	4.3%	4.6%
Excise duties	1,448.9	1,497.1	1,514.2	1,533.8	1,581.5	3.3%	1.1%	1.3%	3.1%
Custom duties	248.2	272.0	288.7	306.3	325.3	9.6%	6.2%	6.1%	6.2%
Pay toll	358.8	379.9	387.9	395.7	404.0	5.9%	2.1%	2.0%	2.1%
Other	41.0	41.2	41.4	41.6	41.8	0.5%	0.5%	0.5%	0.5%
Total	5,530.7	5,812.0	6,002.7	6,210.6	6,465.7	5.1%	3.3%	3.5%	4.1%
Pay toll 0.10 KM/per litre	17.9%	18.2%	18.0%	17.7%	17.4%				
For allocation	143.5	152.0	155.2	158.3	161.6	5.9%	2.1%	2.0%	2.1%
VAT	5,387.2	5,660.0	5,847.6	6,052.3	6,304.1	5.1%	3.3%	3.5%	4.2%

*) Source for GDP: DEP, September 2017

The projected revenue growth rates for 2018, 2019, and 2020 are 3.3%, 3.5% and 4.2% respectively (Table 1). The largest generator of surplus revenues from indirect taxes in this period is VAT, while contribution or revenues from excise duties, customs and road tolls are modest. VAT projections follow the developments of macro-economic aggregates, and it is expected that the VAT growth rates on imports and domestic VAT will be more moderate than in 2017. It is expected for the VAT refunds to grow gradually, especially in view of planned import, export and investments growth. Projections of custom duties were prepared in accordance with the planned import growth rates. It is expected that in the coming years the

³³ Projections were revised by the Unit for Macroeconomic Analysis of the Management Board of ITA in October 2017.

growth of customs revenues from the remaining EU originating goods under the customs regime will exceed the losses in customs revenues due to the application of the SAA adaptation. Projections of excise duties on tobacco between 2018 and 2019 are utterly conservative and are based on current 2017 trends and with expected negative effects of continued increase of tax on cigarettes and cut tobacco on spending, market and revenues. The projections are based on the assumption of maintaining the regional tax competitiveness of BiH in the area of excise and VAT policy at the present level, which encourages the consumption of petroleum products, tobacco products and other goods and services by non-residents. Given the pace of increase in excise duty on tobacco products, the completion of the excise harmonization process in 2019 is expected to bring about a stabilization of the tobacco production market in 2020, the growth of market value in line with private consumption growth and thus the growth of excise revenues. A gradual rise in oil prices in the global market could reduce the demand of non-residents and residents for petroleum products, which should result in slower growth of revenues from excise duties on petroleum products and road tolls.

Medium-term budgetary outlook of the Institutions of BiH was set by the Global Framework of Fiscal Balance and Policies in BiH 2018-2020 which, for the institutions of BiH, remained the same as in previous years, in the amount of KM 950.0 million, as well as the framework of indirect tax revenues allocated for financing of the Institutions of BiH, in the amount of KM 750.0 million. Based on these parameters, the Council of Ministers of BiH adopted the Framework Budget Document of the institutions of BiH for the period 2018-2020 as well as the draft Law on the Budget of the Institutions of Bosnia and Herzegovina and International Obligations of Bosnia and Herzegovina for 2018. The Presidency of BiH adopted the proposal of the Law on the Budget of the Institutions of Bosnia and Herzegovina and International Obligations of Bosnia and Herzegovina for 2018 which is now in the parliamentary procedure. In the period 2018-2020 the level of total revenues is set lower than the expected implementation in 2017, to KM 889.7 million in 2018, KM 879.8 million in 2019, and KM 880.0 million in 2020. Taking into account that the level of revenues from indirect taxes is fixed for all three years in the amount of KM 750.0 million per each year, non-tax revenues are a variable part that determines the amount of total revenues. One of the most significant items of non-tax revenues in the previous years was the income from profit of the Central Bank of BiH. When drafting the Framework Budget Document of the Institutions of BiH 2018-2020 and the draft Law on the Budget of the Institutions of Bosnia and Herzegovina and International Obligations of Bosnia and Herzegovina for 2018, according to the notification of the Central Bank of BiH, the revenues planned on this basis were reduced by 60% in 2018 to amount to KM 3 million, while they were not foreseen for the next two years at all. Within non-tax revenues, grants were planned in the amount of KM 0.6 million per year for the period 2018-2020 and include, according to the application of the modified accrual accounting, only contracted donations.

As for expenditures in 2018, total expenditures are set to the amount of KM 947.9 million, with the largest share made up by gross salaries and remunerations in the amount of KM 678.5 million. The increase in gross salaries and remunerations relative to the assessed execution in 2017 is the outcome of the financial effect of the Law on Amendments to the Law on Salaries and Remunerations in the Institutions of BiH (increase in gross salaries to police officers) and increase in employment related to the commencement of work of the BiH Institute for execution of criminal sanctions, detention and other measures. The increase in expenditures on material costs is related to the implementation of general elections in 2018. Expenditures are set at KM 942.4 million in 2019 and at KM 940.0 million in 2020.

It is important to note that the Budget of the Institutions of BiH is adopted each year in accordance with the adopted Global Framework of Fiscal Balance and Policies in BiH. The

projected deficit will be financed from the surplus of revenues over expenditures from the previous period and from loans.

Consolidated revenues plan in the Federation of BiH, shown in tables 2a and 2b of the Annex of this document, includes the revenue plan of the Budget of the Federation of BiH, sub-entity budgets (cantonal budgets and budgets of the local self-government units), tax revenue plan – contribution of extra-budgetary funds, and public revenue plans of other users (road and motorway authorities, funds, etc.). It should be emphasised that the presented plan includes the portion of indirect tax revenues earmarked for external debt repayment.

The plan of total revenues mostly includes revenues from indirect taxes. Projections of this category of revenues for the Budget of the Federation of BiH, cantons, local self-government units and authorities for roads are based on the medium-term plan of total revenues from indirect taxes on the Single Account, prepared by the Unit for Macroeconomic Analysis of the Managing Board of the Indirect Taxation Authority, in line with its competencies. The allocation of the planned disposable part of revenues from indirect taxes to users in the Federation of BiH, after deduction of the amounts set for external debt repayment, is made according to the provisions of the Law on Allocation of Public Revenues in the Federation of BiH (Official Gazette of FBiH, 22/06, 43/08, 22/09, 35/14 and 94/15). In regards to direct taxes, the medium-term plan of revenues foresees the continuation of positive trends. The text below gives the medium-term budgetary outlook of the Federation of BiH.

The Framework Budget Document of FBiH for the period 2018 – 2020 sets upper expenditure ceilings to KM 2,648.2 for 2019 and to KM 2,580.2 million for 2020 which, compared to the 2017 budget of the Federation of BiH, represents a decrease by 3.9% in 2019 and by 2.5% in 2020. On 3 November 2017, at its 126th session, the FBiH Government approved the draft Budget of the Federation of BiH for 2018 and submitted it to the parliamentary procedure.

Total revenues from taxes projected in the Budget of the Federation of BiH for 2018 amount to KM 1,662.0 million and, compared to the previous year, are higher by KM 91.0 million or 6%. Non-tax revenues in 2018 are set to the amount of KM 600.1 million and are higher by as much as 45% relative to the FBiH Budget for 2017. Receipts are set to KM 613.0 million.

Total expenditures and outlays foreseen in the draft Budget of the Federation of BiH for 2018 amount to KM 2,875.1 million, which is an increase by KM 127.4 million or 5% relative to the FBiH Budget for 2017.

Salaries, remunerations and contributions of employees are planned in the total amount of KM 241.4 million, which is an increase by KM 8.3 million relative to the FBiH Budget for 2017. The reasons for this increase are the priorities of the Government of the Federation of BiH in the coming period related to strengthening of the rule of law, reducing corruption and organised crime, and strengthening of judicial institutions through capacity building of the newly formed Special Department of the Supreme Court of the Federation of BiH and the Special Department of the Prosecutor's Office of the Federation of BiH, as well as capacity building of the Court Police of the Federation of BiH. The salary base in the administrative bodies of the Federation of BiH will remain unchanged.

Expenditures for material and services in the draft Budget of the Federation of BiH for 2018 amount to KM 89.6 million, which is by KM 0.1 million less relative to the previous year. Current transfers and other current expenditures amount to KM 1,020.8 million, which is by KM 24.3 million less than in the previous year. Interest expenditures for 2018 are planned in the amount of KM 124.9 million, which is by KM 23.5 million or 26% less relative to 2017. Expenditures for the purchase of fixed assets in the draft Budget of the Federation of BiH for

2018 amount to KM 44.1 million and are higher by KM 6.2 million relative to the FBiH budget for 2017. Expenditures for financial assets are planned in the amount of KM 20.5 million, which is by KM 13.1 million higher relative to the FBiH budget for 2017, while expenditures for debt repayments are planned in the amount of KM 1,116.4 million (principal), which is by KM 24.3 million or 2% less relative to the amount in 2017.

Capital transfers in the draft Budget of the Federation of BiH for 2018 amount to KM 212.2 million and are higher by KM 192.0 million relative to the FBiH Budget for 2017. The initiated investments in road infrastructure are planned to continue in 2018 as a bypass to securing the credit potential of the motorway company *JP Autoceste Federacije BiH*, i.e. to the implementation of the initiated credit arrangements with international financial institutions. The amount of KM 183 million is planned for these purposes, which will be directed, through the FBiH Ministry of Transport and Communications, to construction of motorways and speed roads. The Government of the Federation of BiH has found sources of funds for this project in the accumulated profit of public companies, which will be paid to the budget of the Federation of BiH after the competent bodies of these public companies implement the required legally prescribed procedures.

In order to attract investments in individual local communities, the Government of the Federation of BiH has planned funds in the amount of KM 5 million for construction of industrial zones in local self-government units. This funds will greatly assist local self-government units to, by joining their own funds, significantly improve local infrastructure needed for the establishment of the industrial zones. In addition to the aforementioned funds targeted at lower levels of government, it is also planned to increase total funds that are allocated to lower levels of governments on an annual basis, which are set at KM 18 million in 2018, for the purpose of budgetary support to the cantons and local self-government units.

The continuation of activities aimed at increasing employment in the Federation of BiH is planned to be implemented through a World Bank funded Employment Support Programme in the amount of KM 12.7 million. This will provide continuity in the implementation of active employment measures for different population categories that the Government of the Federation of BiH originally started by the adoption of the Decree on the first employment and self-employment, whose implementation ends in January 2018.

Positive developments in the dedicated industry are more than evident, and the Government of the Federation of BiH intends to continue financing development projects in this area in the amount of KM 4 million, as well as KM 2.3 million for the Permanent revolving fund of the FBiH Ministry of Energy, Industry and Mining established at the Union Bank.

In order to reduce rental, maintenance and security costs of the buildings in which the institutions of the FBiH are located, the Government of the Federation of BiH intends to complete the process of permanent accommodation of the institutions of FBiH during 2018. The total amount of KM 19 million is planned for this purpose, part of which refers to the purchase of the building in Sarajevo, while a part of the funds is targeted to putting into operation the building in Mostar, which was purchased by the Government of the Federation of BiH in 2017.

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 4,034.5 million in 2018, KM 4,122 million in 2019 and KM 4,246.1 million in 2020. The structure of the revenues for the general government sector is comprised of the following: Revenues from

indirect taxes planned in the amount of KM 1,768 million in 2018, KM 1,811.5 million in 2019 and KM 1,877 million in 2020; Revenues from direct taxes (corporate income tax, income tax and property tax) planned in the amount of KM 462.9 million in 2018, KM 476.4 million in 2019 and KM 492 million in 2020; Social security contributions are planned in the amount of KM 1,453.7 million in 2018, KM 1,484.2 million in 2019 and KM 1,518.7 in 2020; Revenues from property (revenues from financial and non-financial assets and positive foreign exchange rate differences) amount to KM 55.7 million in 2018, KM 52.9 million in 2019 and KM 54.1 million in 2020; and Other revenues, including revenues from duties, fees, revenues from public services and other non-tax revenues are planned in the amount of KM 294.2 million in, KM 297.1 million in 2019 and KM 304.3 million in 2020.

In accordance with the developed forecast, revenues of the central government sub-sector amount to KM 2,798.8 million in 2018, KM 2,839.1 million in 2019 and KM 2,909 million in 2020. 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 2,682.5 million in 2018, KM 2,723.5 million in 2019 and KM 2,792.2 million in 2020.

Medium-term projections of total expenditures in the 2018–2020 period for the general government sector amount to KM 3,979.1 million, KM 3,893.6 million and KM 4,008.2 million respectively. In the framework of gross salaries and remunerations of employees the amounts range from KM 942.8 million in 2018 to KM 952.2 million in 2020. Expenditures for material and services in the observed period are slightly decreasing from KM 267.9 million to KM 275.7 million. Social security contributions are planned at the level of: KM 2,024.3 million, KM 2,051.4 million and KM 2,061.4 million respectively. Expenditures for interest range from KM 119.8 million in 2018 to KM 110.1 million in 2020. Subsidies mildly grow from KM 129.8 million to KM 148.9 million. Net expenditures for non-financial assets are planned at the level of KM 244.5 million, KM 156.1 million and KM 212.7 million through respective years.

Medium-term projections of total expenditures in the period 2018–2020 for the central government sub-sector amount to KM 3,715.8 million, KM 3,714.8 million and KM 3,765.5 million through the respective years.

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

In the period 2018–2020, total financing (new borrowing) is planned in the amount of KM 1.6 billion, of which KM 0.8 billion in 2018, KM 0.5 billion in 2019 and KM 0.3 billion in 2020. 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, IFAD, KfW, Development Bank of the Council of Europe, etc.). Domestic sources of financing are mainly used for financing budget support as the consequence of credit rating of the country and the limited access to the international capital market, as well as conditionality of obtaining concession funds by achieving goals defined at the country 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 2008–2020, the cyclically adjusted budget balance is calculated using the semi-aggregate methods of the European Commission. The calculation of the cyclical balance carried out by the European Commission is based on the usual two-step procedure: (i) the assessment

of the aggregate output gap as an indicator of the economic cycle and (ii) the assessment of the ratio of elasticity of the overall revenue and expenditure to this gap.

The first step is the assessment of the cyclical position of the economy (the output gap) by comparing the actual and potential GDP. Given the lack of availability of data, we could not use the method of output function to assess the aggregate output gap. Thus the estimate of the potential GDP is based on the adapted Hodrick-Prescott filter due to its transparency and simplicity, with smoothing coefficient (λ) for annual data, 6.25³⁴. 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/expenditure³⁵ which are sensitive to business cycle developments, where weights of certain categories present their shares in the total revenue/expenditure. The elasticity of the individual component of revenue/expenditure is first calculated considering its relevant macroeconomic base and then we calculate the elasticity of macroeconomic base to the aggregate output gap. These two elasticities are multiplied to obtain the elasticity of individual component of revenue/expenditure to the aggregate output gap.

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

Table 6: Fiscal balance and components for calculation of cyclically adjusted balance 2008-2020, in % of GDP³⁶

Year	Output gap	Fiscal balance	Primary fiscal balance	Cyclical component	Cyclically adjusted fiscal balance	Structural primary fiscal balance	Fiscal policy character
2008	4.58	-2.07	-1.59	1.57	-3.64	-1.39	
2009	-0.25	-4.15	-3.67	-0.08	-4.06	-2.97	1.58
2010	-1.12	-2.36	-1.89	-0.39	-1.98	0.75	-3.72
2011	0.22	-1.20	-0.60	0.07	-1.28	0.39	0.36
2012	-0.73	-1.93	-1.19	-0.25	-1.68	-0.53	0.93
2013	-0.35	-2.05	-1.34	-0.12	-1.93	-0.94	0.41
2014	-1.89	-1.97	-1.12	-0.65	-1.32	0.08	-1.02
2015	0.43	0.63	1.52	0.15	0.48	1.30	-1.22
2016	0.54	1.15	1.97	0.18	0.97	1.90	-0.60
2017	-0.80	0.92	1.91	-0.28	1.19	2.21	-0.32
2018	0.16	1.44	2.30	0.05	1.39	2.34	-0.12
2019	0.25	1.70	2.60	0.09	1.61	2.58	-0.25
2020	0.50	1.85	2.68	0.17	1.68	2.58	0.00

³⁴ Morten O. Ravn and Harald Uhlig: "Discussion Paper No. 2858 on adjusting the HP – Filter for the frequency of observation, CEPR, June 2001

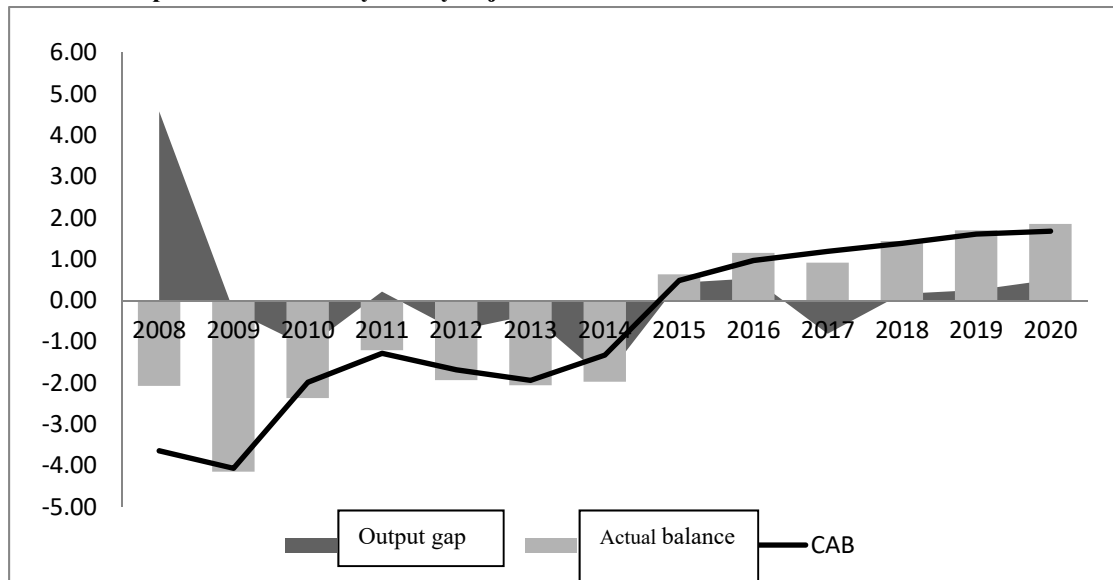
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³⁵ Cyclically sensitive components determined on the revenue side are the revenues from VAT and excise duties (consumption tax), income tax, corporate income tax and revenues from social contributions whereas on the expenditure side, only the unemployment expenditure is taken into consideration.

³⁶ For the period 2008-2015, the CBBiH data were used while for the period 2016-2020 data were provided by the ministries of finance (institutions of BiH and Entities) and the BD Directorate for finance.

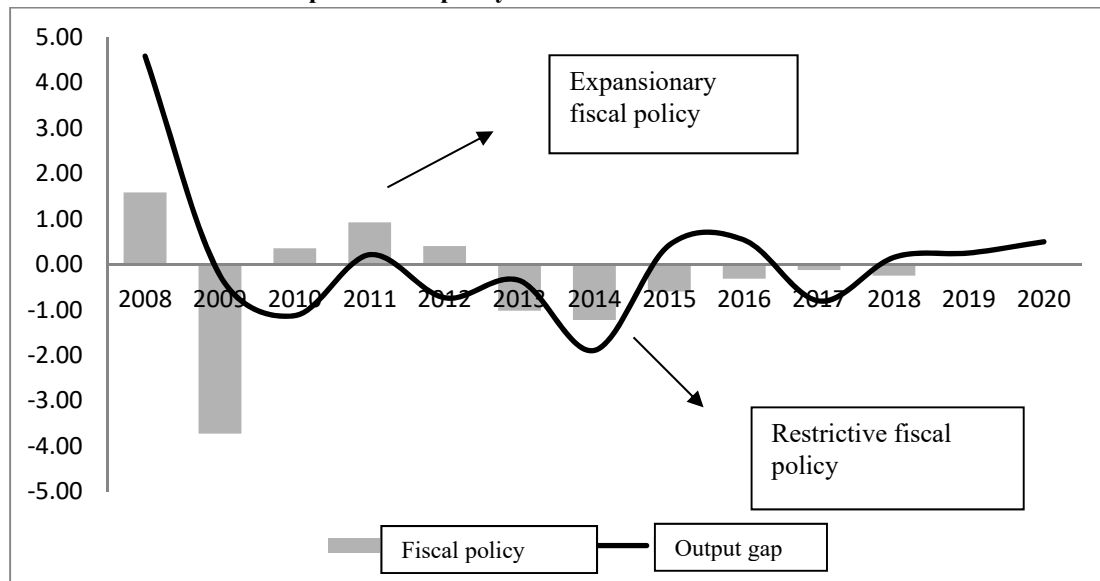
After calculating the overall sensitivity of the budgetary balance, the cyclical component is then obtained as the sum of the output gap and the overall cyclical sensitivity. In order to show the true character of discretionary fiscal policy, we calculate the fiscal stance. It is measured as the annual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

Graph 8: Actual and cyclically adjusted fiscal balance in 2008-2020 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 9: Fiscal policy character in BiH in 2008-2020



After the first strike of the global economic crisis which caused the fall of all major macroeconomic aggregates and consequently generated a sharp drop in indirect tax revenues in 2009, stabilisation occurred as early as in 2010 followed by rise in revenues. A positive upward trend in revenues was maintained in 2011, to slow down and decline in 2012. This trend went on in 2013 when, despite the modest economic recovery, the effects of indirect tax collection were negative. A public spending mismatch leads to an increase in public debt and fiscal stance worsens. In 2014, measures are undertaken to restrain current expenditures at all levels of government (salary freeze and restriction of employment in public sector) as well as measures to improve the collection of tax revenues (both direct and indirect) and to suppress gray economy – a pro-cyclical restrictive policy.

Measures that have contributed to the improvement of collection of indirect taxes include amendments to the Law on Excise Duties related to tobacco taxation (effective as of 1 August 2014 and beer taxation (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 yielded tangible results as early as 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 for repairing damages caused by floods, which was extended in 2015 by amending the aforementioned Law.

In 2015 and 2016, a positive and steady growth in collection of indirect taxes was recorded which, coupled with the continuation of fiscal consolidation measures and expenditure controls, leads to a surplus (stabilising restrictive policy). According to submitted and available data, a restrictive stabilisation policy continues throughout 2018 and 2019 too.

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

According to data available from the Ministry of Finance and Treasury of BiH, the Entity ministries of finance and Finance Directorate of the Brčko District, the estimated state of total public debt for 2017 amounts to KM 11,716.311 million and is by 3.1 index points lower than the state of debt in 2016. From this total amount, 70.6 % or KM 8,248.7 million pertains to foreign debt whereas 29.4% or KM 3,467.6 million pertains to domestic debt.

Table 7: Public debt state³⁷ and projections (in million KM)

	2016	2017	2018	2019	2020
1. FOREIGN DEBT (1.1+1.2+1.3+1.4)	8,536.3	8,248.7	8,274.6	8,107.4	7,692.7
1.1 Institutions of BiH	54.2	82.5	80.8	75.7	68.7
1.2 Federation of BiH	5,250.0	4,892.5	4,792.9	4,593.0	4,249.1
- Government of the Federation BiH	2,829.1	2,464.3	2,253.7	2,067.6	1,917.9
- Cantons	278.8	257.8	234.3	210.0	195.3
- Municipalities and cities	121.5	130.6	150.2	159.1	163.6
- Public companies and other	2,020.6	2,039.8	2,154.8	2,156.3	1,972.3
1.3 Republika Srpska	3,168.0	3,212.0	3,342.8	3,387.5	3,329.8
- Budget of Republika Srpska	1,998.2	1,979.1	2,053.4	2,068.9	2,016.8
- Local self-government units	86.6	97.9	109.0	114.1	117.6
- Public companies and IDB	1,093.1	1,135.0	1,180.4	1,204.5	1,195.4
1.4 Brčko District	64.1	61.7	58.1	51.2	45.1
2. DOMESTIC DEBT (2.1+2.2+2.3)	3,553.1	3,467.6	3,310.3	3,034.7	2,818.9
2.1 Federation of BiH	1,273.9	1,144.6	1,071.8	985.1	896.9
- Government of the Federation BiH	1,017.0	890.6	876.2	828.3	777.3
- Cantons	199.9	195.5	143.5	109.3	77.6
- Municipalities and cities	57.0	58.5	52.1	47.5	42.1
2.2 Republika Srpska	2,272.1	2,316.5	2,231.7	2,042.9	1,915.8
- Budget of Republika Srpska	1,804.4	1,899.0	1,890.4	1,774.8	1,708.7
- Local self-government units	285.7	251.6	212.2	175.1	144.2
- Social security funds	182.0	165.9	129.1	93.0	62.9
2.3 Brčko District	7.1	6.5	6.8	6.7	6.2
TOTAL (1+2)	12,089.4	11,716.3	11,584.9	11,142.1	10,511.6

Table 8: Public debt repayment and projections (in million KM)

	2016	2017	2018	2019	2020
1.Total FBiH (1.1+1.2)	1,033.9	1,148.1	1,283.3	1,203.7	1,135.1
1.1 Foreign debt FBiH (sum a-d)	470.7	612.2	651.9	597.4	526.2
a) Government of FBiH	256.0	353.5	381.5	309.2	214.5
b) Cantons	45.6	48.2	33.2	28.5	16.0
c) Municipalities and cities	5.9	7.8	10.5	11.9	12.1
d) Public companies and other	163.2	202.6	226.7	247.8	283.6
1.2 Domestic debt	563.2	535.8	631.4	606.3	608.9
- Government of FBiH	516.4	455.8	559.0	549.3	561.6
- Cantons	40.0	69.6	64.2	50.5	41.4
- Municipalities and cities	6.8	10.4	8.2	6.5	5.9
2.Total RS (2.1+2.2)	728.7	881.6	912.5	749.0	571.8
2.1 Vanjski dug RS	257.2	334.5	346.4	297.8	248.1
- Budget of Republika Srpska	173.0	239.9	252.2	200.9	141.1
- Local self-government units	5.1	6.6	7.0	7.2	7.3
- Public companies and IDB	79.1	88.0	87.1	89.7	99.7
2.2 Domestic debt of RS	471.5	547.1	566.1	451.2	323.7
- Budget of Republika Srpska	365.5	374.0	466.9	361.2	250.1
- Local self-government units	59.7	128.6	53.1	46.8	38.7

³⁷ For Republika Srpska, the total debt is included in accordance with legislation in Republika Srpska

- Social security funds	46.3	44.4	46.2	43.1	35.0
3.Total BD (3.1+3.2)	10.6	9.3	10.1	10.0	8.4
3.1 Foreign debt	4.8	8.6	9.4	9.3	7.7
3.2 Domestic debt	5.8	0.7	0.7	0.7	0.7
4. Foreign debt of Institutions of BiH	4.6	5.2	5.7	7.3	8.4
TOTAL BIH (1+2+3+4)	1,777.8	2,044.2	2,211.6	1,970.0	1,723.7

In terms of structure of purpose of loans, 58% of loans are directed to the implementation of infrastructure projects, 27% to loans intended for public sector, while 15% represent investment in economic activities. Credit conditions are characterised by favourable average interest rate of 1.4% (54.7% of loans with fixed interest rate and 45.3% with variable interest rate) and average maturity of 7.9 years. With regard to the currency structure of loans, those in EUR are still dominant with 54.40%, followed by SRD 31.15%, USD 7.25%, CPU 2.08%, and other currencies³⁸ in the amount of 5.12%.

In the period 1 January – 30 September 2017, obligations under foreign debt are serviced in their entirety and in time, in the total amount of KM 608.15 million, of which repayment of principal is in the amount of KM 522.27 million or 85.88%, while repayment of interest, service and other costs makes for KM 85.88 million or 14.12%.

Table 9: Foreign debt sustainability indicators³⁹

	2015	2016	2017	2018	2019	2020
GDP (million KM)	29,666	30,862	31,871	33,366	35,139	37,078
Total debt (in million KM)	11,911.7	12,089.4	11,716.3	11,584.8	11,142.1	10,511.6
Export of goods and services (million KM)	9,884	10,588	11,875	12,981	14,069	15,176
Foreign debt (in million KM)	8,372.5	8,536.3	8,248.7	8,274.5	8,107.4	7,692.7
Total debt repayment (in million KM)	1,537.3	1,777.8	2,044.2	2,211.5	1,969.9	1,723.7
Foreign debt service (million KM)	593.6	737.3	960.6	1,013.3	911.8	790.3
Net revenues from indirect taxes (million KM)	5,131.1	5,387.2	5,660.0	5,847.6	6,052.3	6,304.1
Total debt/GDP (%)	40.2	39.2	36.8	34.7	31.7	28.3
Total debt debt repayment/GDP (%)	5.2	5.8	6.4	6.6	5.6	4.6
Foreign debt/Export of goods and services (%)	84.7	80.6	69.5	63.7	57.6	50.7
Foreign debt servicing/Revenues from indirect taxes for distribution (%)	11.6	13.7	17.0	17.3	15.1	12.5

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

³⁸Other currencies are: JPY, KRW, CHF, KWD, SAR, CAD, SEK, DKK, GBP.

³⁹ For Republika Srpska, the total debt is included in accordance with legislation in Republika Srpska

The state of public debt in the **Federation of BiH**, according to data available to the FBiH Ministry of Finance, on 30 September 2017 amounts to KM 6,036.92 million, while it is estimated that on 31 December 2017, bearing in mind the amount of foreign debt contracted 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 6,037.1 million.

Total foreign debt in the Federation of Bosnia and Herzegovina amounts to KM 4,855.65 million (estimate for 31 December 2017 is KM 4,892.49 million⁴⁰) and, the majority of it was concluded with bilateral (23.48%) and multilateral financial institutions (World Bank, EBRD, EIB, IMF and others) (76.52%) in order to implement major infrastructure projects and for budget support.

Domestic debt in the Federation of BiH is the debt incurred in accordance with the Law, by borrowing from domestic financial institutions and by issuance of debt securities and market instruments. The statutory domestic debt in the part pertaining to obligations towards suppliers and for soldiers' salaries and compensations was fully settled through cash payments. Obligations based on old foreign currency savings and war claims have been settled through cash payments and issuance of bonds. Domestic debt in the Federation of Bosnia and Herzegovina on 30 September 2017 amounts to KM 1,151.27 million and it is estimated to amount KM 1,144.6 million on 31 December 2017⁴¹.

Total foreign and domestic debt of the Government of the Federation of BiH, without the debt which was transferred to end users in subsidiary agreements, on 31 December 2017 is estimated at KM 3,354.93 million, of which the amount of KM 2,464.34 million pertains to foreign debt and KM 890.59 to domestic debt.

Debt servicing is within the limitations set under the Law on Debt, Borrowing and Guarantees. Share 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 makes up a significant share of total annual obligations, net domestic borrowing is not increasing.

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.

The debt portfolio based on credit commitments for which the Government of the Federation of BiH issued guarantees amounted to KM 28.91 million on 30 September 2017, and is estimated

⁴⁰ State of foreign debt of FBiH on 31/12/2017 represents the estimated state

⁴¹ State of domestic debt of FBiH on 31/12/2017 represents the estimated state and includes issuance of securities planned by 31/12/2017 under the adopted calendar of issuance; it does not include planned issues under the re-balance

to amount to KM 26.15 million on 31 December 2017. The internal guarantee of the Federation of BiH in the amount of KM 78.90 million was issued for *JP Željeznice FBiH*. The outstanding debt under this guarantee on 30 September 2017 amounted to KM 27.21 million, and is estimated to amount to KM 25.02 million on 31 December 2017. 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 Bosnia and Herzegovina). The outstanding debt under this sub-guarantee amounted to KM 1.70 million on 30 September 2017 while it is estimated to amount KM 1.13 million on 31 December 2017.

Table 10: State and repayment of public debt in FBiH with a projection to 2020 (in million KM)

DESCRIPTION	2016	2017	2018	2019	2020
State of foreign debt	5,250.0	4,892.5	4,792.9	4,593.0	4,249.1
State of domestic debt	1,273.9	1,115.4	1,055.0	968.2	880.1
Total public debt in FBiH	6,523.9	6,007.9	5,847.9	5,561.2	5,129.2
Foreign debt servicing	470.7	612.2	651.9	597.5	526.2
Domestic debt servicing	563.2	535.8	631.4	606.3	608.9
Total public debt servicing in FBiH	1,033.9	1,148.1	1,283.3	1,203.7	1,135.1
Debt servicing from the budget in FBiH	870.7	945.3	1,055.3	954.3	842.3
Exposure in FBiH based on issued guarantees, of which:	135.73	145.45	235.58	409.92	1,008.27
- Federation of BiH ⁴²	36.61	26.15	124.18	304.50	909.30
- Cantons	83.38	73.4	70.1	67.22	64.27
- Municipalities and cities	15.74	45.9	41.3	38.2	34.7

Source: FBiH Ministry of Finance

The Law on Debt, Borrowing and Guarantees of FBiH clearly prescribes that the debt of cantons, cities, 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.

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 guarantees of Republika Srpska and local self-government units, as well as the methods and procedures of borrowing, which together with the existing laws on 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 Srpska⁴³ at the end of a 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

⁴² Contingent liabilities of the Federation of BiH pertain to the sub-guarantee issued to Bosnia and Herzegovina for the loan of the Export-Import Bank of Hungary given to *JKP Vodovod Tuzla* and the guarantee under a subordinated loan for *Željeznice FBiH*. In addition, in 2018, the Federation of BiH intends to issue a guarantee for borrowing of *JP EP BiH* (TPP Tuzla).

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).

In August 2017, the Government of Republika Srpska adopted the Republika Srpska Debt Management Strategy for the period 2017–2020, prepared by the Ministry of Finance of Republika Srpska. The Republika Srpska Debt Management Strategy for the period 2017–2020⁴⁴ defines the main goal of the Republika Srpska debt management, the objectives of borrowing for the purpose of meeting the main debt management goal, the strategy for achieving the aforementioned objectives, the tasks of the Ministry of Finance of Republika Srpska, and identifies indicators, i.e. guidelines in order to achieve the debt structure with acceptable level of costs and risks.

State of public debt of Republika Srpska on 30 June 2017 amounts to KM 4,294.3 million, which represents 42.6% of GDP⁴⁵, while the state of total debt of Republika Srpska amounts to KM 5,345.3 million, i.e. 53.0% of GDP. The state of total debt of Republika Srpska on 30 June 2017 in the amount of KM 5,345.3 million, per origin of debt, pertains to foreign debt in the amount of KM 3,020.3 million, and to domestic debt in the amount of KM 2,325.1 million. On 30 June 2017, total debt of Republika Srpska, which is subject to the legal limitation, amounts to KM 5,301.8 million (52.6% of GDP), while the public debt which is subject to legal limitation amounts to KM 4,250.7 million (42.2% of GDP).

On 30 June 2017, the state of debt based on loans for which the Government of Republika Srpska issued guarantees amounts to KM 329.8 million. Within the RS budget, funds are planned for repayment of obligations under activated and non-activated guarantees that are estimated as risky.

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 2.2% pertains to short-term debt, while the remaining debt is long-term and its share is 97.8%.

The projected state of public debt in the period 2018–2020 is based on the amount of withdrawn loan funds as at 30 June 2017, increased by estimated withdrawals for investment projects under implementation and withdrawals for the purpose of financing the budget spending, minus the estimated amount of foreign debt servicing.

The projected state of domestic debt of Republika Srpska and the indirect debt of Republika Srpska in the period 2017-2020 is based on the state of debt as at 30 June 2017, increased by the issuance of securities in the coming period, minus the estimated amount of the Republika Srpska's domestic debt and indirect debt servicing.

⁴⁴ The Republika Srpska Debt Management Strategy for the period 2017–2020 is available at the website of the Government of Republika Srpska, www.vladars.net.

⁴⁵ Estimated value of GDP for 2017 amounts to KM 10,084 million.

Table 11: Servicing and state of the total debt of Republika Srpska in the 2016-2020 period (in KM million)

No.	DESCRIPTION	2016	30 June 2017	2017	2018	2019	2020
		Performance		Plan	Projections		
1	External debt servicing	257.2	155.6	334.5	346.4	297.8	248.1
2	Internal debt servicing	471.5	355.1	547.1	566.1	451.2	323.7
3	Servicing of the total debt of Republika Srpska (1 + 2)	728.7	510.7	881.6	912.5	749.0	571.8
3.1.	Servicing of the debt fro the budget of Republika Srpska	660.7	403.8	743.7	846.9	689.1	520.1
4	Foreign debt state	3,168.0	3,020.3	3,212.0	3,342.7	3,387.6	3,329.7
5	Domestic debt state	2,272.0	2,325.1	2,316.6	2,231.3	2,042.5	1,915.4
6	PUBLIC DEBT OF REPUBLIKA SRPSKA (4.1 + 4.2 + 5)	4,346.9	4,294.3	4,393.5	4,394.0	4,226.0	4,050.1
7	TOTAL DEBT OF REPUBLIKA SRPSKA (4 + 5)	5,444.0	5,345.3	5,528.5	5,574.4	5,430.6	5,245.5
8	RS public debt subject to legal limitation (4.1.1. + 4.2. + 5)	4,305.5	4,250.7	4,344.3	4,327.4	4,151.3	3,977.9
9	RS public debt subject to legal limitation (4.1.1. + 4.2. + 4.3. + 5)	5,398.6	5,301.8	5,479.4	5,507.7	5,355.8	5,173.3
10	State of the short-term debt of Republika Srpska	88.0	91.9	82.0	87.2	76.1	52.2
11	Exposure of Republika Srpska under issued guarantees	346.3	329.8	313.3	280.3	247.9	215.4

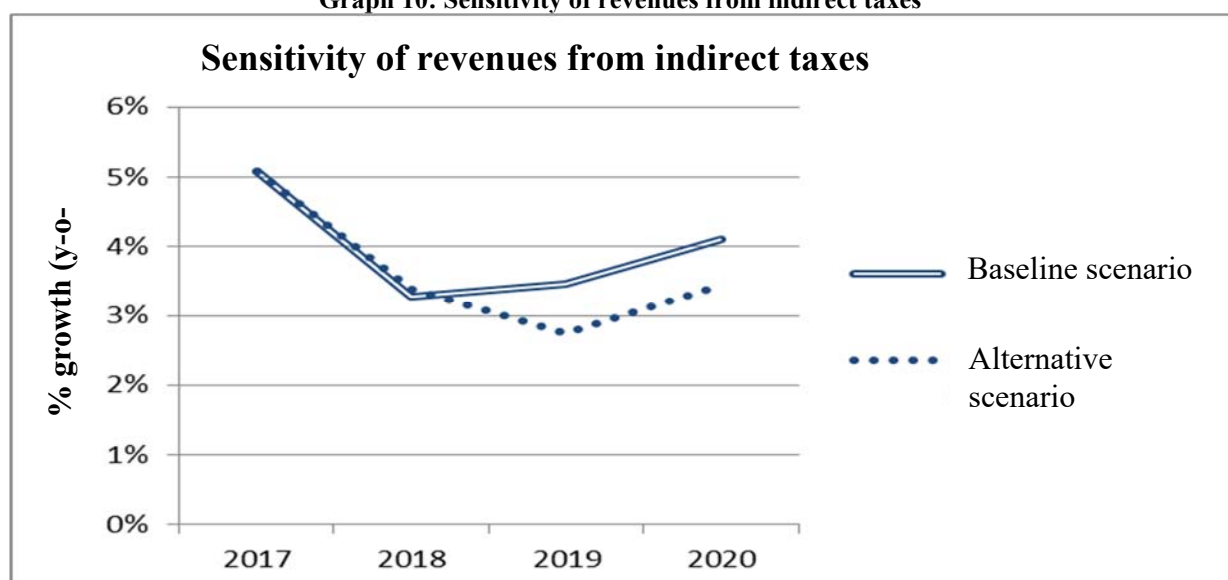
Source: Ministry of Finance of RS, reports of local self-government units and social security funds

3.6. Sensitivity analysis and comparison with the previous programme

Sensitivity of the budgetary projections to alternative scenarios and risks

According to alternative macroeconomic projections (DEP, November 2017), decelerated growth of the economy and consumption is assumed in the coming years, while upwards revised projections of imports and exports for 2017 are in line with current trends. Considering the fact that the baseline scenario of revenues projections for 2017 is mostly based on current trends in collection of indirect taxes, and that the plan for 2017 is the basis for estimates of revenues collection in 2018, realisation of alternative macroeconomic projections would not have significant impact on collection of revenues from indirect taxes. In case forecasts of decelerated economic growth and consumption in 2019 and 2020 are proven true, we could expect lower revenues from indirect taxes than those in baseline projections, by 0.6% and 1.2% respectively, i.e., measured in % of growth by 0.7 percentage points in both years, which basically corresponds to the differences in nominal and real GDP between the baseline and alternative macroeconomic scenarios (Graph). The biggest differences compared to the baseline scenario of projections would be on VAT revenues (KM 22.1 million in 2019 and KM 49.7 million in 2020) as a consequence of lower import and consumption growth. Slower growth in imports would have a negative impact on customs revenues, and slowdown in spending would affect excise and road revenues.

Graph 10: Sensitivity of revenues from indirect taxes



Comparison with the previous program

The execution of revenue collection in 2016 was KM 69 million, i.e. 1.3% higher than projections presented in the previous programme (Table 2). The biggest difference is in VAT revenues resulting from the strong 13.1% growth of import VAT in December 2016 (Table 3).

Table 12: Differences in comparison with projections from the previous programme

Document	Time of preparation of projection	Projection* of indirect taxes (in KM million)				
		2016	2017	2018	2019	2020
ERP 2017	October 2016	5,461.8	5,640.6	5,842.4	6,064.3	n/a
ERP 2018	October 2017	5,530.7	5,812.0	6,002.7	6,210.6	6,465.7
Correction (in %)		1.3%	3.0%	2.7%	2.4%	n/a

* Clear fields imply real collection of revenues

Table 13: Differences in types of revenues in comparison with the previous programme

(in KM million)	2016	2017	2018	2019
Total correction	69.0	171.4	160.4	146.2
VAT	48.2	101.1	101.4	99.3
Excise duties	0.1	27.6	18.6	10.8
Custom duties	5.3	15.8	16.0	15.0
Road toll	3.6	15.1	12.5	9.4
Other	11.8	11.8	11.8	11.8

* Clear fields imply real collection of revenues

The differences in revenue projections for 2017, 2018 and 2019 relative to the previous period are 3%, 2.7% and 2.4% respectively, which is a result of current trends from 2017 and differences in macroeconomic projections. Current trends in 2017 had a great impact on corrections of VAT revenue projections, due to an unexpectedly high growth of import VAT for the duration of 2017, as well as road tolls, due to the effects of tax base expansion (increase in diesel fuel consumption and decrease of fuel oil consumption). The unexpectedly high growth of imports has also lead to a strong growth of revenues from customs. The positive difference in revenues from excise duties is the result of positive current trends in the collection of excise

duties on tobacco products in the second and third quarter of 2017, and increased revenues from excise duties on beer, alcohol, alcoholic and non-alcoholic beverages. Positive differences in the collection of revenues from customs in 2017 relative to the previous programme are the result of more favourable current trends in 2017, even in comparison to upwards adjusted imports projections (DEP, November 2017), and in the next three years, of the effect of increased base from 2017.

Federation of BiH – Factors that influence the planned revenue levels can be observed from two angles – as unplanned risks influencing execution of the plan developed in accordance with implementation of current tax policies, or from another aspect as the effect of implementing planned and proposed measures of structural reforms on the current revenue plan. The medium-term plan of public revenues in the Federation of BiH is closely related to expected trends of macroeconomic indicators, i.e. to movements of economic growth in Bosnia and Herzegovina, that is, in the Federation of BiH.

Considering the fact that revenues from indirect taxes on the Single Account, as already stated, make up the largest share of the total plan of public revenues, the collection level will depend on the quality of coordination between all users of the revenues, institutions of Bosnia and Herzegovina, the entities and Brčko District of BiH on the one hand, and all users of revenues from indirect taxes within the Federation of BiH on the other, with special emphasis on continuation of coefficient adjustments for the distribution of these revenues to users. The lack of stable coefficients, changes in the level of debt, amendments to tax policies, tax system administration, etc. pose a significant risk to the realisation of medium-term revenue forecasts. As mentioned earlier in the text, the medium-term plan of available revenues from indirect taxes to users in the Federation of BiH was developed in accordance with the current system of distribution of these revenues.

The impact of changes to the current system of revenue distribution in the Federation of BiH, which was proposed as a measure in the area of structural reform of public finance administration, is neutral in terms of the consolidated fiscal capacity of all users of public revenues in the Federation of BiH. On the other hand, the individual effect of implementing the measure on the Budget of the Federation of BiH, budgets of lower levels of government and other users will be known after taking into account all developed proposals for amendments to the Law on Allocation of Public Revenues, and reaching a consensus on the selected model. The projection of revenues from the collection of income taxes, and revenues from contributions to extra-budgetary funds, as already mentioned in one of the preceding chapters, also did not include the effects of the new Law on Income Tax and Law on Contributions, whose adoption is planned for 2018 (see Chapter 4). The main risks for the realisation of structural measures for redistributing the tax burden, either political or economic, can reflect either positively or negatively on public finance. Negative political risks are, first and foremost, reflected in the likelihood of adoption of the laws by the Parliament of FBiH, which will represent a turning point for implementing the proposed structural measures. On the other hand, economic factors can be positive, because they will contribute to increasing employment, under the assumption that the cost of labour will go down, which will affect an increase in budget revenues, that can then be directed towards capital investment.

It should also be considered that the revenue plan for the 2018-2020 period was developed under the assumption that there will be no transfer of competences from the cantonal level to the Federation of BiH, or from the FBiH or cantonal level to the state level during this medium-term period. Apart from the above, the realisation of the medium-term plan of total revenues in the Federation of BiH can have a different outcome in case there is a significant slowdown of

economic growth relative to the estimates made in the development of the plan of movements of macroeconomic indicators, as well as other unplanned events such as natural disasters. Also, in terms of the level of revenues from dividends, business performance, along with potential changes of the ownership structure of enterprises with majority state ownership can have a significant impact on the total level of revenues.

Republika Srpska – The main risks for the realisation of fiscal projections can include: Divergences of macroeconomic indicators from the projected values, considering the close correlation of these projections and revenue projections; Changes of the taxation policy in the area of direct taxes, contributions and non-tax revenues; Potential changes of the taxation policy in the area of excise tax products and road tolls; Significant divergences in development of the coefficient of distribution of indirect taxes revenues between Republika Srpska and FBiH in view of the estimated level; Unexpected fluctuations on the international foreign currency market through changes in servicing foreign debt; Improvement of tax discipline; Other developments (natural disasters, etc.).

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 2018-2020 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 2018, 2019 and 2020. 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 Indirect Taxation Authority 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 regulations. 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 2018-2020 period and ERP RS for the 2017-2019 period, it is evident that the realised revenues and expenditures in 2016 are below projections, resulting in a surplus increase of KM 5.1 million in relation to the surplus planned in the previous Programme. Compared to projections of the last year Programme, updated projections for 2017 in this programme have increased in terms of revenues, and decreased in terms of expenditures. The changes resulted in reducing the general government deficit by KM 50.5 million relative to last year Programme. The updated projections for 2018 and 2019 decreased the planned surplus by KM 117.3 million and KM 23 million annually. In 2018 there is an increase of planned revenues, and a significant increase in planned expenditures, whereas revenues slightly decrease and expenditures slightly increase in 2019. It should be taken into account that projections for the future period are 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. For that reason, significant changes can occur in expenditure projections in phases of budget adoption and realisation. The differences in the structure of revenues and expenditures in this year's ERP compared to the last year's document are largely the result of the application of a new chart of accounts, which reflected on the classification by types of revenues and expenditures shown in the table, as well as changes in planning of budget frameworks.

3.7. Fiscal governance and budgetary frameworks

Institutions of BiH – The budget framework of the Institutions of Bosnia and Herzegovina is prescribed by the Fiscal Council of Bosnia and Herzegovina through adoption of the Global Framework of Fiscal Balance and Policies in Bosnia and Herzegovina. The fiscal framework contains macroeconomic projections of the Directorate for Economic Planning and projections of revenues from indirect taxes based on those projections, developed by the Macroeconomic Analysis Unit of the Indirect Taxation Authority Governing Board. Based on parameters contained in the Global Framework, the Framework Budget Document of the Institutions of BiH for the following three-year period is developed and adopted, along with the budget for next year. The financial operations of the institutions of BiH are audited by the Audit Office for the Institutions of BiH.

In December 2016, the Strategy for the Development of Internal Financial Control System in the Institutions of Bosnia and Herzegovina for the Period 2016-2018 (hereinafter: Strategy) was adopted. The Strategy embodies the commitment of the institutions of BiH to further development of the PIFC system, internal auditing and internal financial control, which should result in the integration of these processes into the administration processes in institutions of BiH. This integration should lead to visible contributions of these systems to ensuring accountability of heads of institutions, and achieving more legality and regularity of budget spending and achieving goals for which budget funds are allocated.

Federation of BiH – Efficient management of public finance is the basis for sustainable economic development and contributes to the macroeconomic stability of a country. Although a lot of effort has gone into public finance reform in the Federation of BiH, the order and harmonisation of implementation of reform activities were not appropriate, which has led to uneven progress in some of the key areas of public finance management at all levels of government in the Federation of BiH. For these reasons, there is a need to prepare a comprehensive Public Finance Management Reform Strategy in the Federation of BiH.

In its 106th session held on 15 June 2017, the Government of the Federation of BiH adopted the Public Finance Management Reform Strategy in the Federation of BiH 2018 - 2020. The goal of the Public Finance Management Reform Strategy in the Federation of BiH is to provide a comprehensive and integrated framework for planning, coordination, implementation and progress monitoring in the implementation of activities of public finance management in order to increase macroeconomic stability, ensure efficient and purposeful distribution and use of public resources, and thus facilitate accomplishment of the strategic goals set by the Government.

The goal is also to enhance the quality of services provided by the public administration of the Federation of BiH, while at the same time increasing transparency and functionality of public finance management and meeting the conditions required to access the European Union.

Republika Srpska – Further improvement of public finance management in Republika Srpska represents the top priority of the Government of Republika Srpska. Establishment of all-encompassing and adequately organised public finance represents a precondition for successful processes of reforms and further development of all sectors of society. 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, improve the process of planning public spending, budget execution, development of the system of internal financial control, and the system of internal audit, financial reporting and accounting.

The aim of improving the process 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.

Through the Reform Agenda and its accompanying Action Plan, as well as the Economic Reform Programme of Republika Srpska and now the letter of intent with the IMF, the Government of Republika Srpska clearly defined three key reform areas: Stable Economic Growth, which is based on recovery of the economy and enhancing the business environment and competitiveness; Fiscal Sustainability, which is based on fiscal consolidation and public sector reform; and Social Security; all of which are supported by reforms in the areas of Rule of Law and European Integration.

The Law on Fiscal Responsibility of Republika Srpska (Official Gazette of Republika Srpska, 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. Implementation of the Law on Fiscal Responsibility of Republika Srpska, through the Fiscal Council of Republika Srpska which was established in July 2017, will significantly contribute to increasing fiscal responsibility and discipline in public spending in the entire budget system of Republika Srpska. The Debt Management Strategy of Republika Srpska for the 2017-2020 period defines the main goal of debt management in Republika Srpska, goals of borrowing, strategy for achieving the set goals, tasks of the Ministry of Finance of RS, and identified indicators with the aim of achieving a debt structure with an acceptable level of cost and risk.

Through adoption of the Strategy for Public Finance Management of Republika Srpska, which will be completed after implementation of all measures envisaged by the Reform Agenda of BiH, the directions of reform in the area of public finance will be clearly defined, while the system for enhancing fiscal responsibility and long-term fiscal stability of Republika Srpska will be rounded.

3.8. Sustainability of public finances

Institutions of BiH

In December 2016, the Council of Ministers of BiH adopted the Strategy of Public Finance Management Reform in Institutions of Bosnia and Herzegovina 2017 - 2020, which has been published on the website of the Ministry of Finance and Treasury of Bosnia and Herzegovina (www.mft.gov.ba).

Reform measures presented in the Strategy of Public Finance Management Reform in Institutions of BiH 2017 – 2020 are based on the 2014 Public Expenditure and Financial Accountability Assessment (PEFA), European Commission Progress Report on Bosnia and Herzegovina for 2015, the SIGMA/OECD Baseline Measurement Report: The Principles of Public Administration for Bosnia and Herzegovina from April 2015, and Progress Report from May 2016, IMF Country Report from October 2015, as well as the Reform Agenda of BiH 2015 – 2018. The measures contained in the Strategy cover all subsystems of public finance management and focus on capacity building in institutions of BiH in order to achieve greater functionality, transparency, accountability and efficiency in public finance management and contribute to increasing macroeconomic stability in BiH.

In April 2016, the Council of Ministers of BiH adopted the Medium-Term Debt Management Strategy of Bosnia and Herzegovina 2015-2018, which presents debt structure, estimates the state of debt and defines medium-term goals of debt management, as well as guidelines for accomplishment of set goals. The Medium-Term Debt Management Strategy of BiH (MTDS BiH) comprises a consolidation of medium-term debt management strategies of Republika Srpska (RS), the Federation of BiH (FBiH) and Brčko District of BiH, including the external debt of the institutions of BiH. With the goal of increasing the quality of debt management in BiH and the need for annual revisions and updates the MTDS BiH, in May 2017 the Council of Ministers of BiH also adopted the Medium-Term Debt Management Strategy of Bosnia and Herzegovina 2016 – 2019.

Federation of BiH

The Strategy covers a broad area and includes the key areas of public finance management, divided across six pillars:

1. Sustainable medium-term macro fiscal and budgetary framework;
2. Mobilisation of revenues;
3. Budget planning and development;
4. Efficient and effective budget execution;
5. Introduction of efficient internal control; and
6. Ensuring external control over public finances by external auditing.

Expected results are defined under each of the pillars, accompanied by a detailed presentation of one or more measures, activities under each measure, performance indicators, deadlines, sources of funding and authorities responsible for implementing each activity. Measures to be implemented are based on previously mentioned analyses of SIGMA, IMF, Progress Reports on Public Administration Reform in BiH, the Letter of Intent to the IMF, all in line with commitments of the Government of FBiH defined in the Reform Agenda.

Some of the most important activities are: broadening the scope of projections by adding projections of consolidated expenditures of all levels of government, development and adoption of laws in the area of taxation, building capacities for development of macro projections and projections of revenues and expenditures, improving the existing and implementation of new information systems, implementation of programme-based budgeting at the level of the Federation of BiH and in all ten Cantons with the goal of improving the effects of public finance spending, adoption and implementation of International Accounting Standards for the public sector, capacity building and strengthening of the budget control unit, ensuring functional, operational and financial independence of the Audit Office, etc.

Republika Srpska

Republika Srpska is implementing reforms with the goal of ensuring long-term sustainability of the public finance system. One of the most important reforms that started implementation in September 2015, with technical support from the World Bank, is the health sector reform.

In accordance with the Reform Agenda, the Investment-Development Bank of RS made a list of companies to which the Law on Public Companies (Official Gazette of Republika Srpska, 75/04 and 78/11) applies, which it delivered to the competent ministries in order for them to make a list of sustainable and unsustainable public companies from their areas of authority, in line with the RS Action Plan for Reform Agenda Implementation. The list is then to be delivered to the IDB RS so it can make a joint list to be submitted to the Government of Republika Srpska for adoption.

The introduction of tighter prudential requirements for banking operations and the organization of the bank restructuring process was carried out by adopting the Law on Banks of Republika Srpska (Official Gazette of Republika Srpska, 4/17) and the Law on Amendments to the Law on the Banking Agency of Republika Srpska (Official Gazette of Republika Srpska, 4/17), which are significantly aligned with the EU directives, and which introduced tighter prudential requirements for banking operations and regulated the bank restructuring process, as well as extended jurisdiction of the Banking Agency of Republika Srpska to include bank restructuring and improved internal management and decision-making processes. These legal solutions should contribute, among other things, to a significant decline in low-quality loans, which represent one of the key risks of the banking sector.

In 2016, the Law on Amendments to the Law on Tax Procedure of Republika Srpska was adopted within the framework of conducting reforms of the economic system of Republika Srpska and decreasing the scope of gray economy in Republika Srpska.

Reform of public administration in RS will continue in the future period through implementation of a series of projects, and adoption of new legislation aimed at increasing administration efficiency and transparency and professionalism of employees. Adoption of the Law on Employee Register is planned for 2017. The Register will contain data on all employees of bodies and organisations that are budget users, which will help improve control over the number of employees and amount of funds for employees' salaries.

The Strategy of Local Self-Government Development in Republika Srpska 2017 – 2021 (Official Gazette of Republika Srpska, 73/17) defines the strategic directions of local self-government development, and it represents a basis for continued local self-government system reform.

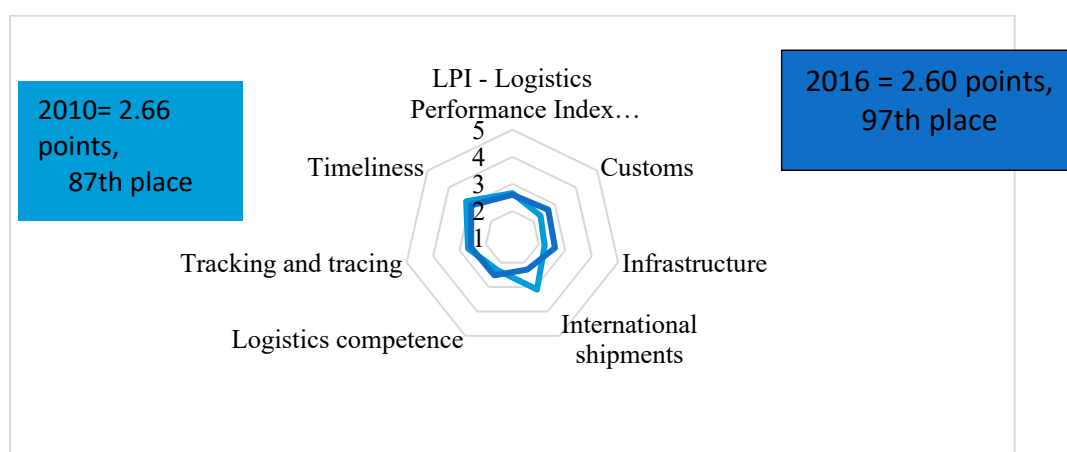
4. STRUCTURAL REFORM PRIORITIES IN 2018-2020

4.1. Identification of key obstacles to competitiveness and inclusive growth

The key requirements for the development of competitiveness are stable economic growth and a balanced current and trade account, in order to reduce fluctuations in the international capital market. Namely, in the past, other countries from the region went through several stages of accelerated economic growth, which was mostly supported by external financing, which inevitably lead to increasing external debt. This is clearly seen by comparing the per capita GDP measured at PPP, which is the main instrument for measuring wealth, i.e. the standard of living. Currently, the standard of living in countries of the region is far below the EU28 average, and ranges from 30% in BiH and Albania to 60% in Croatia. The standard of living of BiH citizens increased by 5 percentage points over the last five years relative to the European average, which is not considered a satisfactory result. In order to improve the standard of living of citizens and join countries of the EU, in the future period it is necessary for BiH to achieve sustainable economic growth at rates of around 5%. It should be emphasized that BiH has, over the past ten years, succeeded in partially improving the production basis, which is supported by the 2.2 percentage point increase in its share in the GDP structure. During the observed period, the annual export growth rate of BiH was around 10%, which lead to the doubling of the nominal amount of export from around KM 5 billion to almost KM 10 billion, whereas its share in the GDP increased from around 25% in 2010 to over 35% at the end of 2016.

The Logistics Performance Index, which is published by the World Bank biannually, is a good indicator of external trade integration with the world. The Index comprises six core pillars (customs, infrastructure, transport, logistics competence, tracking and tracing, and timeliness), based on which the LPI index is calculated, and each country is ranked within the framework of external trade. Among countries of the region, Croatia and Slovenia are ranked best at around 50th place, however, it is important to consider that they are EU member countries. On the other hand, when it comes to other Western Balkans countries, Serbia and BiH are ranked better than the rest, in 76th and 97th place respectively. It should be emphasized that Serbia moved up by almost 30 positions in comparison with 2007, while BiH moved slightly down.

Graph 11: Comparative view of the structure of LPI - Logistics Performance Index for Bosnia and Herzegovina by areas in 2010 and 2016



Source: World Bank (Logistics Performance Index Report 2016)

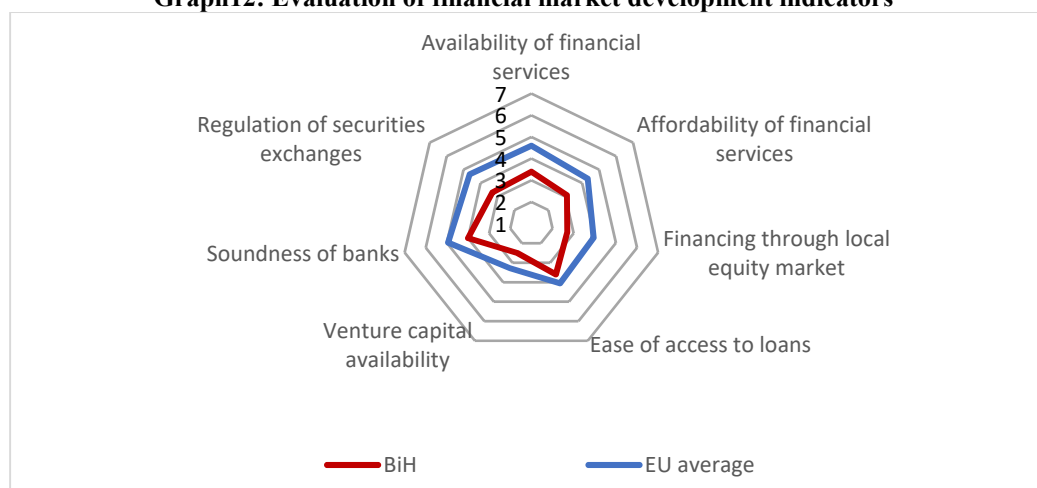
One of the factors that largely contributed to BiH lagging behind in terms of the standard of living is the relatively low salary level as the result of its low position in the international division of labour. This is confirmed by the fact that export-oriented companies in BiH, in the

global added value chain, often get the jobs of cheap finishing or processing (so-called *lohn production*), which generally require cheap workforce. In order to bring the BiH standard of living closer to the standard of European Union countries it is necessary to attract more foreign investment in the first place, i.e. to facilitate the arrival and operation of foreign companies by reducing the bureaucratic procedure and stimulating foreign investment. Apart from that, for improving the standard of living it is necessary to ensure more jobs, increase workforce productivity, reform the education system, include different professional training and retraining programmes and professional development. All listed programmes should be accompanied by adequate reforms of the labour market and harmonisation of the education system with the needs of the market.

The current account deficit of BiH in 2016 was negative, just like in several previous years, and stood at -5% of the GDP. This should not be an issue, provided that the state can finance its current account deficit without any problem, which BiH successfully managed in previous years. In other countries of the region, it is foreign direct investment that funds a significant portion of the current account deficit. In BiH, foreign direct investment finances around 32% of the current account deficit, whereas, for example, in Serbia the deficit is fully financed by foreign direct investment. If we observe the structure of financing of the deficit of BiH over the last few years (the situation was the same in 2016), we can see that the deficit was financed by withdrawing BiH foreign assets from abroad (BiH investments abroad), capital transfers, creating foreign liabilities (external borrowing, trade credits, other liabilities to non-residents and through already mentioned FDI).

A very important aspect of the business of an enterprise is **access to financial resources**. The variety and price of financial resources depends on the degree of development of the economy and its financial system. According to the latest World Economic Forum report, Bosnia and Herzegovina is ranked 104th out of 137 countries in terms of the development of the financial market. According to the same indicators, BiH is rated below the average of EU28 countries. However, in comparison with individual EU countries from the region as well as with neighbouring Serbia, the general conclusion is that the financial market is developing similarly to the region.

Graph12: Evaluation of financial market development indicators⁴⁶



Source: World Economic Forum.

For many years now, both BiH Stock Exchanges mostly trade in debt securities. In 2016, turnover of debt securities amounted to 79.8% of total turnover, and this instrument of financing

⁴⁶ The marks in the graph represent a weighted average for the 2016-2017 period. Mark 1 indicates that companies have difficulties accessing financial resources, financial services are expensive, difficult to finance through the domestic capital market and access to loans is difficult. Mark 7 indicates the best performance by indicators. Source: World Economic Forum.

was largely used by the public sector. Enterprises in BiH are currently funded either from internal sources of financing or from bank loans. In spite of the fact that banks are the biggest creditors of the economy in BiH, they also mobilize most of the surplus of financial resources. Thus, deposits in 2016 amounted to KM 17.8 billion, or 57.5% of the GDP. Of this amount, 60.1% refers to household deposits, 22.6% to non-financial corporations' deposits, 9.6% to general government deposits, and 7.7% to other deposits. This is another indicator of the underdevelopment of other financial institutions and their products, as surpluses of funds are largely kept in bank accounts.

Bosnia and Herzegovina has a fixed **foreign exchange rate** against the euro, and monetary policy is based on the provisions of the currency board. However, the disadvantages of a fixed foreign exchange rate become apparent in times of economic crises, as was the last financial crisis. In the case of a fixed exchange rate, monetary authorities do not have the option of correcting foreign exchange rates to influence foreign trade and reduce the pressure on foreign currency reserves and mitigate the negative consequences on the economy. Even in times when there are no economic crises, the country has no opportunity to make its own export more attractive by manipulating the foreign exchange rate. In the analysis of competitiveness in terms of **attracting FDI**, BiH's position in relation to countries in the region and EU countries is shown. In order to understand the events of 2016 (according to UNCTAD), it is interesting to note that FDI flows to European countries recorded a decline of 29% y-o-y, while countries in transition experienced an increase in investments of as much as 38% y-o-y. The growth also reflected on countries of the region, almost all of which recorded an increase of FDI, whereas BiH recorded a downward trend in investment over the past three years. One of the determining factors of deciding where to invest is credit rating. The credit rating of every country is assessed based on political and economic indicators. Therefore, credit rating falls to the assessment of following indicators: political risk, income and economic structure, economic growth perspective, fiscal flexibility, external and contingent liabilities, monetary flexibility, external liquidity, external debt liability.

BiH signed contracts with two credit rating agencies (Standard & Poor's and Moody's). In September 2017, Standard & Poor's affirmed sovereign credit rating on Bosnia and Herzegovina at „B with stable outlook", whereas Moody's rated BiH as “B3” with stable outlook.

Table 1: Credit rating of BiH and countries in the region (September 2017)

Country	S&P	S&P	Moody's	Moody's
Czech R.	AA-	Stable	A1	Stable
Croatia	BB	Stable	Ba2	Stable
Serbia	BB-	Positive	Ba3	Stable
Albania	B+	Stable	B1	Stable
FYR Macedonia	BB-	Stable	n/a	n/a
BiH	B	Stable	B3	Stable

Source: CBBH, S&P, Moody's

Commitment to the new reform programme of the EU (Reform Agenda), which includes six priority 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), coupled with reform and improvement of several parameters (such as the legislation and its enforcement, more efficient fight against corruption) could make BiH much more attractive in the future.

A country's economy and its position in terms of competitiveness primarily depends on the **quality of human resources**. If we observe the labour market parameters from the aspect of the level of education qualifications, it becomes apparent that the structure of the population with work ability is dominated by persons with secondary and vocational education qualifications with the share of 52.6%, followed by the category of persons with primary education qualifications or less with the share of 37.9%, and the smallest share comprises persons with post-secondary, higher or advanced education qualifications with 9.5%. By analysing the labour market in terms of education qualifications levels, it is evident that the rate of activity and the rate of employment is directly proportional to the level of education, that is, the higher the education level, the higher the activity on the labour market, which leads to a greater probability of finding a job. If we observe the unemployment rate, it is lowest among persons with post-secondary, higher and advanced education qualifications (15.4%), but it is still three times higher than the unemployment rate in EU (28) for the same category, which is 5.1%.⁴⁷ The highest unemployment rate of 22.3% is among the population with secondary and vocational education qualifications, whereas the EU 28 average for the same category is 7.8%. BiH has the strategic documents in place aimed at increasing the quality of the education system and gradually adjusting to the European education system, which should contribute to better links between the education sector and labour market.

Efficiency of the labour market can be evaluated by a series of factors, and **labour productivity** is one of the most important indicators that contributes to the competitiveness of every country. The BiH Agency for Statistics does not produce labour productivity data. Consequently, the approximate indicator in labour productivity analysis is the ratio of gross domestic product and total number of employed persons in BiH.⁴⁸ Although the GDP per employee level in BiH in 2016 increased relative to the previous year, it is still well below the EU 28 average. Based on analysed data BiH has only just reached 1/3 of the EU average. The real growth of labour productivity in EU 28 in 2016 was 0.7% y-o-y, whereas productivity in BiH increased by 1.2%, considering the fact that real GDP growth is faster than the growth of the number of employed persons. In competitiveness observations, labour cost trends must also be taken into account in addition to labour productivity.⁴⁹ Although the BiH Agency for Statistics does not produce annual data on unit labour cost,⁵⁰ if we observe gross wage trends (as one of the largest factors of labour cost), we see that the real gross wage growth in 2016 was higher than the real growth rate of productivity, due to deflation.

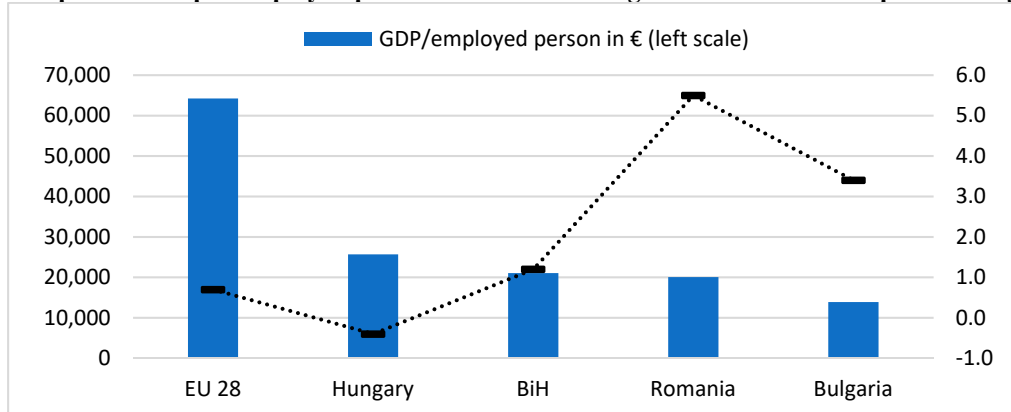
⁴⁷ Source: Eurostat

⁴⁸ Labour productivity can be measured by the gross domestic product (GDP), expressed in terms of purchasing power standards (PPS), or in relation to the number of employees or in relation to the number of working hours. In both cases, it is expressed as an index. Data on employees and the total number of employees are presented in line with the domestic concept used in national accounts. Source: Eurostat.

⁴⁹ Labour costs include direct and indirect costs. Direct costs are: gross earnings and cash payments of salary (dominant item), direct allowances and bonuses, earnings and salaries in kind (company products, housing, company cars, vouchers for meals, nurseries, etc.). Indirect costs are: social security contributions of employers, training costs, employment costs and working clothes to be paid by the employer, taxes paid by the employer less subsidies. Source: Eurostat.

⁵⁰ The BiH Agency for Statistics published the 2012 Labour Cost Survey in 2014. It was carried out in line with EU recommendations and regulations and EUROSTAT's methodological guidelines. The survey was carried out over a period of four years. Data for 2016 was not available at the time this report on competitiveness was developed, and are therefore not included in the analysis.

Graph13: GDP per employed person in 2016 and real growth rate of labour productivity

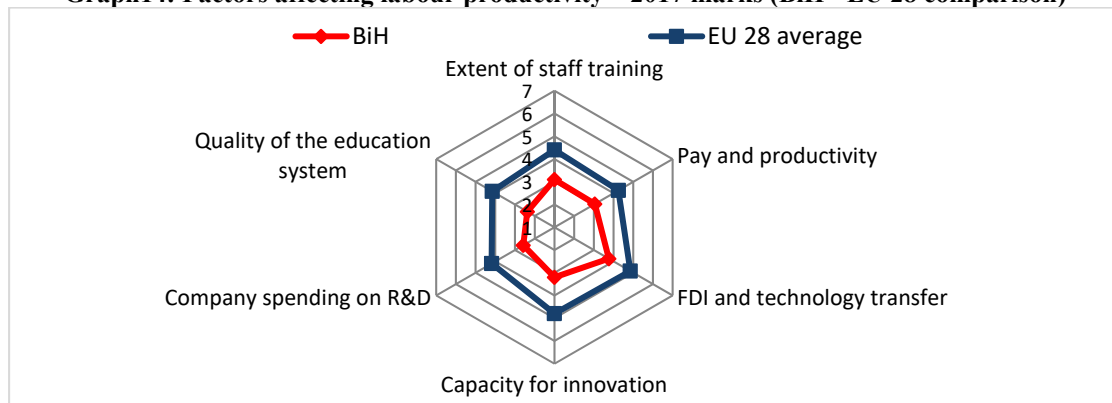


Source: EUROSTAT, BHAS, DEP calculations

As a result, labour costs in 2016 were increased, which is particularly pronounced in the processing industry. The poor correlation between wages and productivity is also confirmed by the World Economic Forum (WEF) Global Competitiveness Report 2017-2018, in which Bosnia and Herzegovina is unenviably ranked 127th. For comparison purposes, the worst ranked EU country (Italy) is ranked 125th.

The reasons for low productivity in BiH are manifold. Labour productivity is mostly determined by the level of technological development, innovation and investment in human capital. A balanced combination of each of these factors, accompanied by appropriate economic reforms/policies, determines how fast productivity will be increased. Outdated technology and level of innovation have contributed to the low level of productivity. Bosnia and Herzegovina not only shows poor results when it comes to certain factors affecting the growth of labour productivity, but is also far below the EU 28 average.

Graph14: Factors affecting labour productivity – 2017 marks (BiH - EU 28 comparison)



Source: Global Competitiveness Report 2017-2018, DEP calculations

Investment into human capital is an equally important contribution to labour productivity as is investment into new technologies. Long-term increase of labour productivity cannot be achieved without well-planned and implemented structural reforms. This means that economic policies and measures should include long-term plans for innovation, investment into research and development, and human capital, which was not the primary goal in previous years.

The competitiveness of every economy, including that of BiH, is also influenced by the **fiscal system**, i.e. fiscal policy. Fiscal policy is also very important for attracting new investors and investment because it influences the regulation of the business environment. By attracting new investment, fiscal policy also impacts the increase of employment. However, BiH is characterised by a high fiscal burden which reduces economic competitiveness. Fiscal burden is the ratio of consolidated mandatory fiscal taxes and the GDP. Revenues from taxation of

consumption (indirect taxes) in 2016 accounted for around 18% of the GDP, while revenues from labour taxation (direct taxes and contributions) accounted for 21.4% of the GDP. This indicates that labour taxation (earnings and profits) has a greater share in financing public spending than taxation of consumption. In terms of the VAT rate, BiH has the lowest rate which does not significantly deviate relative to the average of selected countries. With regard to the profit tax rate, BiH's 10% rate is also close to the average. The situation is similar when it comes to the income tax rate, where Croatia and Slovenia have differentiated income tax rates. From the standpoint of the overall contributions rate, BiH is at a disadvantage compared to other countries. In BiH, this area is regulated by entity laws, meaning that it is related to tax administrations of the entities. Consequently, there are different burdens and regulations at entity level. What is common is that taxation is gross-based (i.e. the basis for taxation is the gross salary). The main difference is that in FBiH one part of the contributions is the employer's burden, and another part of the contribution is the employee's burden, while in RS the entire tax burden is borne by the employees.

Also, fiscal policy has an important place in attracting new investors and investment through the impact on the regulation of the business environment. The tax burden on the private sector and the (employed) population, coupled with a reduction in the share of public expenditure in GDP (both current and total), clearly points to the stagnation of public spending, which certainly stimulates growth and development of the private sector (the economy sector). Modest growth of total public revenues, with a reduction in their share in the GDP, has a disincentive effect on overall economic activity, i.e. its growth. However, it is encouraging that all levels of government in BiH are committed and working to reduce public spending, i.e. its share in the GDP. Apart from labour taxation, an additional problem for companies in BiH lies in non-tax revenues (parafiscal charges). They comprise different types of charges, fees and membership fees that fall under the category of special charges and fees from the category of non-tax revenues that business entities must pay. Another problem in the area is BiH's complex structure, which is the cause of a such a large number of such non-tax revenues. The share of non-tax revenues in total revenues has been decreasing over the past two years, amounting to 12.8% at the end of 2016 (which is a decrease of almost 1 percentage point relative to 2015, and a 2.2 percentage point decrease relative to 2014). The share of these revenues in the GDP is slightly over 5% (5.3% of the GDP in 2016).

Priority measures in the coming period should be focused on:

- ✓ Improving the quality of public finances;
- ✓ Reducing the fiscal burden on labour;
- ✓ Improving the efficiency of public administration and local self-government;
- ✓ Tackling the issues of the lack of single economic space by harmonizing and coordinating industrial policies and policies for SMEs;
- ✓ Additional building of communication infrastructure;
- ✓ Improving the transport infrastructure;
- ✓ Improving links between the real sector and the scientific and research community, and addressing the mismatch between study programmes, enrolment policies and the real sector needs;
- ✓ Enhancing the level and quality of scientific productivity;
- ✓ Regulating prudential requirements of the banking operations and unregulated bank resolution process;
- ✓ Increasing the competitiveness of BiH by further promotion, improvement and development of tourism;
- ✓ Enhancing the technological level and productivity of agricultural production and enabling the use of grants from the EU pre-accession funds;

- ✓ Improving policies in the area of preschool education, secondary vocational education and lifelong learning;
- ✓ Improving the educational structure of the labour force;
- ✓ Improving links between the education system and the labour market;
- ✓ Ensuring quality, harmonised and timely official statistics for all users;
- ✓ Adopting the missing strategic documents in sectors of transport, energy and environmental protection;
- ✓ Providing additional sources of financing in the health sector;
- ✓ Improving the systems of pension and disability insurance and social protection.

4.2. Summary of reform priorities

I Public finance management:

1. Strengthening public finance management
2. Reducing the burden on labour
3. Health sector reform

II Energy and transport market reform:

4. Transport market reform
5. Increasing energy efficiency and use of renewable energy sources

III Sectoral development:

6. Improving agriculture, forestry and water management
7. Introducing tighter prudential requirements of the banking operations and regulating the bank restructuring procedure
8. Environment – Conserving, protecting and improving environmental quality

IV Business environment and reduction of the informal economy:

9. Improving the business environment and reducing the informal economy

V Research, development and innovation and digital economy:

10. Establishing a more efficient management system of scientific research and innovation potential in the Republika Srpska

VI Trade-related reforms:

11. Trade liberalisation

VII Education and skills:

12. Improving links between education and labour market

VIII Employment and labour markets:

13. Improving the labour market efficiency

IX Social inclusion, poverty reduction and equal opportunities

14. Improving population health
15. Establishing an efficient, financially sound and sustainable system of pension and disability insurance in FBiH
16. Improving the functioning of the social protection system in FBiH

4.3. Analysis by area and structural reform priorities

4.3.1. Public finance management (PFM)

As key obstacles to growth and competitiveness in the area of public finance management the Council of Ministers of Bosnia and Herzegovina has defined the following: the need for fiscal consolidation, strengthening of fiscal responsibility, fiscal burden on labour, a large number of non-tax charges, financing of the health sector.

Fiscal consolidation is necessary at all levels of government in BiH so as to contribute to long-term fiscal sustainability. The outcome of fiscal consolidation would contribute to stabilisation of public spending (narrowing the deficit, reducing the level of public debt) as well as to creating a fiscal space to increase capital spending. The deficit of the consolidated BiH, as a share of GDP at the end of 2016 stood at 1.2%, while the total public debt of BiH amounted to 42.5% of GDP. Strengthening fiscal responsibility brings greater fiscal discipline and better control of public funds spending. Entity governments have identified the problem of high fiscal burden on labour through inappropriate tax policy and a large number of mandatory (non-tax) payments for taxpayers as an obstacle to creating a more competitive business environment. Both Entities have identified the health sector problems too: the financing problem and large accumulated arrears.

The share of total FBiH public expenditure in GDP (consolidated budget data at all levels of government increased by funds) is 38.3%. 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 2012 – 2016, the highest allocations were in 2012 (9.4%), while in 2016 allocations for salaries and benefits stood at the level of 8.5% of GDP.

Income tax and social contributions in FBiH are still calculated in a way that the tax base does not include the benefits under the collective agreement. Given that this method of calculation is not aligned with the practice in the OECD and EU countries, the procedures for amending and supplementing of legislation have been launched with a view of harmonisation.

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 in BiH. 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.

One of the key objectives of the Government of the Republika Srpska from the beginning of its mandate is to reduce the tax burden on labour, working together with the International Monetary Fund and all levels of government in BiH. Since all the projections suggest that, for the purpose of implementing the structural reforms, it is necessary to provide for corrections of other tax levies in order to achieve neutral effect on public revenues, and given that it is not possible to reach consensus in BiH, which is necessary since indirect taxes are at the level of BiH, the Government of the Republika Srpska will, together with the business community, define the modality to allow reducing the burden on labour in the coming period through the reform of tax legislation.

Public health institutions are faced with accumulated stock of arrears over the past years. The World Bank and the Ministry of Health and Social Welfare have completed an analysis of the health sector arrears while the "pilot project" of introducing the treasury system in the primary health care sector is in the preparation phase. Financing child protection and sickness-related refunds represented significant financial burden on business entities in the previous period. In this regard, the Government, in cooperation with the business community, will define

a solution to release significant funds to economy over the next three years, which will be possible to invest and use for new jobs.

In the area of the Republika Srpska administration, the laws have been passed governing the organisation and competencies of the central administration bodies, as well as the status and remuneration of the employees in the RS administration bodies. It is necessary to improve the legal framework for the organisation and operation of state administration and employees in state administration, as well as carry out an analysis of information and recommendations in order to improve the situation in the area of administrative decision-making. A special segment of the reform is the development of the Register of employees in the total public sector, which is a basis for an analysis of the total expenditure for wages as well as savings, which needs to be completed in the coming period.

Regarding local self-governance, systemic laws have been passed that contribute to improving the efficiency of work of local self-government units. Also, by the adoption of the Strategy for development of local self-government in the Republika Srpska 2017-2021, strategic directions for development of local self-government were set through a defined vision of development and strategic objectives. Of the six strategic objectives defined, those of particular importance pertain to securing the competencies of local self-government units, the stability of financing, and the efficiency and accountability of local self-government units in the management of local development.

Progress has been made in the public investment area by the adoption of the Decree on the rules for selection, evaluation and prioritisation of public investments of the Republika Srpska. A novelty introduced in 2017 is that in its Draft Public Investment Programme 2018-2020 Republika Srpska for the first time has a Preliminary list of priority projects, aligned with the requirements of the EU and international financial institutions. In the next phase, the Government will make a Single list of priority projects from the Preliminary list of priority projects, which is a prerequisite for obtaining the EU grants. For the first time, the Ministries have ranked projects based on general and special criteria.

Comments of the business community regarding the work of inspections in Republika Srpska require that special attention be paid to this issue over the next three years. The consequence of the existing solution is uncoordinated work of inspectors from the local and the RS level, resulting in overlapping of competencies, duplication of controls, and often to a different interpretation of regulations.

Consequently, the key obstacles to growth and competitiveness in public finance management are the following: the fiscal burden on labour; a large number of non-tax charges; Health sector, which accumulates arrears; and Less than efficient public administration and local self-government.

4.3.1.1. Strengthening public finance management

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

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. The Public Finance Management Reform Strategy in the institutions of Bosnia and Herzegovina, conceptually, represents a part of and a tool for implementation of the Reform Agenda and, together with strategies of other levels of government, a framework for planning, coordination and implementation, as well as monitoring progress towards efficient use of available public resources, increased transparency and functionality of public finance management in line with the EU and international standards.

The Public Finance Management Reform Strategy in the institutions of Bosnia and Herzegovina is aimed at ensuring greater functionality, transparency, accountability and efficiency in the management of public funds and thus contributes to the increase in BiH macroeconomic stability. Taken as a whole, this strategy, as well as the public finance management reform strategies in Entities and BD, should contribute to long-term fiscal stability and improvement of the quality of public finances in Bosnia and Herzegovina. This would primarily reflect in stabilisation of public spending, deficit reduction and the creation of fiscal space to increase capital spending.

Indicators (% of GDP)	2010	2011	2012	2013	2014	2015	2016
Total revenue	37.3	40.4	41.7	42.6	41.2	40.9	42.3
Total expenditure	39.4	41.7	43.5	43.7	43.1	42.0	42.6
- of which capital	3.1	2.9	2.7	4.0	3.8	1.5	2.3
Net borrowing/lending	-2.1	-1.3	-1.9	-1.1	-1.9	-1.1	-0.3
Interest expenditure	0.5	0.6	0.6	0.8	0.7	0.8	1.0
Primary balance	-1.6	-0.7	-1.3	-0.3	-1.2	-0.3	0.7
Total debt	32.9	32.9	37.5	37.1	40.8	40.6	40.5

Source: EFP and ERP

This action is partially fulfilling the first recommendation from the last year's ERP, which reads: "Adapt public finances to the growth function; particularly to create a fiscal space for public investment by restraining public expenditure and to improve social spending targeting. Take steps to reduce public sector arrears, including social security contributions".

One of the measures agreed by all levels of government is contained in the IPA II 2017 Action Programme. The overall objective of this action is to contribute to fiscal consolidation and stabilisation. The action envisages the upgrading of the IT platform in the Indirect Taxation Authority, thereby achieving interoperability and compatibility with the EU tax and customs systems, as well as the implementation of recently introduced procedures in line with the EU systems. Providing training on further harmonisation in the indirect taxation area will result in the strengthening of the indirect taxation system in BiH and stable mobilisation of indirect tax revenues.

Activities that support stable mobilisation of indirect tax revenues as the most important revenues in BiH represent an element in the process of fiscal consolidation. The second element is the adequate and efficient distribution and spending of total public revenues on the set priority objectives and programmes through the medium-term budgeting framework and annual budget development process. To achieve this, this action will support the improvement of the budget planning and execution process by improving the medium-term policy planning process at all levels of government in BiH and aligning it with the programme budgeting process. This action will help the preparation of a legal basis for full implementation of the programme budget. Furthermore, this action will improve capacities of civil servants for policy planning and programme budgeting at all levels of government in BiH.

The total action is estimated at EUR 5.1 million and will be financed from IPA funds, of which EUR 2.5 million relates to the TA contract for programme budgeting and applies to all levels of government while EUR 2.6 million relates to the BiH Indirect Taxation Authority. The project implementation would take two years, assuming it commences in the first quarter of 2019 and will be completed at the end of 2020.

The proposed measure should contribute to fiscal stabilisation and improvement of public finances quality by creating fiscal space for capital investment. The Public Finance Management Reform Strategy in the institutions of Bosnia and Herzegovina is supported and complemented

by the Strategy for development of the internal financial control system in the 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, the BiH Anti-Corruption Strategy 2015-2019 and the BiH Medium-Term Debt Management Strategy.

Reducing the fiscal needs of the public sector

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

Reducing the fiscal needs of the public sector will be implemented through a number of measures in several areas:

- Creating a Register of employees in the public sector;
- Ensuring the efficiency of local self-government work;
- Increasing the efficiency of public investment;
- Inspection reform.

Creating a Register of employees is a measure implemented with the World Bank with the goal to establish a database of all employees financed from the budget of Republika Srpska, the budgets of local self-government units, extra budgetary funds and the health care sector. This will create the basis for the analysis of each individual job and the development of the Operational plan for reducing the total payroll expenditure. In the second phase, the Register will be extended to public companies founded by the RS, as well as to public companies whose founders are local self-government units. This way, the total public spending on wages will be much more effectively controlled.

In the area of local self-government, the objective is to establish a concept of multi-type local self-government in the forthcoming period, to improve fiscal responsibility and long-term fiscal stability of local self-government units, to increase the efficiency of local self-government units in collecting their own revenues, to improve mechanisms for creating favourable business environment, and to improve the system of planning and implementation of development documents based on development priorities.

To improve transparency in the selection of investments and spending of investment funds, the existing legal framework will be changed by introducing the obligation to create the Capital budget of the Republika Srpska. The existing budget of the Republika Srpska will be improved by displaying all funds, including donations and project accounts in funds outside the Fund 01. For the implementation of this measure, the Law on the Budget System of the Republika Srpska will be amended as well as the related by-laws.

Together with the Association of Municipalities and Cities of the Republika Srpska, reforms will be implemented in the area of inspection supervision with the aim of integrating the inspections of all levels in the Republika Srpska into the Inspectorate of the Republika Srpska.

Implementation of all previously defined measures, as well as those defined through the Reform Agenda and arrangements with international financial institutions, will require a new detailed analysis of the situation and examination of problems persisting at the time. This will be the baseline for the development of the Public Finance Management Strategy, which will in some way have the task to complete or round up the overall reforms in the area of public finance management.

Implementation by year is as follows:

- 2018: Creating a Register of employees financed from the budget of Republika Srpska, the budgets of local self-government units, extra budgetary funds and the health care sector (Ministry of Administration and Local Self-Governance of the Republika Srpska, Ministry of Finance of the Republika Srpska, Ministry of Health and Social Welfare of the Republika Srpska and the Civil Service Agency of the Republika Srpska); Analysis of each individual job from the Register (Ministry of Administration and Local Self-Governance of the Republika Srpska and Ministry of Finance of the Republika Srpska); Adopting the

Operational plan for reducing the total payroll expenditure at the Government (Ministry of Finance of the Republika Srpska); Harmonising the number of employees in the bodies of local self-government units with the criteria set by the Law on Local Self-Government and strengthening capacities of local self-government units for local development management (Ministry of Administration and Local Self-Governance of the Republika Srpska); Implementing the Action Plan of the Local Self-Government Development Strategy in the Republika Srpska 2017–2021 (Ministry of Administration and Local Self-Governance of the Republika Srpska); Amending the Law on the Budget System of the Republika Srpska (Ministry of Finance of the Republika Srpska); Analysis of the situation in the area of inspection at all government levels (Ministry of Labour, War Veterans and Disabled Persons' Protection of the Republika Srpska and the Inspectorate of the Republika Srpska); Developing and adopting the Action plan for the inspection reform in the Republika Srpska in the first half of 2018 (Ministry of Labour, War Veterans and Disabled Persons' Protection of the Republika Srpska and the Inspectorate of the Republika Srpska); Reforming the Inspectorate of the Republika Srpska and integrating the inspections of all levels in the Republika Srpska in the second half of 2018 (Ministry of Labour, War Veterans and Disabled Persons' Protection of the Republika Srpska and the Inspectorate of the Republika Srpska);

- 2019: Extending the Register to public companies founded by the RS, as well as to public companies whose founders are local self-government units (Ministry of Administration and Local Self-Governance of the Republika Srpska); Analysis of each individual job from the Register in public companies (Ministry of Administration and Local Self-Governance of the Republika Srpska and Ministry of Finance of the Republika Srpska); Adopting the Operational plan for reducing the total spending on wages in public companies (Ministry of Finance of the Republika Srpska); Implementing the Action Plan of the Local Self-Government Development Strategy in the Republika Srpska 2017–2021 (Ministry of Administration and Local Self-Governance of the Republika Srpska); Passing the Law on Civil Servants (Ministry of Administration and Local Self-Governance of the Republika Srpska); Passing the Law on Salaries of Employees in the Administration Bodies of the Republika Srpska (Ministry of Administration and Local Self-Governance of the Republika Srpska and Ministry of Finance of the Republika Srpska); Adopted by-laws and initiated procedure for the development of the Capital budget of the Republika Srpska for 2020 (Ministry of Finance of the Republika Srpska); Development and adoption of the Public Finance Management Strategy of the Republika Srpska 2020–2025 (Ministry of Finance of the Republika Srpska).
- 2020: Implementing the the Action Plan of the Local Self-Government Development Strategy in the Republika Srpska 2017–2021 (Ministry of Administration and Local Self-Governance of the Republika Srpska); Adoption of the Capital budget of the Republika Srpska for 2020 (Ministry of Finance of the Republika Srpska).

Estimated cost of the activities and the budgetary impact: Technical and financial support for the creation of the Register is provided by the World Bank, so Republika Srpska has no implementation costs. By adopting the Operational Plan and reducing total spending on wages, there will be savings achieved in the budgets of the Republika Srpska, local self-government units, extra budgetary funds and the health care institutions. By increasing the efficiency of public investments, financial effects in the budget of Republika Srpska will be visible after the implementation of measures for improving transparency in planning and the use of the public investment funds. The inspection reform should, having been consolidated, have a neutral effect on the budget.

Expected impact on growth and competitiveness: Savings achieved based on reduced spending on wages will be streamlined to capital spending, which will improve the competitiveness of the Republika Srpska's economy. Efficient and cost-effective public

administration contributes to increased competitiveness and the basis for improving the quality of public services delivered to citizens and business community. Reducing the number of controls and integrating them into one control will shorten the time spent in field controls, cut the inspection costs and, at the same time, ease the obligations of the business community in servicing the inspectors.

Social outcomes: Reducing the payroll expenditure in relation to Gross Domestic Product will be streamlined in capital investment, which will have a positive long-term impact on employment and social status of all categories of society.

Potential risks: There is a risk in the resistance of local self-government units to assume the inspection competencies as well as the resistance of heads of public companies to balancing of wages in public companies with wages in public administration and local self-government.

Improving the quality of public finances

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

For the purpose of sustainability of public debt, in addition to the relevant amendments, i.e. passing the new Law on Debt, Borrowing and Guarantees in the Federation of BiH, it is necessary to adopt the related by-laws. This would contribute to the implementation of the planned economic policy and reforms, both in terms of establishing new fiscal rules for debt, borrowing and guarantees, as well as coverage of public debt measurement that is in line with the statistical methodology of the European Union. The implementation of economic policies entails achieving three basic objectives: ensuring continued maintenance of public debt within the Maastricht criteria; introducing higher standards of control in public funds management; developing a stronger system of accountability, legitimacy and transparency in the spending of budget funds.

It is necessary to purchase software to establish a single database and enable recording debts of all levels of government in the Federation of BiH in one place, as well as to facilitate analysis of collected data for the purpose of debt management and reporting.

The adoption of the Law on Financial Management and Control (FMC) in April 2016 rounded off the legal framework for setting up the public internal financial controls /PIFC in the Federation of BiH. In the forthcoming period, it is necessary to adopt methodological documents, instructions and guidelines and, if necessary, to update the effective by-laws in order to introduce higher standards of control in public finance management and develop a stronger system of accountability, greater legality and regularity in public spending.

Likewise, it is necessary to strengthen the internal audit from the aspect of regulations and capacities. The internal audit capacities in terms of the number of employees primarily need to be strengthened in the Federation Ministry of Finance and internal audit units in cantonal ministries of finance, as well as users who manage large amounts of funds or those whose business is exposed to significant risks. The existing regulations and methodological documents in the field of internal audit need to be updated in compliance with the updated Standards for the Professional Practice of Internal Auditing.

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. For the purpose of target-oriented and results-based management, risk management in public sector organisations and strategic planning need to be developed and linked with the budget cycle through the development of programme planning.

In order to effectively implement the legal commitments, objectives and measures envisaged by the PIFC Strategy and other related strategic documents, priority should be given to staffing of the systematised positions in CHU FMF to strengthen the capacity to carry out normative, analytical and advisory activities.

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, creating prerequisites for development of target-oriented and results-based management, improving regulations and methodology of work of internal audit, capacity building of internal auditors, increasing the internal audit performance and developing the coordination role of CHU.

Activities per year:

a) Activities planned in 2018

- Passing the Law on Debt, Borrowing and Guarantees in the Federation of BiH.
- Adopting the by-laws deriving from the Law on Debt, Borrowing and Guarantees in the Federation of BiH
 - Regulation that establishes the obligation and governs the process of debt and guarantee reporting
 - Regulation pertaining to approval for borrowing and issuance of the guarantees of cantons, cities or municipalities in the Federation of BiH
 - Regulation that establishes the obligation and governs the procedure of recording debt and guarantees and reporting on them
 - Regulation providing for establishment, financing and management of the Guarantee Fund and other issues related to the Guarantee Fund

b) Activities planned in 2019

- Procurement of software to establish a single database and enable recording debts of all levels of government in the Federation of BiH in one place

c) Activities planned in 2020

Expected impact on competitiveness is more efficient public administration that leads to more competitive private sector, and better debt management that implies stability in the capital market and contributes to better competitiveness of the economy.

These activities will be carried out by FMF staff so, in addition to the regular payroll costs, in order to strengthen internal procedures and staff capacities for debt management, additional funding will be needed for staff training. Some activities will bring savings in the budget through elimination of irregularities in budget spending, while some of them (procurement of software) will require additional funds planned through various technical assistance projects (IPA fund, other donors) while the filling and maintenance of the Guarantee Fund will require, both in the budget of the Federation of BiH and budgets of cantons, cities and municipalities, planning and providing the appropriate funds in accordance with the dynamics prescribed under the by-law. The increased workload and the expected new activities after the adoption of the new Law on Debt, Borrowing and Guarantees, as well as the obligations set in the Debt Management Reform Plan, require a greater number of employees than the currently employed staff in FMF. Potential risks are of political nature and the fact that 2018 is the election year, which can slow down the reform processes.

Creating preconditions for the development of effective and target-oriented public finance system

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

The implementation of this reform measure entails the publication and full implementation of the Register of fees and taxes in the Federation of BiH. The existing system of allocation of public revenues in the Federation of BiH needs to be changed through the adoption and implementation of the new Law on Allocation of Public Revenues in the Federation of BiH and the accompanying by-laws.

A preliminary draft of the Register of fees and taxes in the Federation of BiH was completed and published. For the purpose of developing as comprehensive Register as possible,

all federal institutions, the lower level of government and representatives of business community in the Federation of BiH were informed and a deadline for submission of comments and suggestions on the content of this draft version was set, after which it was updated. The implemented activities resulted in an interactive Register of fees and taxes in the Federation of BiH, structured according to type of fees and taxes charged, the legislative framework, payers, method of payment and allocation. The Government of the Federation of Bosnia and Herzegovina has adopted the Information on the Register of fees and taxes and an interactive Register of fees and taxes charged in the Federation of Bosnia and Herzegovina by legal and natural entities, with the Instruction for its use and the form for future updating. The adopted interactive Register will be published on the website of the Federal Ministry of Finance, which will regularly update the Register based on the form filled and submitted by proponents of legislation, i.e. processors of documents, which introduce, modify and abolish fees and taxes. In the forthcoming period, consideration will be given to the possibility of converting the Register into a web application. The full implementation of the Register, expected in the coming years, will provide a detailed picture of non-tax revenues in the Federation of BiH and will serve as a basis for establishing control and oversight over non-tax revenues in the Federation of BiH. In order to establish the legislative framework at the level of the Federation of BiH with the goal to control the introduction and increase of levies, it is planned to conduct the analysis of legislation in this area in the coming period. These activities are based on the Guidelines for Economic and Fiscal Policy of the Government of the Federation of BiH for the medium term and covered by the documents of the Government of the Federation of BiH: "The Concept of Economic Development 2014-2018" and "Economic Growth and Employment" as well as the Government work programme for the term 2015-2018.

Due to the complexity of the issue of public revenue allocation, in particular the distribution of indirect tax revenues, the International Monetary Fund (IMF), which has made recommendations and suggestions, is involved in the process of preparing a new legal solution in 2016 with a focus on the need to address the issue of external debt repayment, which would increase the accountability of appropriate levels of government and the transparency of debt repayment management. Following the recommendations of the IMF, as well as initiatives of users, a technical part (proposal modelling) was implemented over the past period, a series of detailed analyses of the effects of the application of possible future solutions of vertical and horizontal system of allocation of indirect tax revenues was made and, based on this, several draft proposals of new legal solution were prepared.

Activities per year:

Activities planned in 2018

- Publication and implementation of the Register of fees and taxes in the Federation of BiH
- Analysis of performance, allocation and distribution of total public revenues in the Federation of BiH with special emphasis on the review of the fiscal capacity of each individual user

Activities planned in 2019

- Analysis of legislation in order to ensure optimum burden and to protect the integrity of tax payers
- Development of a preliminary draft of the new Law on Allocation of Public Revenues in the Federation of BiH

Activities planned in 2020

- Full implementation of an interactive Register of fees and taxes in the Federation of BiH
- Adoption of the new Law on Allocation of Public Revenues in the Federation of BiH

One of the goals of the implementation of the interactive Register of fees and taxes is to provide full transparency in terms of all fees and taxes throughout the Federation of BiH, which

should lead to increased competitiveness between local communities and, ultimately to economic growth for local communities.

The implementation of an interactive Register of fees and taxes in the Federation of BiH is carried out with the support of the US Agency for International Development (USAID), under the Fiscal Sector Reform project (FAR) based on the Memorandum of Understanding signed between the USAID and the Government of the Federation of BiH. These activities are also carried out within the framework of regular salary costs for the Ministry employees and do not require additional costs from the budget.

The impact of changes to the current system of allocation of revenues on the consolidated fiscal capacity of all users of public revenues in the Federation of BiH is neutral. On the other hand, the impact on the Budget of the Federation of BiH alone, the budgets of lower levels of government and other users will be known after reviewing all the prepared proposals for amending the Law on Allocation of Public Revenues and reaching consensus on the selected model.

Full implementation of the interactive Register of fees and taxes will improve the business environment in the Federation of BiH and thereby spur new investments, growth and employment. Potential risk is that the adoption of the new Law on Allocation of Public Revenues in the Federation of BiH directly depends on achieving a consensus on the optimal distribution system by all users, with particular emphasis on tackling the system of external debt repayment.

4.3.1.2. Reducing the burden on labour

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

Improving the tax framework

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

Improving the tax framework has several objectives:

- Reform of direct taxes to reduce the burden on labour;
- Analysis and reduction of non-tax charges;
- Reform of value added tax.

The objective of direct tax reform is to lower the tax burden and payroll contributions over the next three years to the 2008 level. Prior to this, the method of tax and contribution calculation needs to be changed so as to move from the contracted net salary to the contracted salary with the income tax, i.e. to fix the taxable income in accordance with best European practices, while the effect of these changes will be neutral. After that, the increase in income tax revenues will be streamlined in reducing the burden on labour every year, because at this moment it is not realistic to expect a reduction of burden on labour to be compensated by increasing the consumption tax. Potentially, one of the additional sources for reduction of taxes and contributions may be the introduction of dividend tax. In this regard, special attention will be paid to control of fiscal receipts, reporting workers to actual working hours, combating unregistered payments of wages and reporting the lowest salary amounts. By the adoption of the Law on the Tax System, the Register of tax and non-tax charges has been established and currently the Ministry of Finance, in cooperation with USAID, prepares subordinate legislation. In 2018, the analysis of each individual charge will be carried out and the reduction or abolition of certain charges will be proposed. The purpose of the value added tax reform is to compare the data on the invoices issued by each tax payer with the amounts and the tax payer's number through the upgrading of the software system in the BiH Indirect Taxation Authority, in order to reduce the gray economy and the control time that the inspectors spend in a business entity.

Activities per year:

- 2018: Development and adoption of subordinate legislation for the Law on the Tax System (Ministry of Finance of Republika Srpska); Amending the Law on Income Tax and the Law on Contributions with a view to negotiating salaries with income tax (responsible institution: Ministry of Finance of Republika Srpska); Analysing the possibilities and, if an agreement is reached with the business community, introduce dividend tax (Ministry of Finance of Republika Srpska, Chamber of Commerce of Republika Srpska and the Union of Employers' Associations of Republika Srpska); Partial reduction of the burden on labour (Ministry of Finance of Republika Srpska); Control of reporting workers to actual working hours, combating unregistered payments of wages and reporting the lowest salary amounts (Tax Administration of Republika Srpska); Analysis of charges from the Register of tax and non-tax charges (Ministry of Finance of Republika Srpska); Reduction or abolition of certain charges from the Register (Ministry of Finance of Republika Srpska); Amending the Law on VAT and upgrading of the software system in the BiH Indirect Taxation Authority (Initiative of the Government of Republika Srpska, Managing Board of the Indirect Taxation Authority of BiH, authorities at the level of BiH, Indirect Taxation Authority of BiH).
- 2019: Partial reduction of the burden on labour (Ministry of Finance of Republika Srpska); Application of the upgraded software system in ITA in order to reduce the gray economy (Indirect Taxation Authority of BiH).
- 2020: Partial reduction of the burden on labour (Ministry of Finance of Republika Srpska).

Estimated cost of activities and the budgetary impact: The goal is to make the budgetary impact neutral, namely, gradual reduction of the burden on labour and abolishment of non-tax charges will be done in the amounts corresponding to the increase in income tax revenues, and compensated by the possible introduction of dividend tax and additional revenue based on intensified combat with the gray economy.

Impact on growth and competitiveness: Disburdening of business entities on the basis of labour taxation will release significant funds for new investments and new employment and, at the same time, lower the costs of doing business making the business entities more competitive.

Social outcomes: Disburdening of businesses is expected to bring wage increases for workers thus improving their social and economic status.

Risks: If no consensus is reached with social partners in relation to comprehensive direct tax reforms, there is a risk that reduction of the burden on labour will not be implemented within the set deadlines and in the amounts that will ensure a significant reduction of the burden on the economy. If Tax Administration of Republika Srpska fails to improve the control mechanisms the space for reducing the burden on labour will be significantly smaller. If the competent BiH institutions fail to adopt the necessary changes to the legislation, there will be no better collection of indirect taxes and no preconditions for reducing the tax burden on labour.

Redistribution of tax burden

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

As the first step towards reducing the tax burden on labour, FBiH plans to undertake the alignment of the taxation regime with 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 new Law on Contributions, as well as adopting the Rulebook on the implementation of the Law on Personal Income Tax, instructions and other by-laws and the Rulebook on the implementation of the Law on Contributions, instructions and other by-laws.

In order to simplify the business environment, a single law on property taxation at the level of FBiH should be adopted in the forthcoming period. It is also necessary to analyse the property taxation process and prepare laws and subordinate legislation with the consent of the

lower levels of government (cantons). This reform will be achieved by the adoption of the Law on Ownership and Transfer of Property in FBIH and the adoption of the Rulebook on the implementation of the Law on Ownership and Transfer of Property in FBIH, instructions and other by-laws.

In order to prevent the emergence of a new debt, it is first of all necessary to eliminate all the reasons that have so far caused or have had an impact on the creation of debt, i.e. no payment of public revenues which requires a comprehensive change of the relevant tax legislation: tax debt management and reorganisation of the TAFBIH. This reform will be achieved by the preparation of the Report on the Analysis of the state of tax debt, the preparation of the Risk analysis of the state of tax debt and by the adoption of laws and subordinate legislation.

The adopted Public Finance Management Reform Strategy of FBIH 2017-2020 is divided into six key pillars, including the revenue mobilisation, which envisages the following measures: (1) restructuring of the tax burden, including the reduction of the tax burden on labour and property taxation; (2) other tax policy issues, including the process of the tax debt identification.

Activities per year:

a) *Activities planned in 2018*

- The Law on Personal Income Tax and the Law on Contributions (Parliament of FBIH);
- Risk analysis of the state of tax debt (Federal Ministry of Finance).

b) *Activities planned in 2019*

- Published Rulebook on the implementation of the Law on Personal Income Tax and Rulebook on the implementation of the Law on Contributions (Federal Ministry of Finance);
- Report on the Analysis of the property taxation process in FBIH (cantonal ministries of finance, Federal Ministry of Finance);
- Report on the Risk analysis of the state of tax debt (Federal Ministry of Finance and the FBiH Government);
- Preparation of legislative framework for property taxation in FBIH (Federal Ministry of Finance).

c) *Activities planned in 2020*

- Preparation of legislative framework for solving the issue of tax arrears (FBIH (Federal Ministry of Finance));
- Adoption of the Law on Ownership and Transfer of Property in FBIH (Parliament of FBIH).

Expected impact on competitiveness: Disburdening of the economy through a unified approach throughout FBiH, and reducing administrative barriers will improve the competitiveness of domestic business entities and lead to greater investment and economic growth. By relieving the economy of old tax debt, a positive impact on competitiveness and development is expected due to more funds available for investment and other business projects.

Estimated cost of the activities and the budgetary impact: Activities under this reform measure will include only the regular labour cost of the employees at the expense of the DBiH Budget.

Expected impact on employment and 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.

4.3.1.3. Health sector reform

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

Health sector reform, with reforms of child protection financing and sickness-related refunds

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

Health sector reform, with reforms of child protection financing and sickness-related refunds has several objectives, as follows: an analysis of arrears of the health care sector; taking measures to prevent creating new liabilities in the public health care sector; finding options to settle outstanding arrears of public health care institutions; inclusion of all public health care institutions (except pharmacies) and the Health Insurance Fund of Republika Srpska into a treasury operations system; finding options for new models and sources of funding; standardising the network of health care institutions; and reform of child protection financing and sickness-related refunds.

Health sector reform includes the continuation of activities initiated in September 2015 together with the World Bank. The fact is that the implementation of some of the measures did not take the planned dynamics but, given that this is a very sensitive sector, it took more time than the originally envisaged to do a quality analysis and examine the possibilities for reform.

Regarding the reform of child protection financing, the goal is to change the child protection financing over the next three years in such a way to reduce the tax and contribution base for maternity leave by 20% in 2018, as of 1 January 2019 the base would amount to 50% while full disburdening of employers is set to be completed as by 1 January 2020 when the maternity leave refunds would be made in gross amount. In settling a debt based on sick leave refunds, an analysis will be made and a cross-section of the balance on 31 December 2017, after which regular payment will be provided while the debt before the cross-section date will be settled through the three-year bond issue with semi-annual annuities that employer will be able to sell on the secondary market.

These objectives will be achieved through implementation of a series of measures by years as follows:

- 2017: Amend the Law on Contributions in order to reduce the base for calculation of taxes and contributions for maternity leave by 20% as of 1 January 2018 (Ministry of Finance of Republika Srpska); Analysis and cross-section of the balance on 31 December 2017 will be made in settling the debt based on sick leave refunds;
- 2018: Continuously monitor and analyse liabilities of public health institutions (responsible for activities are public health institutions and the Ministry of Health and Social Welfare of Republika Srpska); Measures to prevent the growth of arrears in health care institutions at the RS and local level adopted by the Government (public health institutions, Ministry of Health and Social Welfare of Republika Srpska); The treasury system introduced in the RS health care institutions and health care centres in municipalities included in the pilot project (Health System Working Group and Ministry of Health and Social Welfare of Republika Srpska); As part of the pilot project, conduct an analysis of the functioning of health care institutions included in the treasury operations system (Health System Working Group and Ministry of Health and Social Welfare of Republika Srpska); Adopt the proposal of the Law on Child Protection (Ministry of Health and Social Welfare of Republika Srpska); Adopt the proposal of the Law on Health Care (Ministry of Health and Social Welfare of Republika Srpska); Amend the Law on Contributions in order to reduce the base for calculation of taxes and contributions for maternity leave to 50% as of 1 January 2019 (Ministry of Finance of Republika Srpska); Develop Action Plan for Health Sector Reform (Ministry of Health and

Social Welfare of Republika Srpska); Prepare and adopt the new Law on Health Insurance (Ministry of Health and Social Welfare of Republika Srpska).

- 2019: Amend the Law on Contributions in order to fully disburden employers as of 1 January 2020 (Ministry of Finance of Republika Srpska); In line with the pilot project analysis of the functioning of health care institutions included in the treasury operations system, continue with introducing primary, secondary and tertiary health care institutions and the Health Insurance Fund of Republika Srpska into a treasury operations system (Health System Working Group and Ministry of Health and Social Welfare of Republika Srpska); Find new models of the health system financing (Ministry of Health and Social Welfare of Republika Srpska and Ministry of Finance of Republika Srpska); Define the network of health care institutions (Ministry of Health and Social Welfare of Republika Srpska); Settling a part of the debt based on sick leave refunds (Ministry of Finance of Republika Srpska);
- 2020: Prepare and adopt legal solutions and other necessary documents defining the new models of the health sector financing and the new network of health care institutions (Ministry of Health and Social Welfare of Republika Srpska); Settling a part of the debt based on sick leave refunds (Ministry of Finance of Republika Srpska); Implementation of new solutions pertaining to the health sector financing and the network of health care institutions (Ministry of Health and Social Welfare of Republika Srpska).

Estimated cost of activities and the budgetary impact: 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.

Impact on growth and 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.

Social outcomes: 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, so as not to endanger the social position of the health care users.

Risks: The main condition for the health sector reform is the adoption of measures to prevent further accumulation of arrears and then to find sources and modalities for settling the previously accumulated arrears. Resistance of health care institutions to the introduction of the treasury operations system is an obstacle to improving fiscal discipline. Any delay in implementation of these measures will only increase the accumulated arrears of the health sector.

Financial consolidation of health care institutions

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

The health sector reforms have to be primarily linked to the health care financing reform, which is crucial to financial sustainability of the health sector as a whole. Therefore, it is particularly important to address the large stock of arrears of public health institutions through the adoption of the new Law on Financial Consolidation of Public Health Institutions in the Federation of BiH, in accordance to the Reform Agenda of Bosnia and Herzegovina 2015-2018 and Work Programme for the mandate period of the FBiH Government. The Federal Ministry of Health has started these activities in 2016 together with the competent line federal ministries and they go on throughout 2017 as well. In this regard, the interdisciplinary and inter-sectoral expert committee has been appointed with the co-opted representative of the World Bank. The task of the Expert Committee is extended to provide the proposal of the project for restructuring the health sector in the Federation of BiH. Due to the volume of obligations, particularly in terms of collecting relevant data from health care institutions and making appropriate analyses,

these activities have not been completed, which is a prerequisite for drafting the legislative solutions. Activities on the development of this law will be continued over 2018.

Activities per year:

a) Activities planned in 2018

- Preparation of the draft Law Financial Consolidation of Public Health Institutions

b) Activities planned in 2019

c) Activities planned in 2020

Expected impact on competitiveness: Better health services should bring improvements to operations of economy too and thereby greater competitiveness as well.

Estimated cost of the activities and the budgetary impact: Greater accountability of health care institutions will have a positive impact on budgets.

Expected impact on employment and gender: In the first phase of the implementation of this measure it is necessary to take into account the risk of endangering the social position of the social protection beneficiaries while, after the consolidation of the health sector financing we expect higher quality and better organised services.

4.3.2. Energy, transport and telecoms markets

As a signatory to the Energy Community Treaty, Bosnia and Herzegovina has taken on the obligation to liberalize the energy market and adopt a set of legislation on gas, oil and electricity that will enable the creation of a competitive, integrated energy market and greater investment in order to secure safe and sustainable energy supply.

Insufficient energy efficiency and use of renewable energy sources are identified as a problem in the field of energy. In this regard, we need to work on projects for improving energy efficiency in public buildings.

Regarding the transport sector, there are very important investment projects in BiH implemented in road transport, reconstruction and rehabilitation of railways and improving the capacity and quality of the airport services. The obstacles to the transport market reform in Bosnia and Herzegovina are: underdeveloped transport infrastructure; lack of assumptions for a more significant share of multimodal transport; insufficient investment in railway infrastructure (and this transport mode) and low level of road safety. In this regard, it is necessary to create a sustainable railway infrastructure financing system (restructure the railways in the most acceptable way), to systematically increase rail freight transport, to redefine original revenues and create better preconditions for road infrastructure construction, to continue construction of the motorway on the corridor Vc and to change legislation concerning road transport. A database on the condition of air transport infrastructure needs to be established in FBiH in order to assess the situation and development needs.

Overall electricity generation in FBiH in 2016 reached 8,983.10 GWh, which is by 1.5% more than in 2015. Thermal power plants recorded the production of 5,792,01GWh, which is by 7.0% more than the previous year and accounts for 64.5% of total production. In the same period, electricity generation in hydro power plants recorded 2,935.27 GWh which is by 9.9% less compared to 2015 and accounts for 32.7% of total achieved production. Reduced generation in hydro power plants is a consequence of unfavourable hydrological conditions with inflows somewhat under the multi-year averages.

Total electricity generation from RES and EC⁵¹ in 2016 amounted to 3,091.17GWh, accounting for 34.4 of overall electricity generation in FBiH. Electricity from renewable energy sources was mainly generated by hydro power plants, whereas generation by solar and wind power plants amounted to only 11.7 GWh, which is negligible compared to the total generation

⁵¹ 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.

from renewable energy sources. Compared to the past year, generation from solar and wind power plants more than doubled in 2016.

The total realised annual electricity consumption in 2016 amounted to 7,925.71GWh, which is by 2.7% less than in 2015. In 2017, the Law on Energy Efficiency in the Federation of BiH was adopted, whose implementation aims to achieve the objectives of sustainable energy development through reducing negative environmental impact, increasing energy supply security, meeting the energy needs of final consumers and fulfilling international obligations of Bosnia and Herzegovina in terms of reducing greenhouse gas emissions by applying the energy efficiency measures in final consumption. This Law defines the establishment of the Energy Efficiency Agency responsible for implementation of the provisions of this Law. The forthcoming period is expected to see the adoption of subordinate legislation under the Law on Energy Efficiency in the Federation of BiH.

As regards the energy sector, the state-wide law on energy as an overarching law for BiH has still not been adopted. 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 Federal Ministry of Energy, Mining and Industry has submitted its remarks and comments to the draft Law on Electricity and Natural Gas Regulator, Transmission and Electricity Market in Bosnia and Herzegovina and further activities towards its adoption are expected by the Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina.

The density of the total road network in FBiH in 2016 did not change much relative to the previous year and stood at 18 km/100 km² and it is well under the EU average. The length of magistral roads has increased by 91 km, partly by construction of new kilometres of magistral roads and partly due to the change of road categorisation in the Federation of BiH as the length of regional roads decreased by 65 km. The level of motorisation⁵² in 2016 increased by 21 and amounts to 242, but it is still two times lower than the EU average. The number of registered passenger vehicles in FBiH in 2016 was 534,936, which is by 3.6% higher than the previous year.

Road freight transport is still dominant, accounting for 75% of total freight transport in 2016, while the achieved transport is lower by 1.9% compared to the year before. Rail freight transport in 2016 decreased by 67 million tonne kilometres⁵³, namely by 8% relative to the previous year and amounts to 768 million tonne kilometres. Road passenger transport in 2016 increased by 2.6% relative to the previous year, while rail passenger transport dropped by as much as 42.9%, thus showing the continued downward trend in rail passenger transport.

The key obstacle to the railway sector management process in FBiH is insufficient funding of the rail infrastructure maintenance that the Federation of BiH, under the Law on Funding the Railway Infrastructure and Co-Funding the Passenger and Combined Transport (Official Gazette of FBiH, 57/03), has to finance from the budget of FBiH. The Federation does not fund the costs of the rail infrastructure maintenance and does not co-finance public passenger transport in so far as it is the practice in European countries. These obligations are carried out to only 20% thus resulting in a loss of about KM 40 million per year. The loss incurred primarily due to failure to fulfil the obligation of funding the rail infrastructure is covered at the expense of equity, so the capital has been reduced over the last ten years by about KM 480 million or, more precisely KM 479,300,728.

The FBiH Transport Strategy, adopted by the Government of the Federation of Bosnia and Herzegovina and both Houses of Parliament of the Federation of Bosnia and Herzegovina in 2016, defines guidelines for the future development of the transport sector in BiH, division of responsibilities, and an investment policy that should serve as the basis for a more rapid

⁵² Number of passenger vehicles per 1000 population

⁵³ A tonne kilometre represents the transport of one tone of goods over a distance of one kilometre.

development of transport sector, as well as an action plan for development in the area of motorway, road and railway sector.

The reconstruction of passenger terminal buildings at Sarajevo and Tuzla International airports has started as well as the extension and reconstruction of the runway for aircraft landing and takeoff at the International airport of Mostar.

Airports in the Federation record a steady increase in the number of passengers. In 2016 there were about 1,200,000 passengers at the three international airports while, according to all indicators, this number is expected to reach 1,500,000. The proposed reform will enable the airport infrastructure to follow a further increase in the number of passengers and goods. Legislative reform in air transport was completed in 2009 by the adoption of two laws, the Aviation Law of Bosnia and Herzegovina and the Law on Air Navigation Services Agency of Bosnia and Herzegovina. The aviation standards are aligned with the ICAO and EUROCONTROL standards.

At present, there is no database on the state of aviation infrastructure in FBiH for the purpose of identifying the state and needs for development, given the constant increase in the number of passengers transported and cargo traffic.

In 2016, the activities on the implementation of the project for developing the telecommunication system to support FBiH e-government (Fe uprava) 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.

In 2017, in the field of energy, as part of cooperation between the Ministry of Spatial Planning, Construction and Environment of Republika Srpska and the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) through the project "Enhancing Energy Efficiency in BiH", initiated activities on development of the "Operational plan for the implementation of the legal framework for energy efficiency in buildings in Republika Srpska 2017–2019".

In Republika Srpska, the construction of hydro power plants is currently in expansion, with dominant number of concessions (about 230) for the construction of small and micro hydro power plants (SHPP). The role and significance of SHPPs should also be clearly evaluated in the concepts of water supply, irrigation, agricultural development, fish-farming, recreation and tourism, which has not been the case with the previously built SHPPs. In order to start planning individual SHPPs, it is necessary to define the basic approach through hydrological characteristics of the water bodies, i.e. the hydrological basis of a particular water basin. In a longer-term strategy, renewable energy sources in Republika Srpska should be based on the use of hydro power energy (SHPP), geothermal energy and biomass circulation management process. Regarding the impact of SHPP, in the context of the projected sustainable development of a given geographic area, the essential concepts to be addressed relate to reducing migration of the population, especially from underdeveloped areas as well as the protection of high quality waters, the use of these waters and protection from harmful effects of waters.

Improving energy efficiency in public buildings has continued through the implementation of the World Bank loan funded project "Energy Efficiency in BiH". Negotiations with the World Bank and other partners are open on the new funds to be invested for this purpose in the forthcoming period.

The Republika Srpska Transport Strategy 2016–2030 (Official Gazette of RS, 20/17) has set general and specific objectives and action plans for short-term, medium-term and long-term activities for development of all modes of transport in Republika Srpska.

In the field of transport, Republika Srpska implements very important investment projects, with particular emphasis on the construction of the motorway Banja Luka–Doboj, the

construction of the interstate bridge on the river Sava near Gradiska, completion of the EBRD and EIB funded project Reconstruction of railways in BiH II and improvement of capacity and quality of services of the Airport of Republika Srpska. On the motorway "9 januar" the section from Prnjavor to Doboj and the section from Mahovljani loop to Dragovići has been completed, while the entire section from Prnjavor to Banja Luka is planned to be completed in 2018. The construction of the interstate bridge over the river Sava near Gradiška is planned to start in 2018.

With a view of achieving operational efficiency and financial sustainability, as well as aligning the operations of *Željeznice Republike Srpske* with the requirements of the EU Directives, the Government of the Republika Srpska has supported the World Bank loan funded project of restructuring of this strategic company in January 2017. Through the situation analysis of the *Željeznice Republike Srpske*, done by the World Bank in 2016, it was established that there were 1,000 redundant employees and that the optimum productivity would be achieved by their downsizing. In order to bring *Željeznice* into a state of financial sustainability and operational efficiency, the following needs to be done: the World Bank loan funds should be used to settle liabilities based on unpaid meal allowance, commuting allowance and vacation bonus to all employees; these funds should also be used to settle liabilities for taxes and contributions to the Tax Administration; it is necessary to convert claims that Republika Srpska has from *Željeznice Republike Srpske* based on servicing their foreign debt into equity and thereby relieve their debt burden; the number of employees needs to be downsized by 1,000 (500 by the end of 2017 and another 500 by the completion of the project in 2021) in order to optimise labour productivity and cut gross earnings expenses considerably and subsequently have a positive impact on the financial result; the accounting of infrastructure and operations should be unbundled into two separate organisational units in order to comply with EU directives; after converting debt into equity, Republika Srpska has to become a 100% owner of *Željeznice Republike Srpske*, in order to be able to borrow for the needs of rehabilitation and modernisation of the railway infrastructure.

Therefore, the obstacles to growth and competitiveness in the field of energy market and transport reforms are: Underdeveloped transport infrastructure and Fiscal non-viability of the Public Company *Željeznice Republike Srpske a.d. Doboj*.

4.3.2.1. Transport market reform

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

Transport market reform is a comprehensive measure that should be implemented through the synergy of all institutions (at different levels of government) competent for transport.

Key obstacles affecting the insufficient transport market reform in Bosnia and Herzegovina are reflected in the following elements:

- Underdeveloped transport infrastructure;
- Lack of assumptions for a more significant share of multimodal transport;
- Non-recognition of the need to invest in rail infrastructure and this mode of transport as a basis for the development of more sustainable and large-scale transport;
- Low level of road safety.

These elements will be further explained bellow:

Roads: Total length of the road network in BiH is 24,796 km. The entire network may be divided according to the following categorisation:

- 3,970 km - main/state roads (16.0%); of which 128.7km classified as motorways (120 km of motorways and 28.7 km of roads reserved for motor traffic)
- 4,611 km - secondary/regional roads (18.6%)

- 14,200 km – other/local roads (57.3%)

Railways: Total length of railway lines in Bosnia and Herzegovina is 1,030.389 km of which 91.48% single-track and 8.52% double-track lines. The rail network is, according to administrative structure of Bosnia and Herzegovina, deployed 57% in FBiH, 40.4% in RS and 2.6% in the Brčko District.

The entire rail network is based on a standard gauge (1,435 mm). More than 85% of the network is classified as D4 in terms of UIC load categories, allowing maximum loads of 22.5 Tonnes per axle or 8.0 Tonnes per linear metre.

Around 76% of the network is electrified with a mono-phase 25 kV, 50 Hz AC system.

The main operational and organisational limitations are the following:

- Maximum train length: 550 m;
- Maximum speed: 100 km/h;
- Change of locomotives to access non-electrified sections;
- Lack of communication devices.

Inland waterways: Taking into account the morphological and hydrological characteristics of the watercourses in BiH as well as possibilities and needs for development of transport on the rivers, it is necessary to observe separately the Sava River from other rivers, the Sava's tributaries: the rivers Una with Sana, Vrbas, Bosna and Drina. Both the Drina and Una are navigable with a length of about 15 km from their confluences in the Sava River

Air transport (airports): There are four main airports in Bosnia and Herzegovina: Sarajevo, Mostar, Banja Luka and Tuzla. The investment planned for the Sarajevo International Airport (expansion of the existing terminal and access to the airport) are estimated at EUR 40 million. The investment planned for the Mostar International Airport include: extension of taxiway shoulders, access light for take-off/landing strip, paving Platform II, additional four positions for Code C "push back", routing guidance for a plane from passenger terminal to runway, etc. The investment planned for the Tuzla International Airport include: the development of the airport for the cargo air traffic. Medium-term plans of the *Aerodromi Republike Srpske* for the Banja Luka International airport include investment in infrastructure, widening of runway, construction of new part of the passenger terminal building, improvement of security surveillance, setting new fence around the airport complex, upgrading of lighting (LED lights) and upgrading the airport equipment.

Regulatory framework

- Railway transport

Access to the passenger and freight railway market is established on the basis of the Law on Railways of Bosnia and Herzegovina (Official Gazette of BiH, 52/05).

The majority owners of the railway companies operating passenger/freight transport are the entity governments. More detailed answers to questions on ownership structure of these companies and the ratio of passenger and freight transport should be submitted by the entity governments.

The entity governments can also submit more concrete answers to other questions about the regulatory framework for railway transport.

- Road transport

Road transport of goods, i.e. international transport of goods is governed by the Law on International and Inter-Entity Road Transport (Official Gazette of BiH, 1/02 and 14/03), and Rulebook on conditions for issuing licences and driver qualification cards (Official Gazette of BiH, 77/14).

This legislation stipulates that the operator can perform international freight transport if holding a licence for this type of transport. The Ministry of Communications and Transport of Bosnia and Herzegovina, at the request of the operator, issues a licence for international transport of

passengers and goods. The licence for international transport of passengers and goods is also valid for inter-entity transport of goods.

The Rulebook stipulates that for the purpose of obtaining a licence, the operator must fulfil the following conditions:

- a) A business establishment,
- b) Good reputation,
- c) Financial position and
- d) Professional qualifications.

The legislation stipulates that anyone who meets the required conditions for obtaining a licence has the freedom to access the profession. Prices for the services of the road transport of goods are in no way regulated by legislation as they are formed on the free market.

Restructuring the railways of Republika Srpska

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

Restructuring of the *Željeznice Republike Srpske* is defined as a reform measure in the Economic Reform Programme 2016 – 2018. Throughout 2015 and 2016, the World Bank has made the analysis of the railway sector and comprised a document "Railways Policy Note", published in September 2016. In this document, the World Bank presented several scenarios of future trends and activities related to operations of *Željeznice Republike Srpske*. The Law on Railways was drafted during 2016, which was adopted in regular assembly procedure and entered into force in March 2017 (Official Gazette of RS, 19/17 and 100/17). This Law provides the basis for the implementation of the restructuring process. Based on the analysis conducted by the World Bank, the management of the *Željeznice Republike Srpske a.d.* made and submitted to the Government of Republika Srpska information "Situation Analysis in *Željeznice Republike Srpske* with the proposal for restructuring" which was endorsed by the Conclusion of the Government of Republika Srpska. This was followed by intensive negotiations with the World Bank, which expressed willingness to provide financial support in the form of loan for this project, sent the Bank's Board for adoption and the loan approval. After the approval of the loan, the legal borrowing procedure will be initiated both at the level of Republika Srpska and Bosnia and Herzegovina.

The restructuring will be implemented through three components: ownership, financial and organisational restructuring. Ownership restructuring can be achieved through conversion of debt that *Željeznice Republike Srpske a.d.* has towards the Government of Republika Srpska based on international loans that the Government of Republika Srpska services on their behalf into equity. This way, the Republika Srpska would own more than 99% of the shares of the *Željeznice Republike Srpske a.d.*, after which would be possible to buy back the minority owned shares. Financial restructuring entails settling liabilities for taxes and contributions to the Tax Administration of Republika Srpska, settling liabilities to employees based on unpaid meal allowance, commuting allowance and vacation bonus for the period 2011–2016, conversion of debt to the Government of Republika Srpska into equity, which will set the basis for ownership restructuring and financing of the computerisation of the company. Organisational restructuring would be carried out through downsizing the number of employees, unbundling the infrastructure and operations into two separate accounting units and through forming profit centres from individual organisational parts of the company. The number of employees is set to be downsized by 1,000 as follows - 500 by the end of 2017 and another 500 by the completion of the restructuring project in 2021.

The World Bank expressed willingness to finance this project, and a series of meetings was held with a view of as precise definition of the restructuring project as possible, as well as the framework loan amount. The loan required for project financing and implementation of all three components of restructuring has been fixed in the amount of EUR 51.3 million. This amount is distributed to three loan components as follows: the amount of EUR 42.7 million is

envisaged for the needs of financial restructuring (component 1); the amount of EUR 3.5 million is envisaged for financing severance pay for employees (component 2); and the amount of EUR 5 million is envisaged for the needs of financing the organisational restructuring - unbundling the infrastructure and operations, consultancy services and computerisation (component 3). It is also agreed that the amount set for component 1 will be repaid by the Government of Republika Srpska while the amounts set for components 2 and 3 will be repaid by *Željeznice Republike Srpske*.

Although a detailed plan of withdrawal of funds has not been harmonised yet, it is envisaged to withdraw 80-90% of the total loan amount for implementation of this project in 2018 whereas the remaining amount will be withdrawn by the end of 2021. It should be borne in mind that the funds will be withdrawn during all four years of the project implementation and that the total amount of funds withdrawn during the period 2018–2020 (horizon of this document) will not correspond to the total loan amount (it will be lower for the severance pay in the final year of the project, 2021, and the amount of non-allocated costs for this project that equal KM 2 million). The first tranche should settle the most important debt to employees and the Tax Administration of Republika Srpska and to downsizing the number of employees to 500. Implementation per year is the following:

- 2017: Downsizing the number of employees by 500.
- 2018: Ownership restructuring of the company through conversion of debt into shares, and buy out of the shares from minority shareholders; Financial restructuring of the company; Downsizing the number of employees by 100.
- 2019: Computerisation of the company; Downsizing the number of employees by 100.
- 2020: Unbundling the infrastructure and operations into two separate accounting units and forming profit centres from individual organisational parts of the company; Downsizing the number of employees by 150 (and another 150 in 2021).

Željeznice Republike Srpske, the Ministry of Transport and Communications of Republika Srpska and the Ministry of Finance of Republika Srpska are responsible for the implementation of this project.

Estimated cost of the activities and the budgetary impact: The implementation costs are equal to the total World Bank's loan in the amount of EUR 51.3 million for all three components of restructuring. The burden on the budget of Republika Srpska is the repayment of debt based on borrowing from the World Bank for financing of component 1, in the amount of EUR 42.7 million.

Impact on growth and competitiveness: The implementation of this restructuring project will relieve *Željeznice Republike Srpske* from debt towards the Government of Republika Srpska based on foreign loans that they cannot service alone, and debt towards employees and the Tax Administration of Republika Srpska, as well as cut operating costs, primarily due to gross earnings expenses and optimisation of operations and computerisation of the company. The final result should be reflected in the ability of *Željeznice* to be financially self-sustainable as well as in the quality of services provided, which will significantly increase the competitiveness of this public company.

Social outcomes: Downsizing the number of employees and cutting the total company costs will have a negative impact on economic and social position of workers who are not remedied under the Law on Amendments to the Law on Railways of Republika Srpska (Official Gazette of RS, 100/17) adopted on the 22nd regular session of NARS held on 17 October 2007 (the estimated number of employees is around 100 in 2017). *Željeznice Republike Srpske* have the obligation to prepare the Programme for Compensation of Redundant Employees in accordance with the Labour Law of Republika Srpska. Under this Programme, the employees whose contract is terminated pursuant to the Law on Amendments to the Law on Railways of Republika Srpska will be compensated in a way that they will be able to exercise the right to full pension. The remaining number of employees will have the possibility to leave voluntarily with

special benefits for voluntary departure while those who do not want to leave will be declared redundant and entitled to compensation pursuant to the Labour Law. These employees will also be entitled to free legal aid in the *Željeznice Republike Srpske* in terms of exercising their rights (re-training, assistance in new employment, etc.).

Risks: The main risk of implementation of the restructuring of *Željeznice Republike Srpske* is reflected in obtaining political support at the level of Bosnia and Herzegovina, which may cause a delay in approval of the World Bank loan. Plan B for this complex project has not been considered.

Creating a sustainable rail infrastructure financing system, increasing the traffic of passengers and goods at airports, creating better assumptions for construction of the road infrastructure and motorways financing models with emphasis on concessions and public-private partnership.

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

- To create a sustainable rail infrastructure financing system by finding funds for these purposes so as to complete separation, i.e. restructuring of the Public Company *Željeznice Federacije BiH*, which is also a commitment under EU directives and the Law on Railways of BiH;
- To create a database on the situation of aviation infrastructure in FBiH to enable the airport infrastructure facilitate the increased number of passengers and goods;
- To create better assumptions for construction of road infrastructure and motorway financing models with emphasis on concessions and public-private partnership;
- New Law on Roads.

Activities per year

a) *Activities planned in 2018*

- To determine the model of railway restructuring upon acquiring the conditions, i.e. by implementing the Reform Agenda activities within the competence of the Prime Minister of the Government of the Federation of BiH and FMEMI/ implementer – FBiH Government, FMTC, JP *Željeznice Federacije BiH*;
- After determining the railway restructuring model, draw up an action plan for railway restructuring – establish obligations and financial structure/ implementer – FBiH Government, FMTC, FMF, JP *Željeznice Federacije BiH*;
- Preparatory activities for development of the new Law on Roads in the Federation of BiH/implementer FMTC in cooperation with respective companies and Cantons;
- To continue the construction of the motorway on corridor Vc / implementer JP *Autoceste FBiH* in cooperation with FMTC and MCTBiH;
- To continue reconstruction of the railway corridor Vc from Sarajevo to Podlugovi in a length of 270 km/ implementer JP *Željeznice Federacije BiH*, BHŽJK in cooperation with FMTC and MCTBiH;
- Implementation of the Magistral Roads Modernisation Programme (subject to the prior adoption of the Law on Excise Duties)/ implementer JP *Ceste FBiH* in cooperation with FMTC, FMF and MCTBiH;
- Implementation of the FBiH Government Programme for the implementation of projects from the funds of the Russian Federation's clearing debt and the profit of public companies (subject to the prior adoption of the FBiH budget for 2018 and rebalance of 2017 budget)/ implementer JP *Autoceste FBiH*, JP *Ceste FBiH* in cooperation with FMTC, FMF and MCTBiH;
- Implementation of the FBiH Government Programme for the implementation of projects from the remaining funds of the GSM licence (subject to the prior adoption of rebalance

of 2017 budget/ implementer JP *Ceste FBiH*, Cantons, municipalities, in cooperation with FMTC;

- Adoption and implementation of the Programme of expenditure of the current and capital transfers to airports in the Federation of BiH (subject to the prior adoption of the FBiH budget for 2018)/ implementer FMTC and airports in the Federation of BiH.

b) *Activities planned in 2019*

- Development of the new Law on Roads in the Federation of BiH/implementer FMTC in cooperation with respective companies and Cantons,
- Continuation of the construction of the motorway on corridor Vc / implementer JP *Autoceste FBiH* in cooperation with FMTC and MCTBiH;
- Continuation of reconstruction of the railway corridor Vc from Sarajevo to Podlugovi in a length of 270 km/ implementer JP *Željeznice Federacije BiH*, in cooperation with FMTC and MCTBiH;
Implementation of the Magistral Roads Modernisation Programme (subject to the prior adoption of the Law on Excise Duties)/ implementer JP *Ceste FBiH* in cooperation with FMTC, and MCTBiH;
- Implementation of the FBiH Government Programme for the implementation of projects from the funds of the Russian Federation's clearing debt and the profit of public companies (subject to the prior adoption of the FBiH budget for 2018 and rebalance of 2017 budget)/ implementer JP *Autoceste FBiH*, JP *Ceste FBiH* in cooperation with FMTC, FMF and MCTBiH;
- Implementation of the FBiH Government Programme for the implementation of projects from the remaining funds of the GSM licence (subject to the prior adoption of rebalance of 2017 budget/ implementer JP *Ceste FBiH*, Cantons, municipalities, in cooperation with FMTC;
- Adoption and implementation of the Programme of expenditure of the current and capital transfers to airports in the Federation of BiH (subject to the prior adoption of the FBiH budget for 2019)/ implementer FMTC and airports in the Federation of BiH.

c) *Activities planned in 2020*

- Continuation of the construction of the motorway on corridor Vc / implementer JP *Autoceste FBiH* in cooperation with FMTC and MCTBiH;
Continuation of reconstruction of the railway corridor Vc from Sarajevo to Podlugovi in a length of 270 km/ implementer JP *Željeznice Federacije BiH*, in cooperation with FMTC and MCTBiH;
Implementation of the Magistral Roads Modernisation Programme (subject to the prior adoption of the Law on Excise Duties)/ implementer JP *Ceste FBiH* in cooperation with FMTC, and MCTBiH;
- Implementation of the FBiH Government Programme for the implementation of projects from the funds of the Russian Federation's clearing debt and the profit of public companies (subject to the prior adoption of the FBiH budget for 2018 and rebalance of 2017 budget)/ implementer JP *Autoceste FBiH*, JP *Ceste FBiH* in cooperation with FMTC, FMF and MCTBiH;
- Implementation of the FBiH Government Programme for the implementation of projects from the remaining funds of the GSM licence (subject to the prior adoption of rebalance of 2017 budget/ implementer JP *Ceste FBiH*, Cantons, municipalities, in cooperation with FMTC;
- Adoption and implementation of the Programme of expenditure of the current and capital transfers to airports in the Federation of BiH (subject to the prior adoption of the FBiH budget for 2020)/ implementer FMTC and airports in the Federation of BiH.

Expected impact on competitiveness: Investing in airport infrastructure in the Federation of BiH improves their competitiveness in relation to airports in surrounding countries. Unbundling of infrastructure from the operator will contribute to increasing the competitiveness on the market, with the need to create conditions for our companies, in this case *JPŽFBiH* to be competitive on the EU market, i.e. to facilitate their access to EU railway network, more precisely to the Port of Ploče, in order to be able to transport goods from the Port, which is 98% related to the BiH market. Financing of the entire railway infrastructure maintenance by the Federation of BiH would put a stop on discrimination or favouring other modes of transport, in this case the road transport, which has its own funding sources (excise on oil and road tolls).

Estimated cost of the activity and the budgetary impact: The implementation costs are in line with the plans of the public road managers, the World Bank's Policy Note, the Strategy of the Federation of BiH and the FBiH budget (for railways).

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

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

Obligations under the Treaty Establishing the Energy Community in the field of sustainable energy

In April 2017, the Energy Efficiency Action Plan of Bosnia and Herzegovina for the period 2016 - 2018 was developed with technical assistance. The document was prepared in accordance with Bosnia and Herzegovina's obligations under the Treaty Establishing the Energy Community and its decisions on transposition under Directive 2006/32/EC, Directive 2010/31/EU and Directive 2012/27/EU, and in accordance with the requirements of the Format and Guidelines for preparation of the Third Energy Efficiency Action Plan which, according to the European Commission's guidelines, were developed by the Energy Community Secretariat and the Energy Community Energy Efficiency Coordination Group. The Energy Efficiency Action Plan of Bosnia and Herzegovina for the period 2016 -2018 was adopted by the BiH Council of Ministers at its 123th session held on 4 December 2017.

Also, in order to implement the other obligations under the Energy Efficiency Directive, a Working Group was formed which, with technical assistance, in 2017, prepared and agreed the draft Framework of Energy Efficiency Obligation Scheme for BiH, Guidelines for drafting legal framework for Energy Efficiency Obligation Scheme (EEO) and the proposal for amendments to the Entity energy efficiency laws.

Regarding the renewable energy sector, following the adoption of the National Renewable Energy Action Plan of BiH, which was also the obligation arising from the Treaty establishing the Energy Community, in the part related to implementation and transposition of Directive 2009/28/EC on the promotion of the use of energy from renewable sources (adopted at 50th session of the BiH Council of Ministers, held on 30 March 2016), the Ministry prepared the Progress Report on the implementation of Directive 2009/28/EC and submitted it to the Energy Community Secretariat in November 2017. The Report was prepared in cooperation with the relevant Entity ministries and with the assistance of the German Association for International Cooperation (GIZ).

In order to further improve the sector of renewable energy sources in Bosnia and Herzegovina, as well as the implementation of the remaining obligations under the Energy Community Treaty regarding the transposition and implementation of Directive 2009/28/EC, at the end of 2017 the Ministry initiated activities to form the Working Group for renewable energy sources, whose work will include participation of representatives of the relevant Entity ministries and institutions, together with representatives of the Brčko District.

The first task planned for the Working Group is to update the action plans for RES (Entity and state-level), as well as the Law on Renewable Energy Sources and Efficient Cogeneration in both Entities.

Adopting the Framework Energy Strategy of BiH

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

The BiH Ministry of Foreign Trade and Economic Relations, in accordance with its competencies and in cooperation with the international community representatives and relevant Entity-level ministries in charge of energy, made significant steps towards the development of strategic framework in the energy sector in Bosnia and Herzegovina.

In January 2017, three ministers in charge of the energy sector in Bosnia and Herzegovina agreed to launch activities on the development of the strategic document for the energy sector for the period by 2035 at the level of Bosnia and Herzegovina. By the development of this document, Bosnia and Herzegovina would fulfil the assumed international obligation and get access to the European funds (IPA II, WBIF, ...). The agreed process included the development of energy strategies for the Federation of BiH and the Brčko District BiH and the upgrading of the existing energy strategy in Republika Srpska by 2035, with parallel development of the strategic document for the energy sector by 2035 at the level of Bosnia and Herzegovina. The British Embassy funded the costs of the development of strategic documents, for which they hired a consortium of international consultants headed by PriceWaterhouseCoopers (PWC). This document, together with the PWC consultants, was developed by the Working Group composed of representatives of relevant Entity-level ministries and institutions from the level of Bosnia and Herzegovina, and the document was agreed by the Working Group.

On 22 June 2017, the BiH Ministry of Foreign Trade and Economic Relations invited the public, all stakeholders and interested organisations to submit their comments to the BiH Framework Energy Strategy for the period by 2035.

The Government of the Federation of BiH by the Conclusion of the Government of the Federation of BiH no. 958/2017 of 10 July 2017 gave a positive opinion on the Framework Energy Strategy of Bosnia and Herzegovina, while the Government of the Republika Srpska has not yet given its opinion. After receiving a positive response from the Government of the Republika Srpska, the Framework Energy Strategy of Bosnia and Herzegovina will be submitted for adoption to the Council of Ministers of BiH. The goal is for the Council of Ministers of BiH to adopt this strategic document by the end of November 2017.

The Conclusion of the Government of the Brčko District BiH of 6 November 2017 is to give their positive opinion on the Framework Energy Strategy of Bosnia and Herzegovina for the period by 2035.

The Framework Energy Strategy of the Federation of Bosnia and Herzegovina for the period by 2035 is part of the project implemented under the auspices of the European Commission and with financial support of the UK Department for International Development and the engagement of PriceWaterhouseCoopers consultants, in cooperation with other partners.

In March 2017, the Law on Energy Efficiency in the Federation of BiH was adopted and the Government of the Federation BiH by its Conclusion of 10 July 2017 passed the Energy Efficiency Action Plan in the Federation of BiH (EEAPF) for the period of three years thereby creating the conditions for cantons to adopt their plans, aligned with EEAPF.

At the same session, the Decision on establishing the "Temporary Policy Guidelines for the Implementation of Energy Efficiency in the Federation of Bosnia and Herzegovina" was adopted with the aim of defining directions and activities for the realization of long-term goals in the field of energy efficiency in the Federation of BiH. The Annex - Road Map for transposition and implementation of the commitments under the Treaty Establishing the Energy Community in the field of energy efficiency which is an integral part EEAPF was adopted too.

The concept of the Energy Sector Development Strategy of Republika Srpska for the period by 2030 is based on the framework of BiH's international obligations (conventions, charters, protocols, Energy Community Treaty, EU directives, etc.) in relation to planned development and strategic plans for the energy sector. In line with the Action Plan for Implementation of the Energy Sector Development Strategy of Republika Srpska, relevant primary and secondary legislation were harmonised with the EU directives in the field of energy efficiency, renewable energy sources and oil and gas.

Electricity market development

The draft Law on Electricity and Natural Gas Regulator, Transmission and Electricity Market in BiH has been prepared. The process of harmonisation of this draft Law is still ongoing. On 3 May 2017 the BiH Ministry of Foreign Trade and Economic Relations invited the public, all stakeholders and interested organisations to submit their comments on the preliminary draft of the Law on Electricity and Natural Gas Regulator, Transmission and Electricity Market in BiH, in order to obtain as best document as possible. An analysis of the submitted comments is underway, after which further procedure will be followed.

The adoption of this Law will create prerequisites for establishing an organised wholesale electricity market in BiH and its connection with the markets of the countries in the region.

Cross-border balancing

There has been significant progress in market balancing. The adoption of the market-based balancing model and the establishment of functional national balancing market has been completed. New market rules were adopted with the new balancing model based on the market and non-discriminatory principles. These rules became applicable at the national level as of 1 January 2016. This progress was also noted in the reports of the Energy Community Secretariat as a good example in the region. Activities are continued to facilitate cross-border balancing, first within the control-regulatory block BiH – Croatia – Slovenia with the tendency to expand to block Serbia – Montenegro - Kosovo⁵⁴- Macedonia. The Independent System Operator in Bosnia and Herzegovina (ISO BiH) is a signatory of agreement with Slovenia and Croatia in SHB block (R. Slovenia, R. Croatia and BiH) and also signed agreements with EMS-Serbia and CSG-Montenegro on the delivery of emergency energy.

Regional cooperation

Regional allocation of cross-border capacities implies an agreement with the regional transmission system operators for the establishment of the coordinated calculation of capacities, introduction of a coordinated capacity calculation process for the allocation of day-ahead capacities and signing of agreements between SEECAO and EU countries.

Regarding the allocation of cross-border capacities, ISO BiH has fulfilled all the requirements in line with the Third Energy Package of EU directives (714/2009) and actively participates in activities of the SEE CAO – *South East Europe Coordinated Auction Office* with the seat in Podgorica.

Through ISO BiH, BiH is the co-owner of the SCC (Security Coordination Centre in Belgrade). SCC has existed for two years and, among other activities, works on allocation of day-ahead capacities based on regionally coordinated congestion forecast.

Cross-cutting measures

Restructuring of energy sector in Republika Srpska is partly related to adoption of new legislation. Regarding unbundling of electricity distribution and supply in Republika Srpska, all distribution system operators in *MH Elektroprivreda RS*, under the terms of licences for performance of activities and regulatory supervision decisions of the Regulatory Energy

⁵⁴This designation is without prejudice to positions on the status, and is in line with UNSCR1244/99 and the ICJ opinion on the Kosovo declaration of independence.

Commission of RS five years ago, were obliged to provide functional and accounting unbundling of electricity distribution from supply of tariff customers.

Legal unbundling of the distribution system operator from the electricity supply activities has not been completed yet, since distribution operators still perform the activity of public supply. In addition, all customers formally have the option to freely choose their supplier in the market.

4.3.3. Sectoral development

4.3.3.1. Agricultural sector development

The agriculture sector in BiH is characterised by a foreign trade deficit for most agricultural products. The situation in agricultural production deteriorated in 2017 due to extreme droughts and frost at the beginning of vegetation period. In this regard, significant financial losses are likely in this sector, especially in maize production. Other aggravating factors are the risks of infectious diseases in animal production and the absence of appropriate measures to protect domestic production. In the forthcoming period, efforts will be made to improve agricultural production and to carry out the activities proposed in the previous year, since most of them have not been fully implemented.

The available budgets of institutions dedicated to support agricultural development are not sufficient to support the reform processes and cannot ensure the strengthening of agricultural competitiveness in BiH. In order to fully meet the conditions for the use of the EU pre-accession funds dedicated to agriculture and rural sector, it is necessary to adopt a strategic document in this area and establish IPARD operational structure. The adoption of this sector's strategy would facilitate and accelerate activities that would directly affect the development of the agricultural information system and the implementation of the agricultural census. In order to improve the chain of management and the official human food and animal feed control system, it is necessary to harmonise legislation in this area. This would boost exports of animal origin products to the EU market.

Agricultural production in Republika Srpska in 2017 was again going on in difficult circumstances primarily caused by extreme droughts and frost at the beginning of vegetation period, risks of new infectious diseases in animal production, as well as risks associated with open market, border porosity and the absence of appropriate measures to protect domestic production.

Republika Srpska has a foreign trade deficit with most agricultural products. Only a few customs tariffs (milk and dairy products, eggs, natural honey, food products of animal origin, vegetables, sugar and sugar containing products and fish) achieved a higher total value of exports relative to the value of imports. The 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 foods produced in various 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 (dominant share of small holdings, regulation of foreign trade operations, low share of market-oriented producers); the foreign 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 (floods, droughts, hail, storms, infectious diseases of animals, etc.).

The high share of agriculture in the structure of GDP, level of employment in agriculture and its share in foreign trade deficit are three main characteristics of agriculture in the FBiH economy. The rate of real increase of gross value added in 2016 in the field of agriculture, forestry and fisheries recorded an 8.9% growth relative to 2015. The share of agriculture,

forestry and fisheries in the total GDP of the Federation of BiH increased compared to 2015 (4.6%) and stood at 4.8%.

In December 2016, the total number of employees in the sector of agriculture, forestry and fisheries amounted to 8,983 and is higher than the annual average of employees in 2015 (7,940).

The same as in previous years, agricultural activities in the Federation of BiH in 2017 were going on in aggravated conditions where agricultural producers faced numerous problems, such as; delays in payments of incentives; small amounts of support; unfavourable structure of the sector (small farm holdings); lack of technical equipment and specialisation; low availability of high-quality inputs; lack of capacities and entrepreneurial skills of farmers; lack of mechanisms to mitigate the consequences of natural disasters (including the climate change consequences); the characteristics of the input and output markets (unpredictable price variations, unavailability of quality inputs); restrictions in terms of agricultural development policies and legislation (there is no strategic framework for development of agriculture and rural areas at the level of BiH; agricultural output market in BiH is not regulated and domestic production is not protected).

Given that 2017 was extremely dry year and that certain crops suffered damage caused by the spring frosts, there was a decrease in yields of early crops and fruits while drought is expected to cause reduced yields of late crops and fruits too.

In the Register of Farm Holdings and the Register of Clients of the Ministry of Agriculture, Water Management and Forestry of the Federation of BiH, there are 74,022 farmers⁵⁵, of which 67% are registered with less than 1 hectare of agricultural land.

The agricultural sector in Bosnia and Herzegovina is not competitive, and competition in agriculture is increasing as BiH's convergence to EU is progressing. We import twice as many products as we export. The Federation of BiH has a negative trade balance in almost all fields of agriculture and the food industry where the average coverage of imports by exports is as little as 21%. The only exception is flour production, where the achieved exports are by 27.5% higher than the imports. The lowest coverage of imports by exports is recorded in the category of pork meat and meat products, beer, fruit juices and chocolate and averaged below 1%.

Thus, inefficient and non-competitive production in these categories remains a major limiting factor to exports increase. Without agricultural census it is not possible to set up meaningful objectives of the rural development programme and its upgrading policy – the development of rural areas.

Incentives for agriculture annually paid from the budget of the Federation of BiH average around KM 65 million. These investments would be added to investments from cantonal budgets, which amounted to around KM 15 million in 2015. The EU member states invest nine times more in agriculture. Most incentives in the Federation of BiH are intended for direct payments to farmers. Since 2012, there are no rural development measures that make the basis of structural measures needed to the agricultural sector in the Federation of BiH.

Farmers' holdings in the Federation of BiH are small, averaging less than three hectares, while the EU average is 14 hectares. Production structure is also unfavourable, particularly in plant production. We mainly produce grains, with insufficient fruits and vegetables production, although it is this segment, along with milk and dairy products that are identified as competitive, that we have the greatest potential.⁵⁶

The most represented food industry sectors in the Federation of BiH deal with milk and dairy products, meat and processed meat products, water and refreshing soft drinks, grain

⁵⁵FBiH Ministry of Agriculture, Water Management and Forestry- Excerpt from the Register of Farm Holdings and the Register of Clients on 21 November 2017

⁵⁶Decision on adoption of a Strategy to increase competitiveness and attract investment in value chains of milk and dairy products and fruits and vegetables in the Federation of BiH 2014-2020 (Official Gazette of FBiH, 1/15).

processed, flour and bakery products, alcohol beverages (beer, wine and spirits) and fruits and vegetable processing.

The total production of meat and processed meat products in 2016 increased by 13% relative to 2015; fruit and vegetable production rose by 18% (production of apple and fruit juice increased by 50%, while production of orange juice dropped by 60%); milk and milk-based products remained almost at the same level as in 2015; production of flour and flour-based products is higher by 15%; production of chocolate and other confectionery products rose by 25%; production of pasta, ready-made meals, tea, coffee and food additives rose by 14%, production of natural mineral and spring water, carbonated and non-carbonated drinks, wine and beer remained at the same level as in 2015, while production of cigarettes decreased by 22% relative to 2015.

In 2016, utilisation of capacities in some branches of food industry recorded a mild growth and slight increase, while in some others it decreased relative to 2015, but rate of utilisation of available domestic capacities is still at a low level.

Utilisation of capacities in grain-mill and bakery industry increased from 36.8% in 2015 to 41.54% in 2016, in meat processing from 33% to 37%, in processing of fruits and vegetables from 62% to 77%, in beer production from 27% to 29%, and in production of mineral and spring water from 15% to 17%. Utilisation of capacities in milk processing decreased from 56% in 2015 to 43.87% in 2016, in production of non-alcoholic beverages it decreased from 53% to 47%, while in production of cigarettes, which continuously records downward trends, it decreased from 32% in 2015 to 25% in 2016.

Reform measures

Given that the activities for implementation of the last year's measure have not been fully completed, the activities related to the implementation of measure – **Enhancing agricultural production** need to be continued in 2018.

Agriculture cannot be regarded as the main driving force of the overall economy. However, it can make an important contribution if we take into account significant potential for increasing its competitiveness. In the forthcoming period, an important priority for agriculture in the Federation of BiH and BiH is the need to create agricultural policy and rural development policy and to introduce instruments that will facilitate gradual restructuring of the agricultural sector.

Agricultural policy in the Federation of Bosnia and Herzegovina is aimed at improving the development of agriculture and related sectors by raising the technical-technological level, making more efficient use of available resources and respecting the demands of modern markets - increasing competitiveness, ensuring conditions for a stronger generation of more stable income within the agricultural sector and improving quality of living in rural environments - strengthening the diversification of rural economy. Strategic and operational objectives, as well as measures and activities for harmonisation of agriculture in FBiH are defined in the Medium Term Strategy for Agricultural Sector Development 2015-2019 (MTSASD)⁵⁷. The aforementioned strategic objectives of agricultural policy are in line with strategic commitments and priorities of the Government of⁵⁸, and should contribute to the general sustainable growth objective.

In the period 2018-2020., the implementation of activities will continue regarding the development on of the legislation on agriculture and financial support in the Federation of BiH, i.e. the creation of legislative framework for agricultural policies and policies of financial support to this sector, harmonised with the EU acquis and policies, taking into account the current level of this sector's development.

⁵⁷ Decision of the Parliament of the Federation of BiH on the adoption of the Medium-term Strategy for Agricultural Sector Development in the Federation of BiH 2015-2019 (Official Gazette of FBiH, 47/15).

⁵⁸ Work Programme of the Government of the Federation of BiH for the term 2015-2020; Reform agenda 2015-2018 and Guidelines for economic and fiscal policy 2018-2020 as well as strategic framework including the EU 2020 Strategy and SEE 2020 Strategy.

4.3.3.1.1. Improving agriculture, forestry and water management

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

Fulfilling the prerequisites for the use of IPA (RD) funds

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

Taking into account that the Common agricultural policy is one of the most important EU policies, it is necessary to provide support for the sector of agriculture and rural development of BiH to be integrated into European and global markets. Given the complexity of the system of the Common agricultural policy, EU countries provide support in the accession process in adapting the agricultural sector and rural areas, as well as for implementation of the EU acquis in the context of the Common agricultural Policy.

The prerequisites that need to be met in order to use the funds intended for agriculture and rural development are related to the adoption of the Strategic Plan for Rural Development of BiH as well as the provision of the legal framework ie the operational structure that is aligned with the IPA II Regulation. The operational structure implies the establishment of a special institutional apparatus in charge of the implementation of IPARD funds. The process of building an IPARD operational structure implies the reform of existing management (or parts of management) in the IPARD operational structure. Although the views on IPARD operational structures are not fully harmonized, all competent institutions agree that it is necessary to reach agreement on these issues as soon as possible and that it should be considered within all activities to meet the EU accession requirements.

The implementation of this measure in the coming years would improve the competitiveness of agricultural and food products and quality of life in rural area as well as the improved quality of products and increased level of investment.

The Inter-Sectoral Commission for Development of the SARD, pursuant to the Law on Agriculture, Food and Rural Development, prepared a draft document and submitted it to competent institutions to give their opinion.

The adoption of the Strategy would facilitate and accelerate activities that directly affect the development of the agricultural information system and the implementation of the agricultural census. The agricultural information system alone would enable the establishment of various registers and operating systems in agriculture because the adoption of the Strategy opens up financial channels without which it is not possible to develop an information system and strengthen administrative capacities.

Amending the laws governing the agriculture at the level of Bosnia and Herzegovina (Law on Veterinary, Law on Food and Law on Agriculture and Rural Development)

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

In order to improve the chain of management and official system of food and animal feed control, since they are still not fully aligned with European standards, and which is why exports of most products of animal origin are not allowed to the EU market, the Law on Veterinary, the Law on Food and the Law on Agriculture and Rural Development need to be amended.

The Inter-Sectoral Working Group (ISWG), which was formed in order to fulfil the obligation to amend the legislative framework, prepared the preliminary drafts of the Law on Food, the Law on Veterinary and the Law on Amendments to the Law on Agriculture and Rural Development of Bosnia and Herzegovina. After the Inter-Sectoral Working Group completed its work and prepared preliminary drafts of all three laws, they were submitted to the relevant institutions and stakeholders for comments and opinions. At the meeting of ministers in charge

of agriculture in mid-2015 in Sarajevo, it was concluded that, in order to complete the activity of drafting the text of three pieces of legislation, a professional technical body should be formed, composed of highly ranked representatives of the relevant institutions, who will consider the submitted comments and opinions to drafts of all three pieces of legislation, collected during public consultations after completion of the work of the Inter-Sectoral Working Group. Comments and opinions were received from all relevant institutions, the European Commission, stakeholders and interested businesses and individuals. A team of experts was formed to work intensely on the preparation of the draft Law on Food, draft Law on Veterinary in Bosnia and Herzegovina and draft Law on Amendments to the Law on Agriculture, Food and Rural Development of Bosnia and Herzegovina. The Expert Team finalised the texts of these laws and, according to the agreement within the Team, sent them to the Ministry of Foreign Trade and Economic Relations of BiH to be arranged and further submitted to Entities for opinion (29 February 2016). The Ministry of Agriculture, Forestry and Water Management of RS did not submit its opinion on these draft laws. After the finalisation of the texts, a further procedure will be carried out in accordance with the Rules of Procedure of the Council of Ministers of BiH and the Rules for Consultations in drafting legislation (Official Gazette of BiH, 81/06).

The proposed reform would start in 2017, and end in 2020 as indicated in the Table. Without the adoption of amendments to the aforementioned laws and the adoption of the accompanying by-laws, it will be difficult to export agricultural products if they are not competitive with the export brands in the region and the European Union. For this, it is necessary to reach high quality standards as well as health safety, since these are mostly food products. In this regard, the relevant laws need to be amended.

Improving agriculture, forestry and water management

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

Improving agriculture, forestry and water management will be implemented through the following activities: improvement of agrarian sector financing sources; adoption of legislation in the area of agriculture at the level of Republika Srpska and the harmonisation of this legislation within BiH; setting up a land parcel identification system; implementation of the animal identification process through development of the animal movement control system; improvement of foreign trade operations and protection of domestic agricultural production; work on creation of IPARD operational structure; building organisational and economic and market operators in order to connect the total agrarian reproduction and the market (clusters, cooperatives and forms of networking); improvement of the staff training and education system for agrarian businesses, primarily farmers; improvement of counselling etc.; introduction of new information system in forestry; development of a master plan for construction of forest roads; improvement of the work of reporting, diagnostic and forecasting services; placing forest harvesting areas at disposal of domestic wood processing companies; distribution of forest wood assortments according to the adopted criteria; adoption of new prices lists for forest wood assortments and establishment of water information system in water management.

Activities per year:

- 2017: improvement of agrarian sector financing sources, which includes providing the agrarian budget funds, IDB and international funding, and the overall funding volume is estimated at around KM 170 million; improvement of foreign trade and protection of domestic agricultural production is an activity that will be carried out continuously;
- 2018: improvement of the model of funding the agrarian sector development, based on three pillars: a special IDB credit line, credit lines for long-term and short-term placements in agriculture and incentive funds from the current budget. In addition to these three pillars of support, including the Guarantee Fund, funds from the World Bank and IFAD, as well as other international sources of funding should be used to finance the agrarian sector development. Improvement of foreign trade and protection of domestic agricultural

production is an activity that will be carried out continuously; Development of a master plan for construction of forest truck roads as a strategic framework for investing in the forestry sector; The forest harvesting area of *JPŠ Šume RS* will be placed at disposal of domestic wood processing companies with the goal of overall strengthening of the RS economy; Ensure distribution of forest wood assortments according to the adopted criteria aimed at strengthening export-oriented final processors; Adoption of new prices lists for forest wood assortments in terms of its harmonisation with the environment so as to increase competitiveness with positive effects for *JPŠ Šume* in terms of providing funds for necessary investments; Establishment of water information system;

- 2018 and 2019: Development of a new forestry information system to provide better quality data, monitoring and control in all business segments of *JPŠ Šume*;
- 2018–2020: Improvement of the work of reporting, diagnostic and forecasting services (RDF) through technological enhancement will upgrade the forest health diagnostics and preventive actions to protect the forest ecosystems in order to prevent serious environmental and economic damage;
- 2019: Setting up a land parcel identification system; implementation of the animal identification process through development of the animal movement control system; these measures will be funded from the IPA2 funds, which will be operational in 2019. Improvement of foreign trade and protection of domestic agricultural production is an activity that will be carried out continuously;
- 2020: work on creation of IPARD operational structure. The conditions for continuation of development of operational structure for use of IPARD funds are expected to be met by 2020 so as to be able to plan these funds in the IPA3 programme period. Improvement of foreign trade and protection of domestic agricultural production is an activity that will be carried out continuously.

Institutions responsible for implementation of this measure are the Ministry of Agriculture, Forestry and Water Management of Republika Srpska in cooperation with the Agricultural Payments Agency and the Investment and Development Bank of Republika Srpska. In addition to the aforementioned institutions, the BiH Ministry of Foreign Trade and Economic Relations is responsible for the implementation of some activities such as the improvement of foreign trade and protection of domestic agricultural production. The activities related to creation of IPARD operational structure, in addition to the institutions from Republika Srpska, are the responsibility of the Ministry of Agriculture, Forestry and Water Management of the Federation of BiH and the BiH Ministry of Foreign Trade and Economic Relations. Institutions responsible for implementation of activities in the forestry sector are the RS Ministry of Agriculture, Forestry and Water Management and *JPŠ Šume RS* a.d. Sokolac. Institutions responsible for the establishment of water information system are the RS Ministry of Agriculture, Forestry and Water Management and Public Institution *Vode Srpske*.

Estimated cost of the activities and the budgetary impact: The implementation costs are aligned with the existing budget framework, which amounts to 60 million KM per year, and in this sense none of the activities will require the allocation of additional budget funds. However, for some of the activities the funds of international financial institutions such as the World Bank and the European Union will be used, which is conditioned by the adoption of the strategic framework for the development of agriculture and rural areas at the level of Bosnia and Herzegovina. The establishment of the water information system will be funded from the UNDP project "Integrating Climate Change in Reduction of Flood Risk in the Vrbas River Basin" in the amount of KM 750,000.00.

Impact on growth and competitiveness: The average effective performance of the sector of agriculture and food industry in Republika Srpska ranges from KM 1.2 to KM 1.5 billion. The effect of implementation of the aforementioned measures is expected to increase the overall sector's performance by 2%-5%. Any increase in the volume of production arising from

increased funding should result in new jobs as well. The current rate of formal employment in agriculture and food industry sector is around 4% while the informal employment rate is around 30%. The effect of the measure for enhancing agricultural production should reflect in rising formal and declining informal employment in the sector. All activities identified within the measure for enhancing agricultural production will contribute to improving of competitiveness, namely the following: improvement of sources of funding for the agrarian sector contributes to increasing investment levels and lowering the cost of final products; the adoption and harmonization of legislation in the field of agriculture at the level of Republika Srpska and BiH contribute to competitiveness in terms of standardization of quality and alignment with market standards; the establishment of the land parcel identification system contributes to the improvement of control in the realization of budget funds and other sources of financing of the agricultural sector; the implementation of the animal identification process through the development of the animal movement control system contributes to the improvement of health status and more effective control of budget and extra budgetary transfers in the animal sector; the improvement of foreign trade and protection of domestic agricultural production contributes to the improvement of competitiveness in relation to the global environment.

Social outcomes: There are multiple social effects reflecting in the following: stabilisation of farmers' income through income support; growth of farmers' income through growth of productivity and competitiveness in the sector; improvement of quality of life in rural areas through the improvement of economic efficiency; improvement of animal health; improvement of reputation and identity of domestic production.

The risk for the implementation of this measure relates to the inability to reach agreement with competent institutions at the level of the Federation of BiH and BiH regarding the issue of protection of domestic production and the issue of the IPARD operational structure. However, this risk does not threaten the implementation of the essential activities for which the competent institutions at the level of Republika Srpska are responsible. Plan B is to overcome the implementation of activities for which an agreement needs to be reached with institutions at other levels of government in BiH by implementing the activities of improving the agrarian sector funding sources from the budget and extra budgetary sources at the level of Republika Srpska so that Republika Srpska is not dependent on the access to IPA funds for which the agreement of all government levels in BiH is required.

Enhancing agricultural production

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

In order to implement the proposed measure, the following activities will be pursued: development of new and amending the existing laws and subordinate legislation in the field of agriculture, rural development and financial support at the level of the Federation of BiH; development of strategies and programmes for agricultural sector harmonised within BiH and aligned with the EU *acquis* and international standards; improvement of implementation of the applicable legal provisions; establishment of regular payments of financial support and arrears to farmers; improvement of agricultural sector funding sources; setting up appropriate measures to protect domestic agricultural output; strengthening the control system; support and initiate the development and adoption of sectoral strategies and laws in the area of agriculture and rural development at the level of BiH (regulation of agricultural product market; domestic production protection; improvement of control system); improvement of the quality of public services (professional and advisory services); organisation of trainings for farmers; and the improvement and updating the information system, registers and databases in agriculture in compliance with the EU requirements (LPIS, GIS; Registers, etc.).

Activities per year

a) *Activities planned in 2018*

- Develop and adopt laws regulating the field of agriculture, rural development and financial support harmonised within BiH and aligned with the EU *acquis*, which have the greatest impact on the enhancement of agricultural production. Activities will be implemented in cooperation with the Cantonal authorities competent for agriculture and the Federation of BiH and Cantonal expert administrative organisations, as well as in cooperation with the competent state level institutions and stakeholders of this ministry⁵⁹;
- Reform the direct payment system in order to set up a payment system per head for dairy cows in the system of milk collection and direct payment per hectare for incentives for agriculture in cooperation with the Cantonal authorities competent for agriculture, expert administrative organisations and stakeholders of this Ministry;
- Improve the model of funding the agricultural sector development by providing funds from the FBiH budget and the budgets of 10 Cantons, international funding sources, establishing a special credit line with the Development Bank of the Federation of BiH for financing investment projects in agriculture and rural development, and establishing a Guarantee Fund with support from DB FBiH;
- Apply the existing provision of the Law on Agricultural Land⁶⁰ for the purpose of putting into operation the production from uncultivated agricultural land and streamlining into this the collected charges, as dedicated revenue type of municipal budget that can be used for development, incentives and intensification of agricultural production in the municipality where they are collected, in cooperation with the Association of Municipalities and Cities and the Cantonal authorities competent for agriculture;
- Improve information systems for agriculture and rural development in line with EU requirements and standards, in cooperation with all institutions in BiH competent for agriculture, the FBiH Geodetic Administration and the FBiH Tax Administration.

b) Activities planned in 2019

- Establish a framework (draft subordinate legislation) for the application of the Law on Agriculture and Rural Development and Financial Support harmonised within BiH and aligned with the EU *acquis*, in cooperation with the Cantonal authorities competent for agriculture and state institutions responsible for agriculture and rural development;
- Monitor spending of collected charges, as dedicated revenue type of municipal budget that can be used for development, incentives and intensification of agricultural production in the municipality in the Federation of BiH, in cooperation with the Association of Municipalities and Cities and the Cantonal authorities competent for agriculture;
- Improve the quality of public services - professional and advisory services, organise trainings for farmers and improve and update the information systems, registers and databases in agriculture in compliance with the EU requirements (LPIS, GIS; Registers, etc) in cooperation with the FBiH Geodetic Administration.

c) Activities planned in 2020

- Establish institutional framework for the application of the Law on Agriculture and Rural Development and Financial Support harmonised within BiH and aligned with the EU *acquis*, in cooperation with the Cantonal authorities competent for agriculture and state institutions responsible for agriculture and rural development;
- Monitor spending of collected charges, as dedicated revenue type of municipal budget that can be used for development, incentives and intensification of agricultural production in the municipality in the Federation of BiH, in cooperation with the

⁵⁹ www.fmpvs.gov.ba- List of stakeholders

⁶⁰ (Official Gazette of FBiH, 52/09)

Association of Municipalities and Cities and the Cantonal authorities competent for agriculture;

- Establish and strengthen institutional framework for provision of public services to farmers by professional and advisory services and organise trainings for farmers;
- Improve and update the information systems, registers and databases in agriculture in compliance with the EU requirements (LPIS, GIS; Registers, etc) in cooperation with the FBiH Geodetic Administration.

Expected impact on competitiveness: The expected impact on competitiveness of agricultural sector is positive. The income of farmers is expected to stabilise, as increased productivity and profitability of agricultural production will bring growth of farmers' income and significantly increase competitiveness of farmers from the Federation of BiH compared to the countries of the region, EU and the rest of the world.

Estimated cost of the activities and the budgetary impact: implementation of planned activities will not require additional funds to be allocated from the Budget of the Federation of BiH. Total projected amount of funds from the total expenditures of the Federation Budget for subsidies to private enterprises and entrepreneurs in 2018 - The incentive for agriculture amounts to KM 69.2 million, and this amount is projected for the next two years as well.

Planned investment in two agriculture projects according to the DAC classification, which are included in the PIP of the Federation of BiH 2017-2019, amount to 59.85 million KM, of which KM 6.39 million or 10.65% was spent in the previous years, while it was planned to spend KM 11.53 million in 2017, in 2018 KM 9.58 million and in 2019 KM 1.03 million (PIP for the period 2018-2020 has not yet been adopted.)

Expected impact on employment and gender: Implementation of planned activities is expected to contribute to sustainable and steady growth of agricultural production and ensure a better standard of living for farmers, which is set to result in growth of employment in the agricultural sector and activities associated with agriculture and in engagement of a larger number of women.

Potential risks: Potential risks are the lack of agreement and cooperation between all levels of government in policy making and legislation as well as adoption of strategic frameworks and establishment of institutional systems in the sector of agriculture and rural development in line with EU requirements; new stricter policies and legislation in EU after 2020; delays and standstills in harmonisation of legal provisions; insufficient financial resources; adverse climate conditions (frosts, droughts, floods, etc.). The potential risk for the implementation of the Rural Development Programme in the Federation of BiH 2018-2021 is that the Government of FBiH did not include it in PIP of the Federation of BiH 2018-2021. The Government of the Federation of BiH did not accept the draft loan agreement on new borrowing prepared by the delegation for negotiations; the Parliamentary Assembly of BiH did not give its consent to conclusion of the credit agreement and the Parliament of the Federation of BiH did not issue a Decision on foreign debt.

4.3.3.2. Environmental sector

Government of the Federation of BiH

In 2016, there was no significant progress recorded in improvement of environmental protection legislative framework relative to 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, which would comprehensively regulate the issue of setting up and using of economic instruments for environmental management, were not completed yet. They would 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.

The problem of high air pollution in the Federation of BiH has been increasingly pronounced in the recent years. Under the Rulebook on the manner of performing air quality monitoring, defining types of pollutants, limit values and other air quality standards, air quality is monitored by measuring concentrations of sulphur dioxide, nitrogen dioxide, floating particles PM10 and PM2.5, lead, benzene, carbon monoxide, arsenic, cadmium, mercury, nickel, and benzo-a-pyrene. Existing conditions in the Federation of Bosnia and Herzegovina do not allow for regular monitoring of all these parameters, and certain parameters are not being measured at all. According to data of the FBiH Hydrometeorological Institute, the concentrations of most type of particles measured in 2016 were mainly reaching or significantly exceeding the permissible values.

It is important to note that the existing system of delivering, checking and processing data on emissions of air pollutants is still less than adequate for reporting and not at the level of some countries in Europe and the region. The existing Register of Plants and Polluters kept by the FBiH Ministry of Environment and Tourism contains incomplete data on emission of pollutants so it cannot be a basis for calculation of the overall emission of pollution. There are no precise lists of operators that are required to submit data on emission of air pollutants; there are no criteria for selecting the measurement method on emission of air pollutants depending on the type, kind and capacity of the plant; there is no Rulebook for calculation of the emissions of air pollutants; and controls of emissions of air pollutants are not efficient enough. All these shortcomings significantly limit the ability for appropriate sustainable environmental management policy making. There is a plan for development of the Rulebook on the Ozone Depleting Substances.

Other laws and subordinate legislation are also being prepared that, due to the need of harmonising with the RS, have not yet been adopted. This primarily refers to the Law on the Amendments to the Law on Waste Management, which will be a basis for the Decree on the waste management information system, the Decree on products that become special categories of waste after discarded, the Decree on the manner of investment and conditions for awarding incentives, as well as a set of rulebooks for special categories of waste such as waste tyres, oils, vehicles, batteries and accumulators, etc.

Terms of reference were drafted for the development of the new Environmental Protection Strategy of the Federation of BiH and the FBiH Waste Management Plan.

The implementation of the Second Solid Waste Management Project (funded by the World Bank loans) is still encountering difficulties. Progress in identifying and providing support to new regions in FBiH is significant, but implementation in the new regions (Gornji Vakuf, Bihać, Živinice) has been slowed down due to major problems in drafting project documentation and obtaining permits necessary for the start of construction works on the construction of new regional landfills. The Bihać and Gornji Vakuf regions did not get an environmental permit for the selected sites of future regional landfills, while the Živinice region was granted environmental permit and urban planning consent but did not get a permit for construction (this permit is expected to be obtained in 2017). Since these regions did not obtain the required permits by 30 June 2016, the World Bank has cancelled a part of the loan for financing the construction of regional landfills in the regions of Bihać, Gornji Vakuf and Živinice.

4.3.3.2.1. Conserving, protecting and improving environmental quality

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

Economic instruments are crucial in the implementation of environmental protection measures. In the Federation of BiH, economic instruments for securing financing and achieving the objectives of environmental protection were primarily established through the mechanisms of the FBiH Environmental Protection Fund. The revenues of the FBiH Environmental Protection Fund are achieved through fees introduced based on environmental pollution in accordance with the "polluter pays" principle.

The revenues of the Fund are primarily provided by the Law on the Environmental Protection Fund (Official Gazette of FBiH, 33/03), the Law on Waters (Official Gazette of FBiH, 70/06) and the Law on Waste Management (Official Gazette of FBiH, 33/03 and 72/09).

Based on the aforementioned, the main revenues of the Environmental Protection Fund are secured through the fee payable at the registration of motor vehicles, fees paid by air polluters per annual quantity of sulphur dioxide emissions, nitrogen oxides and dust, and water fees.

In order to improve legislative framework, a new proposal of the Law on the Environmental Protection Fund was prepared in the past period, which more precisely defines the manner of collecting the Fund's revenues and distributing these funds between the Federation, the Cantons and municipalities, as well as the issue of transparent work, planning and reporting aimed at efficient and dedicated spending of funds that are primarily intended for the overall improvement of the state of the environment and the creation of prerequisites for sustainable development. It defines administrative and inspection supervision over the implementation of the Law as well as prescribes more detailed penal provisions.

A tendency for the coming period is to improve the system of environmental permits in order to make further alignment with the EU *acquis* in the area of horizontal legislation and the area of industrial pollution. There are major challenges in control of polluters both due to the lack of capacities in this area and the non-existence of the Environmental Agency as an expert institution for the purpose of appropriate supervision.

Activities per year:

a) *Activities planned in 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.
- FBiH Ministry of Environment and Tourism, the Environmental Protection Fund, the Government of FBiH and the Parliament of FBiH are responsible for the implementation of measures aimed at improving the economic instruments and the improvement of the system of environmental permits.
- 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.
- New Environmental Protection Law.

b) *Activities planned in 2019*

- Implementation of the legislative framework in the environmental area with the appropriate provision of financial mechanisms. Improvement of the business environment and the conditions for investment, with the appropriate environmental protection measures. Institutions responsible for implementation are the FBiH Ministry of Environment and Tourism, the Environmental Protection Fund, and the Government of FBiH.

c) *Activities planned in 2020*

- Implementation of the legislative framework in the environmental area with the appropriate provision of financial mechanisms. Improvement of the business environment and the conditions for investment, with the appropriate environmental protection measures. Institutions responsible for implementation are the FBiH Ministry of Environment and Tourism, the Environmental Protection Fund, and the Government of FBiH.

Expected impact on competitiveness: The expected impact is positive.

Estimated cost of the activities and the budgetary impact: 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 employment and gender: Environmental protection generates new jobs, without impact on gender.

Potential risks: Insufficient human capacity and expertise is a limiting factor and potential risk.

4.3.3.3. Services sector development

Industry

The underdeveloped and insufficiently diversified industrial base is one of the greatest challenges facing the economy of Bosnia and Herzegovina. This state of play in the BiH industrial structure is the result of historical heritage, inappropriate economic policies during the transition period and the global economic crisis. The current industrial structure is characterised by: under-utilisation of production capacities, outdated technologies, low employment and education structure of employees, as well as the modest volume of value added output and low share of exports. The dominant share in the structure of the BiH industry is taken by traditional labour-intensive industrial branches that are mainly based on exploitation of natural resources, while the share of medium and high-tech products is relatively modest relative to comparator countries. The result of such a production is industrial output in which products with a low final processing and value added play a primary role. Although physical volume of industrial production in Bosnia and Herzegovina has recorded growth over the past few years at an average rate of about 3% on an annual basis, no significant progress has been made so far with regard to the competitiveness of the BiH industry as shown by some structural indicators. Thus, for instance, the share of industrial output in GDP rose by 1.2 pp, from 17% in 2005 to reach 18.2% at the end of 2016. Indicators are similar for the manufacturing industry, which is the backbone of the BiH exports of goods, where the average annual growth rate in the same period was 3.9%, while its share in GDP increased from 9.9% in 2005 to 12.4% of GDP at the end of 2016.

Financial market

A healthy banking system is indispensable for the development of the economy of every country. This was particularly evident in the global financial market events in the last decade, when it became clear that the prudential criteria of financial institutions, particularly large banks and banking groups (the so-called too big to fail institutions), had to be tightened. The main objective of improving the financial sector is to secure the country's financial stability and to provide liquidity and access to sources of finance for various entities in the economy.

Following this trend, the efforts to change legislative framework for banking operations in BiH have been taken a few years ago in order to bring it closer to EU legislation and to apply the principles of Basel II and III in banking operations. The objective of the adoption of new laws on banks in FBiH and RS and the Law on the Banking Agency of FBiH and the Law on the Amendments to the Law on the Banking Agency of RS is, *inter alia*, is to strengthen the capital of the sector, to regulate the resolution procedure of troubled banks, to expand the competencies of the the banking agencies, address the issue of non-performing loans, etc. In addition to strengthening of the banking sector, it is also necessary to work on developing other financial institutions in the both Entities. The World Economic Forum ranked the financial market development in BiH modestly (3.5 on a scale 1 – 7, where 7 is the best grade), and BiH is ranked 104th out of 137 countries covered.

A set of laws governing insurance companies, leasing companies and investment funds in FBiH was adopted in 2017, while the development of the new Law on Microcredit Institutions is planned in 2018.

Due to many years of inertness and inefficiency of closed-ended investment funds, in 2017 the RS has started, and is expected to complete their transformation into open-ended investment funds in 2018. The result of this measure is expected to be increased trading in securities by investment funds. In addition, the RS is working to improve debt securities trading with the emphasis on debt securities placed by the public sector.

Tourism

The development of tourism and the accompanying tourist infrastructure in BiH is still lagging behind the countries where this sector is well-regulated and very high incomes recorded. Data suggest that the number of guests' arrivals in BiH is continuously increasing, so an increase by 11.3% was recorded in 2017.⁶¹ One of the facts speaking in favour of the growth of the tourism market in BiH is the arrival of the world hotel chains that have recognised potentials and keep opening the luxury accommodation hotels.

Tourism is one of the industries in BiH which would provide much higher revenues than now if many services are improved, such as: setting up appropriate road signs, better networking between tourist organisations and cultural institutions and more organised transport to tourist destinations.

The same as other sectors, this one is also followed by many difficulties, such as: poor tourist infrastructure, lack of strategic documents and a single register of service providers.

An additional problem is of institutional nature and concerns the adoption of laws and rulebooks governing the area of tourism (primarily in FBiH where there is a long delay in the adoption of the Law on Tourism, which provides for the tourism associations, tourist agencies and guides). One of the pronounced problems is also non-payment of tourist fees, i.e. evasion of reporting income from accommodation and renting capacities.

Manufacturing industry is one of the most important sectors of the economy of Republika Srpska, whose share in the total industry of Republika Srpska is amounting to 62.6% and the share in exports of Republika Srpska is amounting to 95.0%. It employs 52,116 workers or 20.6% of the total number of employed persons in Republika Srpska.

Key obstacles to growth and competitiveness in manufacturing activity reflect in the fact that manufacturing industry output is less than competitive as a result of utilisation of outdated technologies, lack of development capacities and underdeveloped quality system in companies. In this regard, it is necessary to work on support to the manufacturing industry, which will be reflected in the reduction of burden on labour and elimination of non-tax charges, thus releasing funds for investment and improving the production technology and, on the other hand, through measures for improving the business environment, manufacturing industry companies will be more competitive in the foreign market. In addition, the key obstacle to growth and competitiveness in this area, faced by increasing number of manufacturing companies as well as service sector companies, is low level of productivity and lack and outflow of labour.

4.3.3.3.1. Introducing tighter prudential requirements of the banking operations and regulating the bank restructuring procedure

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

In 2017, based on the identified obstacles to growth and competitiveness, the necessary measures were defined. The implementation of the measure in the financial sector area is ongoing according to the set activities and planned dynamics from ERP 2017-2019, as follows:

The introduction of tighter prudential requirements of the banking business and regulation of the bank restructuring procedure has been implemented by the adoption of the Law on Banks of Republika Srpska (Official Gazette of RS, 4/17) and the Law on the Amendments to the Law on the Banking Agency of RS (Official Gazette of RS, 4/17), which have been

⁶¹ Source: Agency for Statistics of BiH, Cumulative data, November 2017

significantly aligned with the EU directives and which introduce tighter prudential requirements and regulate the bank restructuring procedure and expanded Agency's competencies to bank restructuring and improving the internal management and decision making processes.

In June 2017, the Governing Board of the Banking Agency adopted the Statute of the Agency (Official Gazette of RS 63/17), which was approved by the Government of Republika Srpska, according to the Law on the Banking Agency of RS, which creates conditions for further institutional strengthening of the Banking Agency of RS in terms of the organisation of bank supervision and restructuring while respecting the principles of functional unbundling of supervisory tasks from the bank restructuring activities.

In July 2017, the Governing Board of the Banking Agency of RS adopted the subordinate legislation that regulates banking operations.

Subordinate legislation related to bank restructuring will be adopted by the end of 2017, according to the deadlines set for their adoption.

This activity is linked to the World Bank's Banking Sector Strengthening Project, which will be implemented through five components: improving bank regulations and supervision in line with Basel II/III criteria, addressing weaknesses in the banking sector, establishing a bank resolution framework, enhancing government and operation of the Entity development banks and technical support. In July 2017, the National Assembly of Republika Srpska adopted the Decision on the acceptance of the Republika Srpska's borrowing from the World Bank – the International Bank for Reconstruction and Development under the Banking Sector Strengthening Project (8741-BA), (Official Gazette of RS, 73/17). By the end of 2017, it is planned to: sign a Loan Agreement between BiH and the International Bank for Reconstruction and Development, as well as relevant subsidiary agreements between BiH and the Entities, to appoint the Project Implementation Team, and prepare and adopt the Project Operations Manual.

Activities per year:

- 2017: Q4: adoption of subordinate legislation pertaining to bank resolution, improving the capacities of the Banking Agency of Republika Srpska to perform functions of bank recovery and restructuring (the Banking Agency of Republika Srpska);
- 2018: Q1: development and submission of the resolution plans for bank and recovery plans for banking group of the Banking Agency of Republika Srpska (banks); Q3: review of the resolution plans for bank and recovery plans for banking group (of the Banking Agency of Republika Srpska); Q4: development of the resolution plan for banks having licences on the date of entry into force of the Law on Banks of Republika Srpska (Banking Agency of Republika Srpska);
- 2019: Q2: development of resolution plans for banking groups (Banking Agency of Republika Srpska).

Estimated cost of the activities and the budgetary impact: The proposed measure will not affect the budget cost in the period 2018–2020 because the Decision on the acceptance of the Republika Srpska's borrowing from the World Bank – the International Bank for Reconstruction and Development under the Banking Sector Strengthening Project envisages a 7-year loan repayment delay, after which it will incur cost in the budget in the amount of annual loan repayment. The implementation of the components of this Project in the period until 2020 will bring inflows into the budget in the total amount of the loan of EUR 27.3 million, which will be used for regular financing of the budgetary needs and for implementation of structural reforms in line with the specific strategies of the Government of Republika Srpska.

Impact on growth and competitiveness: The proposed measure aims at securing steady and secure banking system and protection of depositors, as well as greater market discipline of bank operations. Strengthening bank regulation and supervision and the implementation bank resolution legislative framework will contribute to increased confidence in the banking sector, which can bring an increase in investment, employment growth and improve competitiveness.

Social outcomes: The proposed measure aims at improving the business environment for access to financing of households and businesses with the objective to improve institutional, regulatory and supervisory framework for the banking sector and has no significant social impact on any specific social group.

Potential risks: There are no potential risks to the implementation of this measure.

The period 2018-2020 should see materialisation of the previously adopted Conclusion of the National Assembly of Republika Srpska on the merger of three regulatory agencies – for banking, for insurance and for securities – into one agency, in order to strengthen their power and reduce the possibility of endangering the survival and operation of any of them in the context of possible deprivation of authorities and transfer of competencies in this area from the Republika Srpska to the level of BiH institutions.

4.3.4. Business environment and reduction of the informal economy

Enhancement of the business environment and competitiveness is the main condition for ensuring stable economic growth. International reports (Doing Business, Global Competitiveness Index) emphasize that BiH has the worst ranking in the region in terms of factors that impact competitiveness.

One of the most frequently mentioned obstacles to growth and competitiveness is weak access of SMEs to funding, followed by weak rule of law and unclear legislative framework. This imposes the need to enhance the business environment and competitiveness in the area of starting businesses, speed of registration of business entities, acquiring construction permits and investor protection. (According to the Doing Business Report for 2018, BiH ranks as 166th in the area of dealing with construction permits, with 16 procedures and duration of 193 days; in the area of enforcing contracts it ranks as 71st out of 190 countries with an average of 595 days needed for resolving disputes.) Enhancement of the business environment in BiH is carried out at several levels of government (Council of Ministers of BiH and in Entities of FBiH and RS). The Council of Ministers is introducing the electronic signature - eSignature at the state level. As part of the process, the Ministry of Communications and Transport of BiH has formed the Office for Supervision and Accreditation of the e-Signature. Adoption of the new law and several regulations is currently underway.

At the Entity level, two directions of measures are simultaneously implemented – measures for enhancing the business environment (according to the Doing Business Report, BiH ranks 175th out of 190 countries in terms of the ease of starting a business, which is the lowest rank in the region) and support to SMEs. In RS, activities are implemented to adopt the new Law on the Tax System, in order to establish a register of para-fiscal charges, as the condition for eliminating unjustified charges (according to the Doing Business Report for 2018, BiH ranks as 137th out of 190 countries in terms of paying taxes).

In terms of support to SMEs, the adoption of the Law on Bankruptcy, which regulates the restructuring process and bankruptcy process is a significant contribution. As a result, there is a reduction of the costs of bankruptcy proceedings and restructuring process, and collection of claims, which also increases the liquidity of the economy.

In FBiH, activities are underway for the enhancement of several aspects of the business environment, including a set of measures: simplifying the registration of business entities with the necessary sub-measures for procurement of new software, shortening deadlines, and simplifying procedures for issuing different permits. The adoption of several laws is also underway. For successful entrepreneurship, it is necessary to have good infrastructure. In addition to new ideas, a favourable entrepreneurial environment is also needed. The following projects are being developed in that regard: Development of entrepreneurial zones in FBiH with the Project “Enhancing Institutional Entrepreneurial Infrastructure in FBiH”. In order to improve financing (which is singled out as one of the main obstacles to development of SMEs according

to international reports), the Law on Factoring has been adopted which stipulates establishment of new funds for support to SMEs development. It is necessary to provide stronger budget and systematic support to SMEs development.

Republika Srpska implemented business registration reform by introducing a one-stop-shop registration system as one of the parameters that are essential for doing business. As a result, registration costs, procedures and duration have been reduced, whereas the number of newly registered businesses increased. This result is not visible in international reports such as the Doing Business Report by the World Bank, since they only analyse the situation in one city/capital of the country (in the case of BiH – Sarajevo). There has been some, but not enough progress in Republika Srpska in terms of establishment of public e-services, especially the number of services to the business community. The key goal of the establishment of public e-services is to reduce costs and save time, as well as to increase the transparency of the work of public administration. With the aim of further improvements in this area and the general development of electronic administration, the Government of Republika Srpska has initiated activities within the next step of reforming business registration, which is electronic registration. Its significance is broader than just e-registration, since it creates the conditions for a series of other potential e-services (both for citizens and for the economy). The online registration project was approved by the Government of Republika Srpska in May of 2016, and a working group was formed for developing the online registration action plan. A significant part of the project is financed by the Government of the United Kingdom. The project includes several components: the first segment is complete digitalisation of court records on businesses registered in the RS, their final verification and connection to the electronic form of the business 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). In July of 2017, the Government of Republika Srpska discussed and adopted the project implementation concept. The contractor for digitalisation of the court archive has been selected, the Agency for information society is in charge of establishing the Centre for digital certificate management of Republika Srpska, while relevant ministries are in charge of initiating activities to amend the legislation necessary for project implementation.

By introducing multilateral compensation, the Government of Republika Srpska made the first step towards reducing illiquidity of the economy. The procedure of adopting the Law on Deadlines for Settlement of Financial Liabilities was initiated, and then postponed in expectation of an identical solution in the Federation of BiH.

The key obstacles to growth and competitiveness in the area of business environment and reduction of the informal economy are: lack of awareness of the need and possibilities for applying e-services in public administration, too much documentation in the area of spatial planning, and illiquidity of the economy.

The business environment is particularly significant from the aspect of small and medium-sized enterprises. After the adoption of the Decision on implementation of the Project for improving the business environment and market access at the level of the Federation of BiH and Project for improving the business environment at the local level, in accordance with obligations under the Consultation Contract between the Government of the Federation of BiH and the International Financial Corporation, activities are underway to improve the legislative framework that regulates the business environment and quality infrastructure in order to reduce regulatory costs related to raw materials, production, warehousing and logistics, to increase regulator capacity to ensure compliance with product requirements in accordance with EU standards, to strengthen investment policy and attract investors, and to facilitate access to markets in the region and beyond, reducing cross-border costs and delays in the movement of goods, as well as reducing costs and risks to the business of business entities. Apart from that, these projects provide for the simplification of procedures at the local level on 10-12 locations in the Federation of Bosnia and Herzegovina, reduction of costs and waiting times for

companies, and simplification of the registration process of business entities in the Federation of Bosnia and Herzegovina.

In the Sarajevo Canton, significant progress has been made in the area of obtaining construction permits with the adoption of the new Law on Spatial Planning in the Sarajevo Canton, which includes establishment of a Services Centre for the area of spatial planning and construction, which applies the one-stop-shop business system, i.e. ensures that citizens and business entities can get it all in one place. This significantly reduces the number of procedures and the time necessary for obtaining urban and construction permits.

Furthermore, amendments to the Law on Court and Administrative Fees have been adopted in the Sarajevo Canton which, among other changes, reduce the costs of procedures related to obtaining urban and construction permits, registration of assets and establishment of business entities. The other Cantons should certainly follow this example.

The key obstacles to more intensive development are the lack of harmonization of sectoral strategies and action plans with cantonal and state level strategies and the Action Plan for the Federation of Bosnia and Herzegovina, as well as the lack of budget allocations for development incentives to small and medium enterprises and crafts. In addition to harmonization, it is necessary to align these sector strategies with the recommendations of the Small Business Act for Europe.

There is a lack of clear criteria, at all levels, for the categorisation of business entities in small business economy, and lack of a single legislative framework for implementation of development, i.e. incentive programmes for development of entrepreneurship, as well as lack of a uniform criteria for allocation of incentives, with an emphasis on incentives to those business activities that are included in the Development Strategy (which is respecting the specificities of each Canton).

It is necessary to optimise the strategy of the Project “Developing small and medium-sized entrepreneurship in the Federation of BiH,” i.e. its goals, priorities and measures in the medium term, and to ensure better quality of planning in the development of the Action Plan for Implementation. For medium term strategic goals that re identified as priorities, it is necessary to define implementation priorities and measures, and develop an Action Plan with activities for a three-year period, all in accordance with state level strategic documents.

4.3.4.1. Business environment and reduction of the informal economy

Harmonisation of the quality infrastructure system in BiH

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

The current quality infrastructure system in BiH is not aligned with the European legislative framework, or with those of neighbouring countries, which reflects negatively on the business environment and affects the emergence of non-tariff barriers in trade.

The set of regulations in the area of quality infrastructure needs to be updated because EU regulations and technical solutions have been intensively changed since 2008. Particularly important are the 2008 EU Measures Package, the 2014 Alignment Package containing 10 new Directives with a new approach, EU Directive 305/2011 on construction products, etc.

The 2015 Strategic Framework for BiH includes improving the development of a competitive business environment within the strategic goal “Integrated growth”. It emphasizes free movement of goods as an important principle, which can be achieved by taking over the EU legislation, aligning technical regulations and standards, and continuously improving the quality infrastructure system consisting of technical regulations, standardization, metrology, accreditation, conformity assessment and market surveillance.

As one of its strategic goals, the medium-term work programme envisages improving the competitive business environment. Another strategic goal is to enhance the quality infrastructure system in line with EU legislation and good practices, ensure more efficient market regulation in order to ensure free movement of goods and services and fair market competition. Finally, as

the programme that is meant to implement the goals, it is necessary to develop the strategic framework of the quality infrastructure system in BiH.

As one of the main challenges facing BiH, the document BiH ERP 2017-2019 Commission Assessment states that Bosnia and Herzegovina's competitiveness continues to be hampered by the fact that it is not a single economic space with a unified approach to enterprise policy.

Other major obstacles to competitiveness stated in the document are the large, inefficient, complex, and burdensome public sector dominating the economy and the absence of a single economic space. It is important to establish coherent and effective coordination mechanisms and set medium-term common objectives that would effectively overcome the continuing lack of a single economic space with highly fragmented markets, being mostly set at entity or even canton level.

In the Bosnia and Herzegovina 2016 Report by the EU it is specifically stated that "Bosnia and Herzegovina is at an early stage of preparation for the free movement of goods. No progress was made in this area over the past year. Major steps need to be taken to achieve a fully-functioning system to ensure the free movement of goods. In the coming year, Bosnia and Herzegovina should in particular:

- further improve coordination between the relevant institutions;
- establish a register of technical regulations in force, and start to repeal country-wide the domestic legislation that conflicts with European standards;
- adopt a coordinated country-wide strategy for quality infrastructure."

In the EU recommendations from the First Meeting of the Subcommittee on Trade, Industry, Customs and Taxation under the SAA, held in Brussels on 8 June 2016, among other things, the following was said for the area of quality infrastructure:

- In view of BiH's future participation in the EU single market, the Commission calls upon BiH to establish a fully functioning internal single economic area. This implies removing all unnecessary administrative, legal and technical barriers to the free movement of goods within the country.
- The Commission calls upon BiH to introduce harmonized access to alignment with the EU acquis throughout the country. Adoption of the Integrated Strategy for Quality Infrastructure in BiH remains of utmost importance.
- The Commission also invites BiH to ensure equal application of conformity assessment procedures throughout the whole country.
- The Commission encourages BiH to make further efforts towards alignment with the EU acquis and repealing the conflicting domestic legislation.
- BiH will deliver in writing the accompanying information on the abolition of control of non-food products before placement on the market in the RS, as well as on activities of the market surveillance inspection in FBiH.
- BiH will deliver to the Commission an analysis of the legislative framework and the division of competences for alignment with the Old and New Approach directives

Development and adoption of the Quality Infrastructure Strategy in BiH

Earmarked funds amount to KM 322,710.87 from the Budget of the Institutions of BiH, and KM 247,289.13 from donations, which makes a total of KM 570,000.00. Technical regulations are currently in force in BiH which have been adopted at the level of BiH, the Entities, the Brčko District of BiH and even the Cantons in FBiH. Different regulations lay down different requirements that products must meet. That means that Bosnia and Herzegovina, *de facto* and *de iure*, does not have a single economic space.

A strategic document should identify the group of products which has special significance to the BiH economy. Of course, the potential for development should also be taken

into account for all industry branches that may be significant to BiH. Based on that selection, a quality infrastructure system should be prepared in BiH in order to initiate negotiations with the European Commission regarding the signing of the Agreement on Conformity Assessment and Acceptance of industrial products (so-called ACAA Agreement), which would remove the majority of technical barriers to trade with the EU.

The competitiveness of small and medium-sized enterprises would increase with the reduction of costs of laboratory testing and certification. At the moment, companies in BiH must use foreign laboratories for testing if they want to export their products. By establishing an efficient quality infrastructure system, the level of product safety on the domestic market would improve. By establishing an efficient quality infrastructure system, the capacities of existing laboratories would increase and new laboratories would open. That would include employment of highly educated staff and use of domestic intellectual potential. Consumers would be satisfied to have more and better-quality control over products safety. All the measures aimed at alignment with the *acquis communautaire* in the area of quality infrastructure will aim to strengthen support to the industrial sector. The areas of standardization, metrology, conformity assessment and market surveillance need to be reformed in line with EU, regional and world trends.

Enhancement of the business environment and reduction of the informal economy

The measure is proposed/implemented by the Government of the Federation of BiH.

It is necessary to optimise the strategy of the Project “Development of Small and Medium-Sized Entrepreneurship in the Federation of BiH,” i.e. its goals, priorities and measures for the medium-term period, and to enable better quality planning of the implementation action plan. For the medium-term strategic goals which are identified as priorities, it is necessary to single out priorities and measures for implementation, and develop an action plan of activities for a three-year period, all in accordance with strategic documents at the state level. With the purpose of creating a favourable business environment, sectoral strategies must be harmonised and aligned with recommendations from the Small Business Act.

Support to the development of entrepreneurial infrastructure in the Federation of BiH will continue in the future, with the goal of increasing economic growth and employment at the local level. The measure also contributes to the realisation of economic priorities defined in development strategies of local self-government units, and to the realisation of priorities defined in the strategic documents of the Federation of BiH.

The process of establishing and enhancing entrepreneurial infrastructure should be carried out through direct incentives from all levels, through developing strategic and legislative documents, with the aim of realising the economic priorities defined in development strategies of local self-government units, and priorities defined in the strategic documents of the Federation of BiH. Furthermore, activities will be implemented to establish the e-Administration system, which will provide the fundamental e-Services for the business sector, citizens and public administration through the e-Government central portal. That will significantly improve the availability of services to users, shorten the time necessary to carry out administrative procedures and standardise processes. Work will also be continued on the establishment of a one-stop-shop business system and electronic registration of business entities.

Activities per year:

a) Activities planned in 2018

- Amendments to the Law on Incentives to Small Businesses. The goal is to create a favourable business environment for the growth and development of small and medium-sized entrepreneurship.
- Development of an information system with a web-portal of entrepreneurial zones in the Federation of BiH.

- 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.
- Development of the Law on Improving the Entrepreneurial Infrastructure in FBiH.
- 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.
- Adopt Strategy for Development of Tourism 2018-2028 (Decision of the Government of the Federation of BiH V.No:1319/2017 dated 28 September 2017).

b) Activities planned in 2019

- 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.

Expected impact on competitiveness: There are a number of studies demonstrating how improving the business environment positively affects the competitiveness of the economy. More efficient action plans for implementation of sectoral strategies will contribute to increasing competitiveness of the private sector.

Estimated cost of the activities and the budgetary impact: The amount of KM 5 million will be spent for the project of supporting 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 allocation of loan funds in the amount of KM 2 million, as well as the amount of KM 3.07 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.

Activities for the harmonisation of sectoral strategic documents at all levels and alignment with the Small Business Act shall be implemented by the staff of the FBiH Ministry of Development, Entrepreneurship and Crafts, so the implementation costs shall comprise regular costs of salaries (no additional cost).

Expected impact on employment and gender: Positive effect on employment.

Potential risks: There is a risk of a lack of funding.

4.3.5. Research and innovation

A small country with limited resources such as BiH can successfully build its prosperity only by developing an economy based on technology and innovation. 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 these areas in the EU. Currently, the main issue is the gap between industry and science. The key weaknesses of the innovations system in BiH are: lack of demand for innovations; inadequate understanding of the role of innovations in economic growth and social development; small number of R&I staff and outdated or inadequate research infrastructure; STI is facing the problem of critically insufficient funding.

Changes should be focused on the following general goals:

- Improving human capacities, especially of young scientists and innovators,
- Encouraging enterprises to increase the demand for innovations and research,

Increasing private and public funding of RTDI.

Incentives for innovation and knowledge in the territory of BiH will enable the full utilisation of information and communication technology, and ensure that innovative ideas are transformed into new products and services that support growth, quality jobs and help resolve European and global social challenges.

The development of information and communication technologies is still at a low level and it is necessary to harmonise by-laws and laws, and comprehend the need for importance of broadband infrastructure and internet access.

Small and medium-sized enterprises are key to connecting high-technology innovation and digitalisation, because fastest growth is achieved by the enterprises that use technology to digitalise their business. In BiH, a very small number of enterprises introduced technological innovations. The lack of support programmes for enterprises in terms of technology training and lack of networking with research and education institutions are the main shortcomings of the process.

The research and technology sector is affected by the brain drain of the young, qualified population and quality staff of universities and research institutes, while those that remain in BiH still lack adequate working conditions. BiH does not allocate a lot of funding to research and development. A large portion of the research infrastructure, laboratories and equipment is destroyed, outdated and unusable. Due to a specific state structure and lack of coordination, there is a lack of scientific cooperation within the country, in the region and with international partners, which greatly impacts the efficiency of the scientific sector.

The process of terrestrial broadcasting digitalisation must be intensified considering that releasing the bandwidth enables the advancement of the telecommunications sector, which is crucial for the development of digital economy.

The Republika Srpska Strategy for Science and Technological Development 2017–2021 – “Knowledge for Development” demonstrates that significant progress has been made in Republika Srpska over the past five years in the area of research and development, such as institutionalisation of the area, organisation of science and research activities and technological development, introduction of contemporary criteria for co-financing of programme activities and increasing the quality of scientific research and innovations.

The situation in the area of research and innovations is similar to the situation in other countries in the region, although there are some specificities in Republika Srpska. In terms of research, the institutional framework is not sufficiently harmonised with good practices in Europe, the level and quality of scientific productivity is insufficient, the level of cooperation of the scientific community with the economy is also insufficient, the level of investment into science and research is extremely low, there is resistance towards the introduction of external work appraisal of individuals and organisations, and a lack of an interdisciplinary approach to research.

The area of technologic development is characterised by a large gap between the ability of the economy to absorb new technological solutions and lack of awareness of decision-makers on the importance of innovations and necessity of using modern technological solutions. At the same time, only a small number of large companies in Republika Srpska invest into innovations. Institutions of higher education are not systematically focused on innovation development, nor is there an adequate evaluation and rewards system for innovators, i.e. system of management of intellectual property. According to the Global Innovation Index Report, which ranked 128 countries in 2016, BiH ranks as 87th (in 2015 BiH was 79th out of 141 countries), with very low marks in the area of innovation and business sophistication.

Scientific productivity in Republika Srpska is much smaller than the scientific productivity of the countries in the region. The competitiveness of countries increasingly depends on their innovative abilities. Republika Srpska is among the “modest” innovators. The Foundation Innovation Centre Banja Luka (ICBL), the first modernly equipped, combined

centre for entrepreneurship support and development in Republika Srpska, is a successful model of cooperation between the various stakeholders.

The key obstacles to growth and competitiveness in the area of research, development and innovation and digital economy are: the institutional framework, which is not sufficiently harmonised with good practices in Europe; unsatisfactory level and quality of scientific productivity; low level of cooperation of the scientific research community with the economy; exceptionally low investment into scientific research development in comparison with developed European countries; resistance towards the introduction of external work appraisal of individuals and organisations.

4.3.5.1. Establishing a more efficient management system of scientific research and innovation potential in the Republika Srpska

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

Establishing a more efficient management system of scientific research and innovation potential in the Republika Srpska (RS): Quality education, developed scientific and research potential and strong institutions are a necessary, but not only precondition to development of science and research. The role of the public sector in this segment is especially important in terms of overcoming the partial relation towards research and innovation. The key duty of public sector policies is to encourage and create a favourable environment for networking and structural linkages of the education, scientific research and institutional sector with the economy. The complexity of the defined duty lies not only in the creation of necessary conditions for development, but also in efficient management of conditions that have already been met. The past period was characterised by significant positive breakthroughs in institutionalising this area, more active promotion and better organisation of scientific research and technological development, introducing modern criteria for co-financing of programme activities and raising the general quality of scientific research and innovation. Although a lot of effort was invested into improvements, there are still numerous challenges and obstacles for further improvement, such as: insufficient horizontal and vertical institutional coordination and cooperation; insufficient number and/or structure of researches and research institutions; 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; lack of objectivity and presence of bias in assessment of research results and lack of interdisciplinarity in research. There is also 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, which is amplified by very low financial support from public sources. In addition to that, 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. In accordance with the defined situation in the area of research and innovation, it is necessary to implement clear and targeted public policies focused on increasing the quality of research results, strengthening existing and building of modern capacities in line with previously defined priorities, because this is the only approach that will increase the capacity of the industry to apply innovative solutions as an efficient instrument for increasing competitiveness. The requirements for implementing these reform measures in the following period are: Improving the system of evaluating scientific research work and ensuring the material conditions for the work of the Scientometrics and Science Promotion Centre; Changing the financing model of research and innovation, which includes establishment of the Science and Innovation Fund of Republika Srpska (SIFRS); and Identifying and implementing necessary amendments to the legislative framework in accordance with reform goals.

Activities per year:

- Activities planned for 2018: 1st and 2nd quarter: Development of a Study on Justification of Establishment of the Science and Innovation Fund of Republika Srpska; Analysis of the existing legislative framework and identification of necessary amendments to the legislative framework in accordance with reform goals (Ministry of Science and Technology); (3rd and 4th quarter): Creating conditions for the establishment of the Scientometrics and Science Promotion Centre, selection of the adequate model and pilot project (Ministry of Science and Technology);
- Activities planned for 2019: 1st and 2nd quarter: Establishment of an adequate and favourable legislative framework for research and innovation, as the process that requires a coordinated approach of several ministries in the Government of Republika Srpska and other public institutions and agencies, as well as all participants of the socioeconomic life of Republika Srpska (Ministry of Science and Technology, Chamber of Commerce of Republika Srpska, competent ministries of other sectors, local communities); 3rd and 4th quarter: Establishment of the Science and Innovation Fund of Republika Srpska; Evaluation of the first results of implementation of the selected model for the Scientometrics and Science Promotion Centre (Ministry of Science and Technology).
- Activities planned for 2020: 1st and 2nd quarter: Amendments to the legislative framework in accordance with identified shortcomings and needs for more efficient functioning of the Scientometrics and Science Promotion Centre and Science and Innovation Fund of Republika Srpska (Ministry of Science and Technology); 3rd and 4th quarter: Comparative analysis of the previous and new management system of scientific research and innovation potential of Republika Srpska; Further improvements based on results of the analysis (Ministry of Science and Technology).

Estimated cost of the activities and the budgetary impact: The significant fiscal effects of proposed reform measures will only be visible in the long term, considering the specificity of investments into research and development. On the other hand, investments into the implementation of proposed measures will be relatively modest, considering the expected effects. Estimated cost of the activities: in the first year (2018) implementation of the pilot project for the Scientometrics and Science and Innovation Promotion Centre (so-called virtual model, suitable for evaluation of usefulness) in the amount of KM 50,000; Second year (2019), provided that the selected model for the Centre is proved adequate, requires KM 150,000 for its functioning and development; Third year (2020) is the first year of the Centre's full capacity and the planned costs amount to KM 200,000 KM, which is also the average amount for every following year; the Science and Innovation Fund, which will practically take over the grant from the budget of the Ministry, will reach profitability only if a minimum of KM 4 million in budget funds is provided as one of the sources (which is at the level of allocations from the Budget of Republika Srpska in 2011). In a relatively short period (three to four years), through improved quality of human research resources, financially measurable benefits will be visible in the sense of reduced need for budget support to the scientific research community, i.e. increased interest of the real sector to take over a significant share of funding, which we expect will lead to corresponding budget savings. Another expected financial effect are savings in the business sector that will result from engaging better quality of researchers to resolve business problems which they face.

Expected impact on growth and competitiveness: The application of innovative processes or products, taken over or developed within the business entity will have a powerful financial impact and result in intensive growth and development. This also leads to the effect of more profit creating more opportunities to invest into research and development and possibility of new jobs, which will continue the cycle of positive activities in the area. Innovative and active environments significantly increase competitiveness not only between local businesses, but also in relation to a wider market. Research leads to innovative solutions that the real sector can absorb and use, making it necessary to continuously strengthen the process of linking the

academic and business community, in a favourable environment and with the help of tools at the disposal of the public sector.

Expected impact on employment and gender: Additional financial effects and effects on competitiveness will have a long-term influence on increasing employment in scientific research on the one hand, and creation of new jobs in the real sector on the other, due to the effects of the use of quality and practical research and innovative solutions.

Potential risks: there are no potential risks to implementation of the measure.

4.3.6. External trade and investment facilitation

By analysing the key indicators of BiH external trade exchange with the rest of the world it can be concluded that there has been some, but not enough progress over the previous years. Namely, although BiH bases its strategy of economic development on integration of external trade with the world, i.e. increasing export, the fact remains that it is lagging behind competitor countries. According to data which is currently available for 2016, the share of external trade exchange in the GDP is around 85%, the share of export is 30%, import around 55%, whereas the external trade balance is negative and stands around 20% of the GDP. In other words, BiH is not able to satisfy consumption with its own production, nor has it sufficiently developed its export base to cover import. The main feature of BiH export offer is a small number of export products with low added value, which are exported into a relatively small number of markets dominated by the EU with a market share of about 70%. In addition to long-term challenges such as the overall business environment and industrial structure, obstacles in the area of external trade integration are the key limiting factors. Some of the identified challenges are a low level of integration of local companies in global value chains, non-tariff trade barriers, complicated export procedures and a generally low level of compliance with international standards.

According to the UNCTAD World Investment Report 2017, global flows of foreign direct investment decreased by about 2%. The opinion of multinational companies is that the causes of the downward trend in foreign direct investment are weak economic growth and significant political risk. Investment in developing countries declined even more, by 14%. Although UNCTAD predicts a modest recovery of FDI flows in 2017–2018, they are expected to remain well below their 2007 peak. In Republika Srpska the trend is the same as in most countries of the region, i.e. there has been no significant growth of foreign direct investment.

With the aim of stimulating investment, the Strategy for Stimulating Foreign Investment into Republika Srpska 2017–2020 was adopted, along with the action plan for its implementation. One of the measures is to keep current investors, stimulate current investors to re-invest, and to remove obstacles to their business.

The area is dependent on the movement of a series of factors: it is sensitive to international, regional and internal movements, such as global economic or political crises (for example, the migrant crisis, Brexit, natural disasters, etc.). The limiting internal factors that can be influenced are all elements of the business environment (which, in the broader sense, includes infrastructure, education, etc.).

The Trade Development Strategy of Republika Srpska until 2022 was adopted in the 21st session of the Republika Srpska National Assembly held on 13 September 2017. The Action Plan for Implementation of the Trade Development Strategy of Republika Srpska until 2022 will be adopted by the Government of Republika Srpska by the end of 2017. The Trade Development Strategy of Republika Srpska plays a significant role in the future development of Republika Srpska. Among other measures, the Strategy includes support to development of domestic production and final products, and brand development.

Consequently, the key obstacles to growth and competitiveness in the area of trade reform identified in Republika Srpska are insufficient support to development of local production and final products, and product brand development.

4.3.6.1. Trade liberalisation in BiH

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

Bosnia and Herzegovina is fully committed to building a liberal economy based on market principles and free movement of people, capital, goods and services. In the area of international trade relations, that means full integration of the economy of Bosnia and Herzegovina into the international multilateral trade system, established within the framework of the World Trade Organisation (WTO), and development of trade legislation based on the rules and principles of the organisation.

Inclusion of BiH into the global multilateral trade system by accession to the World Trade Organisation (WTO) is a highly complicated process that demands years of negotiation, implementation of numerous reforms, passing of series of laws, establishing new institutions and implementing many reforms, which envisaged the removal of all non-tariff barriers to trade and non-tariff measures for protecting the domestic industry, reduction of customs protection, liberalisation of trade in services, ensuring equal treatment of domestic and foreign goods, as well as of domestic and foreign service providers.

As of September 2017, the WTO “Legislative Action Plan” was fully implemented, which effectively completed the reform process aimed at harmonising local legislation with the rules and principles of the World Trade Organisation.

However, this did not end the process of reforming domestic legislation. It is a continuous process that should focus on harmonizing domestic legislation and the application of the *acquis communautaire* in the domestic legislation in the coming period, and in that sense, a binding mechanism of conformity assessment in the process of adopting new regulations at all levels of government has been established.

Furthermore, trade policy measures in Bosnia and Herzegovina are also focused on supporting domestic economy to reach appropriate production standards and, consequently, the quality of final products, which will enable their placement on highly demanding foreign markets. These measures are especially relevant in the area of agriculture, and have already yielded some results in terms of placing specific goods into foreign markets, such as fish, milk, chicken, fruits, vegetables, ...

Parallel to the process of reforming domestic legislation, and in accordance with its general commitment, Bosnia and Herzegovina has carried out significant liberalisation of the goods market in the past period. In this context, Bosnia and Herzegovina's trade exchange within the framework of the regional CEFTA Agreement is fully liberalized, while in the framework of the SAA and the Free Trade Agreement with EFTA, a number of agricultural products have been excluded from liberalization.

It is estimated that the process of trade liberalisation has achieved some results, primarily in terms of increasing the volume of trade exchange, increased export and increased coverage of import by export of domestic goods. On the other hand, the implemented liberalisation generally did not yield any effect in terms of attracting foreign investment, which was expected as a result of establishing a broader regional free trade market, nor did it result in any social effects in terms of increasing employment.

It is also evident that the liberalization of trade and the abolition of customs duties on imports of goods within the said integration processes did not lead to a decrease of budget revenues from indirect taxes, primarily because the fall in customs revenues was offset by more efficient VAT collection, which is also the result of reforms in this area.

In the future course of the liberalization process, the activities of Bosnia and Herzegovina within the CEFTA region will be aimed at continuing the abolishment of all trade barriers and trade facilitation through simplification of all import and export procedures, in accordance with the WTO Trade Facilitation Agreement. Also, within the framework of the CEFTA Agreement

and bilaterally with Turkey, Bosnia and Herzegovina entered the process of liberalization of trade in services, the effects of which are expected in increasing employment and the quality of provided services.

Development of the General Export Promotion Strategy of BiH

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

Indicative – time of development: 3rd quarter of 2020 – there is no estimated implementation cost, as it depends on funds granted from the IPA EU project – development method: the working group will include representatives of various institutions from all levels of government, the private sector, chambers of commerce and experts from EU IPA projects. The document is meant to identify/analyse the current situation and specify measures, activities, competent institutions and timeframe (through analysing the economic, institutional and business context, etc.) and define the key goals.

The Strategy should identify clear priorities – for example, increasing the amount of exports, increasing the number of exporters, reducing the foreign trade deficit, enhancing the structure of BiH exports, strengthening the position of companies in the current markets and exports into new, particularly into fast-growing markets, enhancing the overall position of BiH in international trade exchange – these are just some of the key priorities that can affect the growth of the gross domestic product (GDP), opening new jobs and reducing the unemployment rate, as well as improving competitiveness.

In conditions of the economic crisis in which BiH finds itself, exports are one of the most important drivers of overall recovery of the country. Export orientation is the only factor that can guarantee a small country with a high unemployment rate the improvement of competitiveness and long-term sustainability of economic growth/development. Over the past 20 years, BiH has been recording continuous deficit in foreign trade exchange, with imports of goods being approximately double the size of exports (currently, coverage is somewhat better and is about 60%). The share of BiH goods/services in the GDP over the past five years ranged from 37% - 43% (while goods exports accounted for about 19% - 20% of the GDP). In Central European countries, the share of exports of goods/services in the GDP was significantly higher – according to World Bank data, in the Republic of Slovakia it ranged from 71% - 89%, in the Czech Republic from 64% - 78%, and in the Republic of Hungary from 81% - 94%.

BiH products typically have low added value and cannot compare with products of technologically developed countries which invest a lot more expertise and technology. The reasons for weakness of BiH exports are multifaceted, and primarily refer to the lack of competitiveness that results from the high cumulative increase of prices of local inputs, low investment into research and development, fragmentation of the entrepreneurial structure, weak linkages between direct investment and exports programmes, insufficient financing possibilities, and disorganised access to foreign markets. Until now, institutional support to exports by state institutions and business associations mostly referred to financing and supporting participation in fairs, and there is no developed horizontal institutional support that would include support to strengthening competitiveness (modernisation of production, services, business processes and technologies, capacity building and broadening the range of products/services, application of expertise in production processes, development research).

So far, there have been several attempts to develop this document (e.g. the most recent attempt was by the Sector of Foreign Trade Policy and Foreign Investment, assisted by experts of the IPA EU project, which developed the Draft BiH Export Growth Strategy 2012 – 2015, but it was not adopted due to different positions from the entity/state level).

- Amendments to the **Law on Foreign Direct Investment Policy in BiH and the Law on External Trade Policy of BiH** (A cross-sectoral group should be established with participation of IPA EU project experts. The tentative deadline for these activities is

the 4th quarter of 2019 – 2020. There is no estimate of the cost of activities of amending the laws, because they depend on approved IPA EU project funds). Furthermore, with the aim of improving the legislative framework (and aligning the legislation with the *acquis*), i.e. with the goal of improving the business environment in order to increase the export of goods/services and foreign investment, it is necessary to amend the legislation in the area of foreign investment and external trade.

The **Law on Foreign Direct Investment Policy in BiH** – foreign investment is one of the key factors of achieving self-sustainable economic growth in BiH, and the legislative framework should be harmonised with international best practices in order to create a more favourable environment for attracting foreign investment. In that regard, increasing the level of investment activities will lead to an increase of the production base necessary to generate economic growth, attract foreign capital that will lead to profiling the economy to multistage processing, through expansion of the export product assortment. Investment is the condition for maintaining and increasing production, i.e. increasing export.

Some provisions of the Law are unenforceable, unclear, incomplete, which is why it is necessary to improve the clarity, stability and predictability of the Law with the goal of meeting the requirements of best practices. A detailed analysis identified the key dilemmas in the enforcement of specific provisions of the Law in the area of investor protection, resolution of disputes, investment safety (protection or guarantees), establishing the ownership rights on property for foreign investors, etc.

The legislative framework that regulates the area of foreign investment in BiH has been analysed on two occasions, with a special emphasis on the Law on Foreign Direct Investment Policy in BiH (in cooperation with the International Financial Corporation – IFC – a member of the World Bank Group, as part of the Project “Enhancing the Business Environment and Strengthening Competitiveness and Strengthening Trade Logistics in Bosnia and Herzegovina”), on which a Report was submitted to the BiH Council of Ministers containing the conclusions of the analyses and future activities (there were no specific/final results in terms of amendments to the Law).

Comment: **Law on External Trade Policy of BiH** – amendments of the current Law are necessary for the following reasons – provisions and principles of the WTO General Agreement on Tariffs and Trade (GATT) must be adequately incorporated, as well as the key provisions of WTO’s TBT and SPS agreements. Namely, although all international, bilateral and multilateral agreements are based on GATT provisions, the Law does not mention anywhere the provisions of this key international agreement in the area of trade. Furthermore, there is a series of poorly defined terms, provisions of the General Agreement on Trade in Services (GATS) are not fully or adequately incorporated, which includes the definition of certain terms that determine the property in which a foreign natural person may provide services, etc. All of the above creates legal insecurity of doing business in BiH, limits and reduces foreign investment in specific areas/services, which indirectly affects the export of goods/services, and the amendments will ensure improvement of the business environment.

Expert of the IPA EU Project (2016) analysed the area of external trade policy, with an emphasis on analysing provisions of the Law on External Trade Policy of BiH, but no concrete activities were undertaken by the relevant authorities to amend the Law.

4.3.7. Education and skills

The extremely high unemployment rate requires measures aimed at increasing employability of the unemployed in terms of building quality human resources.

A reform including building new qualifications based on learning outcomes would facilitate adapting to change and requirements of the labour market, thus increasing employability.

The existing barriers related to the lack of a strategic framework for developing human resources, finances and inadequate training of teachers and other non-teaching staff, will also be resolved through this reform.

Underdeveloped infrastructure and unequipped educational institutions contribute to inadequate and incomplete education and professional development of future labour force and their preparedness for inclusion in the labour market.

In the information society, all individuals must understand, interpret and utilise scientific data, produce new data and be able to solve problems. In the 21st century, it is necessary to update available information, knowledge and skills, and there is a need for lifelong learning. For the 21st century society to progress, knowledge must be accessible to all. In addition to legislative and financial support to adult education, it is also important to keep citizens informed and motivated to acquire new knowledge and skills for active participation in the labour force market. The barriers to key instigators of economic growth must be removed, and one of the most important elements in that process is to build competences, knowledge and skills of the labour force, and ensure better and more direct relationships between employment institutes on the one hand, and chambers of commerce and employers' associations on the other.

Improving links between education and the labour market is a lasting process that requires continuous activity of both competent institutions and the society as a whole. Successfully linking education and the labour market required a detailed analysis of the situation in the labour market, with the goal of harmonising enrolment policies of secondary schools and institutions of higher education with the needs of employers and labour markets of local self-government units. Emphasizing entrepreneurial and innovation components in the area of secondary and higher education, and harmonising occupational standards and qualifications standards with the needs of the labour market, together with strengthening cooperation of the real sector with the education sector, can be the shortest route to accelerating economic development in Republika Srpska.

The barriers to growth and competitiveness in the area of education and skills are: Enrolment policies that are not aligned with requirements of the labour market; Lack of an entrepreneurial and innovation component in the educational process; Pupils and students do not have access to practical classes and trainings carried out outside educational institutions in enterprises and companies, and lack of mentors in enterprises and companies to work with and follow up on pupils and students; Teaching processes not sufficiently adjusted to contemporary methods and forms of labour in the area of education.

4.3.7.1. Improving links between education and the 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.

The priorities in the area of education in BiH are **reforming secondary vocational and higher education, primarily in order to increase employability, with special emphasis on the youth.**

According to data of the Agency for Statistics of BiH (source: Labour Force Survey 2016), the unemployment rate in Bosnia and Herzegovina was 30%, the percentage of the unemployed with primary education qualifications was 17.1%, percentage of those with secondary education qualifications was 63.8%, whereas 19.1% of the unemployed comprised persons with higher education qualifications.

The youth unemployment rate (15-24) in 2017 was 45.8%, noting that the unemployment rate among young women was 51.4%. The computer literacy rate among the youth in BiH in 2013 was 66.8%, while the rate for young women was 48.7%. The development of entrepreneurial and digital competences among the youth would contribute to increasing youth employment.

Therefore, the proposed reforms refer to:

- Introducing key competences in curricula, focusing on entrepreneurial and digital competence.
- Developing a methodology for valuating non-formal and informal education, in order to ensure sufficient mobility and recognition of qualifications, and remove the barriers to efficient monitoring of the labour market.
- Developing a quality assurance system in secondary vocational and higher education, as well as links between the sectors of education and training, and work and employment.
- Further developing and implementing the qualifications framework for lifelong learning, which includes qualifications based on learning outcomes and key competences that are relevant in the labour market.

The rate of population participating in lifelong learning in 2016 was 2.6%, which is significantly below the EU average (10.8%).

As the result of education reforms, the following strategic and other documents were adopted at the level of BiH, which will serve as guidelines for further actions.

- Baseline Qualifications Framework of Bosnia and Herzegovina (Official Gazette of BiH, 31/11);
- Principles and Standards in the Field of Adult Education in Bosnia and Herzegovina, (Official Gazette of BiH, 39/14);
- Strategic Adult Education Development Platform in the Context of Lifelong Learning in Bosnia and Herzegovina for the Period 2014-2020, (Official Gazette of BiH, 96/14);
- Action Plan for the Development and Implementation of the Qualifications Framework in Bosnia and Herzegovina for the Period 2014-2020, (Official Gazette of BiH, 28/15);
- Decision on Adoption of the Road Map for Implementation of the EU Directive 2005/36EC and 2013/55EU on Regulated Profession (Official Gazette of BiH, 10/16);
- Priorities for Higher Education Development in Bosnia and Herzegovina for the Period 2016 – 2026, (Official Gazette of BiH, 35/16);
- Decision on the Coordination System of the European Integration Process in Bosnia and Herzegovina (Official Gazette of BiH, 72/16);
- Memorandum of Understanding on the Establishment of the Conference of Education Ministers in Bosnia and Herzegovina (Official Gazette of BiH, 19/08);
- Decision on Appointment of Coordinating Institution and Contact Point for Implementation of the Road Map for Implementation of the EU Directive 2005/36EC and 2013/55EU on Regulated Profession (Official Gazette of BiH, 30/17);
- Platform for Development of Preschool Education in BiH for the period 2017-2020.

Consultations and forums on the implementation of reform processes are also organised with international partner organisations. One of these formal forums is the Coordination Forum of the Ministry of Civil Affairs and international partner organisations in BiH.

The basic policy is for BiH to work on further enhancing the quality of all types and levels of education. An important element is further building and implementation of the qualifications framework for lifelong learning, which includes qualifications based on learning outcomes and key competences that are relevant in the labour market. The Draft Strategic Planning Document for the Period 2018 – 2020 focuses on vocational and higher education, as the education levels which enable inclusion into the labour market. In that respect, one of the main priorities is developing and introducing key competences for lifelong learning in all levels of education, focusing especially on entrepreneurial and digital competences.

Activities pertaining to further developing and implementing the qualifications framework for lifelong learning in BiH are currently underway, with previously developed specific elements related to the qualifications framework for general education, and currently ongoing activities aimed at developing and implementing elements of the qualifications framework for lifelong learning in BiH in vocational and adult education.

Implementation of EU standards in the area of education and training through development of framework strategic documents (qualifications framework and development of new qualifications based on learning outcomes and, in relation to this, revising the curricula and study programmes in vocational and higher education; introducing entrepreneurial and digital competences in all levels and types of education, teacher training). Development of adequate infrastructure in the area of education and training, in line with EU standards.

The implementation of these measures will be monitored through the following indicators, as defined in the Sector Planning Document 2018-2020:

- Number of educational institutions included in infrastructure projects and equipped,
- Developed occupational standards and qualifications standards based on learning outcomes in secondary vocational education and higher education,
- Number of schools which introduced key competences (entrepreneurial and digital).

The implementation of listed measures will be financed from EU funds, because the Ministry of Civil Affairs does not have jurisdiction over funding in the area of education and, accordingly, does not have earmarked budget funds. The development of new qualifications, knowledge, skills and competences based on learning outcomes, as well as key competences for lifelong learning, will have a positive effect on increasing overall employability, primarily in terms of easier and faster adaptability to constant changes in the labour market. Increasing employability and social cohesion. Reforms of the sector of labour, employment and social policy in terms of social inclusion and social cohesion.

Improving links between education and labour market

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

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

a) Activities planned in 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.

Expected impact on competitiveness: A positive impact on competitiveness is expected.

Estimated cost of the activities and the budgetary impact: Implementation costs for this reform measure are ensured in the Budget of FBiH and amount KM 0.9 million in 2017, KM 0.87 million in 2018 and KM 0.86 million in 2019.

Expected impact on employment and gender: A positive impact on employment is expected; no negative impact on gender is expected.

Potential risks: The potential risks include challenges of coordinating with ten Cantonal ministries of education.

Improving links between education and labour market

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

Successful linkage of education with the labour market requires a detailed analysis of the situation in the labour market, with the goal of harmonising enrolment policies of secondary vocational schools and higher education institutions with demands of employers.

Occupational qualifications should correspond to the relevant labour market requirements, and in order to achieve this, all social partners must be involved in initiating the procedure of developing the qualifications framework of Republika Srpska, which will enable adequate monitoring, evaluation and alignment of study programmes and curricula, i.e. modules, with the needs of employers and the labour market.

The qualifications framework will describe and evaluate in the same way all the qualifications gained in secondary education, higher education institutions and in the workplace. The qualifications framework includes all qualifications gained through formal, informal and non-formal education and defines the qualifications levels and learning outcomes of each level. Education is an activity of general social interest and therefore it is necessary to continually work on raising its quality.

The measure of the Government of Republika Srpska in the area of education and skills “Improving links between education and labour market” will be implemented continually.

In the field of higher education, the measure will be implemented through innovations in study programmes that will orientate them towards practical and research aspects of studies, as well as through cooperation of higher education institutions and the industry, which will increase participation of vocational study programmes to 7% over a period of five years.

In secondary vocational education it is necessary to continually work on creating the conditions for developing occupational standards and qualifications standards based on learning outcomes. Occupational standards are a list of all jobs that an individual carries out in a particular profession and a list of competences needed to successfully perform them.

Activities per year:

- Activities planned for 2018: 1st quarter: Adoption of the Law on Secondary Education; Adoption of the Rulebook on the enrolment plan for the following school year and Rulebook on enrolment of pupils in the first grade of secondary school; 2nd quarter: the enrolment policy for secondary schools will be developed in accordance with the real needs of employers; the Government and employers will agree on supply of equipment to technical schools, while special attention will be paid to linking schools with the industry in order to ensure the conditions for traineeships for occupations in demand; Options for paid traineeships for pupils training with an employer will be found by signing contracts between the school and employer; The current higher education scholarship principle will be re-evaluated in a way that will pay more attention to students who complete their obligations on time; 3rd quarter: Enhancing the quality of work of the RS Pedagogical Institute through modernisation; 4th quarter: Adoption of the Rulebook on classification of occupations and

Rulebook on methodology of education through traineeships with employers; Establishment of institutional support to identifying the needs of the labour market for specific occupations and professions over a period of three to five years.

- Activities planned for 2019: 1st quarter: Develop 20 occupational standards; 3rd quarter: Develop flexible curricula with up to 20% of curricula created by teachers, pupils and schools in cooperation with the local community; 4th quarter: In cooperation with relevant institutions, develop the Action Plan of developing revised modular curricula, in accordance with the needs of the labour market; Continually: Raise awareness on the importance of entrepreneurial education.
- Activities planned for 2020: 1st quarter: Define rules and procedures for development of the Qualifications Framework for secondary vocational education; 2nd quarter: Develop 10 occupational standards; 4th quarter: Developed Qualifications Framework from the second to the fifth qualifications level; continually: Adopted Continuous Training Programme for Teachers in Vocational Education, harmonised with labour market needs.

The institution in charge of implementing all activities under this measure is the Ministry of Education and Culture of Republika Srpska.

Estimated cost of the activities and the budgetary impact: Currently, it is not possible to estimate the fiscal effects, considering that the measure is to be implemented in the medium-term period.

Expected impact on competitiveness: Increased efficiency of education and, consequently, of the labour market will significantly affect competitiveness of the economy of Republika Srpska, with the ultimate goal of reducing the unemployment rate.

Social outcomes: Increased competitiveness of the economy of Republika Srpska and increased attraction of foreign investment through increasing competitiveness of the economy will have a direct impact on employment and social situation of the population.

Potential risks: The risk of the implementation of this measure lies in the large number of involved partners and the need for a very detailed and comprehensive analysis of occupations in need in every local self-government unit.

4.3.8. Employment and labour markets

The labour market is one of the most important segments of every economy. Like all transitional countries, BiH is faced with a series of barriers in the labour market. High unemployment rate (20.5%) in 2017, long-term unemployment, low employment rate (33.9%) and activity rate (42.6%) are some of the characteristics of the BiH labour market, particularly if we observe the EU 28 average.⁶² The implementation of passive labour market measures is still prevalent in the activities of public employment services.

Labour market institutions and employment services need to be strengthened in terms of capacity development for more efficient work with clients and the development of more effective active labour market measures. The main task of public employment services in BiH in the coming period is the implementation of new methodology of work across the country.

In accordance with the above, reform measures in the area of labour market have been proposed.

Although the labour market situation in FBiH improved compared to the previous year, and the trend of increasing the number of the employed in FBiH continued, the rates showing the realistic picture of the labour market situation are still far from the average of countries in the region or EU countries.

The employment rate in 2016 in the Federation of BiH (measured in relation to working age population in accordance with Eurostat methodology – registered employment) was 29.4%,

⁶² Source: BiH Labour Force Survey 2017. For comparison, the unemployment rate in EU 28 in 2016 was 8.6%, the employment rate was 52.8% (15+), whereas the activity rate was 57.7% (15+).

which is a 2 percentage points increase compared to the previous year. If, for the sake of comparison, we look at the survey employment rate (according to data from the Labour Force Survey 2016) in the Federation of BiH in 2016 it was 30.5% (slightly higher than the registered rate) but it was still less than half of the European average. In the reporting year, in the 28 EU countries, the employment rate according to the EU labour force survey was 66.6%, which means that the Federation of BiH has the lowest employment rate in the region.⁶³

The labour market in FBiH is also characterised by a very low workforce activity rate, which was 50.8% in 2016 and which recorded a 1.5 percentage point drop in comparison with the previous year, whereas the workforce activity rate in EU 28 countries is 73.0%. This means that in the labour market of the Federation of BiH, only slightly over 50% of persons capable of work could be included in production of goods and services.

Although the Federation of BiH has been recording a downward trend in the number of unemployed persons, unemployment as a social category remains one of the biggest challenges FBiH is faced with. In FBiH, a little under 50% of unemployed persons are unable to find employment. This means that the issue is not just cyclic, but also structural unemployment, in which chances of employment are progressively decreasing. Young people are especially affected as they do not manage to enter into in 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 advertisements 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 level of 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) was 45.2% and has reduced by 1.2 percentage points in relation to the previous year, and if we observe survey unemployment, FBiH is still far behind the region and EU countries with 25.6%.⁶⁴

The labour market in BiH is characterised by a low employment and activity rate, high unemployment rate, especially youth unemployment, as well as a high level of informal employment (“moonlighting”). The high level of informal employment in overall employment continues to be one of the main issues in the labour market, which visibly affects the perspective of the real unemployment rate.

In the field of labour and employment, the main issue is still the high unemployment rate and inactivity rate of the population capable of work. Although enforcement of the reformed Labour Law from 2016 lead to reduced rigidity of employment procedures, exercise and protection of labour rights and termination of labour, there are still objections from the business community regarding the lack of flexibility of labour legislation.

With the goal of increasing employment, it is necessary to improve the business environment and expand the labour market through organised and systematic development of agriculture and industry production, and utilise the advantages of these sectors by developing a cooperative model.

The barriers to growth and competitiveness in the field of employment and the labour market are: lack of precise records and data on active labour supply; lack of linking between the education system and labour market; unharmonized and uncoordinated work and weak development of labour market institutions; low employability level of active jobseekers.

⁶³ The EU28 average employment rate in 2016 was 66.6%, Germany 74.7%, Bulgaria 63.4%, Romania 61.6 %, Hungary 66.5% and Slovakia 64.9%, Slovenia 65.8%, Croatia 56.9%, Albania 55.9%, Serbia 55.2%, Montenegro 52.0% and FYR Macedonia 49.1%.

⁶⁴ The EU 28 average survey employment rate in 2016 was 8.5%, Germany 4.1%, Slovenia 8.0%, Croatia 13.3%, Albania 15.6%, Serbia 15.9%, Montenegro 18.0% and FYR Macedonia 24.0%.

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.

In addition to improving targeting of active labour market policies, the reform includes reducing the administrative burden on public employment services, investing in human and material resources and monitoring the performance of the services.

It aims at separating the administrative from the advisory part of work, which requires more activities, from arranging the premises for more client-oriented services, complementary investment in human and material resources, to financing active employment policy measures and improving norms and standards of services in terms of performance monitoring. As regards investment in human resources, systematic staff training is planned on techniques of working with individual clients, profiling, as well as designing and streamlining active labour market policies, and work with local stakeholders.

This reform will affect the strengthening of services and increase efficiency of public employment services, increase employability of labour force and, consequently social inclusion, and improve the provision of timely and exhaustive statistical data.

Improving the labour market efficiency

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

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 grey 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 employers and employees can suffer in cases of work stoppages that could have been prevented by dialogue and arbitration.

Activities per year

Activities in 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.

a) Activities planned for 2018

- 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.
- Implement employment and self-employment programmes aimed at young people, women and other vulnerable groups of the unemployed.
- Law on Representation of Trade Unions and Employers' Associations.

b) Activities planned for 2019

- Law on Economic and Social Council.

c) Activities planned for 2020

- Law on Employees' Council.

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.

Estimated cost of the activities and the budgetary impact: The overall value of the Employment Support Project is KM 110 million, of which a little more than KM 50 million is allocated to FBiH, financed partly from a World Bank loan and partly from budget funds.

Expected impact on employment and gender: Employment of about 21,000 persons from employment bureaus is expected through implementation of the planned project, from the category of youth (aged 15-30) and the hardly employable. It is expected that this measure will lead to an increase in the number of employed persons in FBiH. Increase of employment will contribute to lifting vulnerable groups and their families from poverty, preventing brain drain, and economic empowerment of women by creating equal opportunities and equal access to the labour market.

Potential risks: Uncertainty of the adoption of Laws in Parliamentary procedure, and possibility of securing a loan to finance employment incentives.

4.3.8.3. Improving the labour market efficiency and Employment Agency reform

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

Improving the labour market efficiency and Employment Agency reform: Partial success was achieved in the implementation of this measure, which was also planned in 2017. Namely, the key activity for improving the labour market efficiency in Republika Srpska under this measure was to reform and redefine the role of the public employment service – PI Republika Srpska Employment Institute, in line with adopted strategic goals from the Strategy of Employment of Republika Srpska 2016–2020 and Action Plan for Employment in Republika Srpska for 2017. The basis for the planned measure is adoption of amendments to the Law on Mediation in Employment and Rights during Unemployment and other regulations regarding unemployment records. To that end, an interdepartmental working group was formed, which actively includes representatives of social partners. The working group prepared the Draft Law, but further activities were discontinued due to the fact that no significant progress was made to develop the new Law on Health Insurance, whose adoption is a prerequisite for further activities in formalizing the Draft Law and other related regulations because it will regulate differently the right of unemployed persons to health insurance.

Activities per year:

- Activities planned for 2018: Adoption of the Law on Strike (Ministry of Labour and Protection of War Veterans and Disabled Veterans of Republika Srpska); Adoption of the Law on Amendments to the Law on Mediation in Employment and Rights during

Unemployment (and other regulations related to management of unemployment records); (Ministry of Labour and Protection of War Veterans and Disabled Veterans of Republika Srpska), which directly depends on the adoption of the Law on Health Insurance of Republika Srpska (Ministry of Health and Social Welfare of Republika Srpska), which will adequately regulate the right of unemployed persons to health insurance.

Estimated cost of the activities and the budgetary impact: The Employment Institute of Republika Srpska will be relieved of servicing health insurance by separating active job seekers from the persons who are only on record in order to have the right to health insurance. By separating active jobseekers from passive job seekers, the intermediary role of the Employment Institute will be strengthened for the purpose of performing mediation for persons who are actively seeking employment.

Expected impact on competitiveness: Strengthened intermediary role of the Employment Institute and increased quality of mediation services, and improved targeting of active employment policies.

Social outcomes: Given that this is a complex area, which is also socially sensitive, it is necessary to carry out a professional, detailed and careful analysis of the situation for the purpose of synchronising the activities of separating health insurance from the Employment Institute by the Ministry of Health and Social Welfare, Ministry of Labour and Protection of War Veterans and Disabled Veterans, Employment institute and Health Insurance Fund of Republika Srpska, in order to keep unemployed persons in continuous health care.

Potential risks: The risk for implementation of this measure is failure to adopt the Law on Health Insurance of Republika Srpska, which is a prerequisite activity to be implemented by the Ministry of Health and Social Welfare of Republika Srpska.

4.3.9. Social inclusion, poverty reduction and equal opportunities

Social protection

Social protection in Bosnia and Herzegovina is fragmented by the legal framework defined by the Entities of FBiH and RS, as well as Cantons in FBiH, while social services at the local level are provided by centres for social work established and financed from the level of municipalities, all of which leads to inadequate functioning of the social protection system. Additional difficulties are the insufficient capacities of centres for social work and social protection institutions which, together with inefficient budgeting, leads to limited and inadequate support for the most vulnerable groups in society.

Such a system of social protection leads to long-term dependence of users on social services and benefits, thus reducing the possibility of social inclusion (employment, education, ...). In addition, institutional forms of social protection continue to be dominant, which has an adverse effect on the development and social inclusion of users. It is estimated that there are more than 70,000 children at risk of separation in BiH, and about 350 children are annually separated from biological families and placed in protective care (BHAS).

According to UNICEF's data, over 55% of children aged 2-14 is exposed to physical abuse in the family. Strategic documents of the entities and Brčko District of BiH in the area of social protection. Described in strategic documents of the entities and Brčko District of BiH in the area of social protection.

Improving the social situation of the population and functioning of the social protection system will require greater efforts and coordinated action. There is a need to improve fulfilment of conditions for the acquisition of rights and the enforcement of rights in order to improve the targeting of social assistance and focus the provision of social services on the most vulnerable population. The key activity is work on "mapping" social benefits. ERP does not include any

measures for addressing this need at the state level. Estimated cost of the activities and the budgetary impact will be seen in lower levels of government in BiH.

Culture

Cultural industries are the industries that produce tangible and intangible artistic and creative products and have the potential to create wealth and generate revenue through the exploitation of cultural goods and the production of goods and services (traditional and contemporary) based on expertise. The use of creativity, knowledge in the field of cultural and intellectual property for the production of goods and services of social and cultural importance is common to all cultural industries. Sectors that fall into the cultural industry are sectors in culture that enable industrial duplication of works of art, such as publishing, television, radio and music production, cinematography and advertising.

Creative and cultural activities are dynamic activities that are rapidly expanding in the global economy. These activities contribute to growth, enable diversification of the national economy, income generation and job creation. Apart from that, while contributing to the creation, production, transfer and enjoyment of symbolic content, their effects also include non-economic benefits. For example, they contribute to expanding people's opportunities in terms of participation in cultural life and promoting cultural diversity. The priority is to link culture with other sectors, especially the sector of tourism, and introduce tax benefits and fiscal incentives in order to facilitate activities in the area of culture and creative industries.

Health

According to data of the World Health Organisation, the total expenditure of BiH on health in 2015 was 9.4% of the GDP, out of which 71% was public expenditure and private expenditure accounted for 29%. Looking at the structure of total spending by purpose (2015), about 50% of spending goes to treatment services, and 27% goes to medicines and other medicinal devices. The share of private expenditure is most visible in medical resources for outpatients (about 60% is private, compared to 40% public), and rehabilitation treatment (about 35% is private versus 65% public).

The number of pensioners in FBiH is constantly increasing. The total number of pensioners in December 2016 was 409,335.00, which is a 1.8% increase compared to the previous year. In the 2010-2016 period, the number of pensioners continually increased at an average rate of 2%. The elderly population (aged 65+) makes up around 10.32% of the total population of FBiH, and pensioners make up around 17.54% of the population in FBiH.

The ratio of the number of pensioners and the number of employed persons is very unfavourable and concerning. In 2016 the ratio was 1:1.25, which is seriously threatening the economic sustainability of the pension system.

In the structure of revenues, revenues from contributions amount to KM 1,646,774,849 (87.1%), transfers and subsidies from the Budget of the Government of FBiH are KM 238,037,489 (12.6%) and other incomes are KM 5,175,663 (0.3%).

By the end of 2016, the right to benefits was exercised by 47,804⁶⁵ persons with (non-war-related) disabilities, which is by 2.5% more than in the previous year. The rights were financed from the FBiH Budget in the amount of KM 137,721,647.20. In the period from 2012 to 2016, the number of persons with (non-war-related) disabilities decreased at an average rate of 6.6%.

In 2016 in the Federation of BiH, the right based on the status of civilian victim of war was realised by 9,903 beneficiaries, which is a 4.7% decrease in comparison to 2015. The average rate of change of these beneficiaries in the period 2012 – 2016 was -8.1%. In order to finance rights of beneficiaries with civilian victim of war status, a total of KM 36.81 million was

⁶⁵ Data of the FBiH Ministry of Labour and Social Policy.

allocated, of which KM 25.98 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 December 2016, the total number of beneficiaries⁶⁶ of rights based on the Law on Rights of Defenders and Their Families was 87,776, out of which 47,190 were beneficiaries of personal disability benefits, while 40,586 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 (1,893), the total average number of beneficiaries of those rights in 2016 was 89,669, which is 1.84% less than in 2015. For these purposes a total of KM 288.39 million was paid. From 2012 - 2016, the number of beneficiaries of veterans' disability benefits decreased by an average rate of 2.1%.

According to the Household Budget Survey in FBiH (HBS) from 2015 (latest available data), the percentage of poor households remained the same as in 2011, 16.0%, and the percentage of poor individuals also did not change and remained at 17.1%. 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%.⁶⁷ The number of underage beneficiaries of social protection in 2016⁶⁸ increased by 2.4% in relation to 2015, amounting to 78,505, which makes up 23.4% of the total number of social protection beneficiaries.

In April 2017, the Republika Srpska National Assembly adopted the Strategy for Improvement of the Social Status of Persons with Disabilities in Republika Srpska (Official Gazette of RS, 44/17).

The social welfare of persons with disabilities in Republika Srpska is defined and distributed across several sectors, without a harmonised or coordinated policy of consultations and supplementation. The area includes social insurance, social benefits in social and veteran/disability protection and other benefits for families with children with disabilities. The rights of disabled veterans and families of killed soldiers are defined by the Law on Fundamental Rights of the Disabled Veterans and Families of Fallen Soldiers of the Fatherland War of Republika Srpska, and the RS Government finances the benefits from the Budget, with consideration of the cause and level of disability. The benefits are granted to persons based on their losses from participating in the fatherland war. The programme of providing housing to disabled veterans is one of the most important conditions for good quality of life, and until now it covered disabled veterans from categories 1-4, and in the following period, the adoption of a new Decree on housing of families of fallen soldiers and disabled veterans of the fatherland war of Republika Srpska is planned. The current pensions system is the legal basis for insurance in case of permanent loss of working ability (disability pension), and institute of professional rehabilitation, professional training and retraining for beneficiaries with some remaining working ability. In the health insurance system, employers take the responsibility for providing insurance in case of illness lasting more than thirty days. Apart from that, the system is developing other instruments to support social security through ensuring medical rehabilitation, orthopaedic aids, sanitation material, etc.

Social protection in Republika Srpska is regulated by the Law on Social Welfare, Family Law and Law on Child Protection. In terms of child protection, children with disabilities up to the age of 18 are entitled to an increased children's allowance, while their parents are entitled to pay for part-time spent caring for their children.

⁶⁶ 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 2016.

⁶⁷ Source: IBHI, Poverty in BiH 2011 – Trends and Achievements (Author's calculations based on the Extended Household Budget Survey 2011).

⁶⁸ Source of data: FBiH Institute of Statistics, Social protection in FBiH in 2016 – Press release 1 November 2017.

Considering the fact that social security of persons with disabilities is split between different sectors, it is regulated and defined differently. The results of that split can be seen in significant differences between the security levels of beneficiaries. For that reason, it is necessary to define social security criteria, which will form a harmonised policy of Republika Srpska. The criteria should be binding for all sectors and stakeholders, and guarantee equal quality of services to all persons with disabilities, regardless of the sector in which they exercise their rights. The criteria should enable all persons with disabilities to have social security in Republika Srpska, publicly, transparently and expertly, while taking into consideration the situation, possibilities and utilisation of all resources of persons with disabilities and their social and work environment.

The measures and activities of demographic policy must be incorporated into all action plans and sectoral policies. However, changing the situation in this area requires broader activities for material incentives and creating a regulatory framework to be implemented at all levels and in all areas, in order to achieve an organised, systematic and supporting relation to the population, particularly youth.

The area of pension and disability insurance in Republika Srpska is regulated by the Law on Pension and Disability Insurance (Official Gazette of RS, 134/11, 82/13, 103/15) and the Law on the Right to Old Age Pension of Professional Military Personnel (Official Gazette of RS, 63/14).

The pension and disability insurance system of the Republic of Srpska is organised in accordance with the principle of intergenerational solidarity, which defines the established right as a claim from future generations, where it is established separately from the future generation's capacity for payment. Considering the gap between funds necessary to finance the right and real sources of funding, RS fully took responsibility for the material and social security of beneficiaries of pension and disability insurance-based rights. In the past few years, the negative trend of the decreasing ratio of the number of insured persons to the number of beneficiaries of PDI was stopped, and the positive trend in changing the pension structure continued in terms of gradually increasing the percentage of beneficiaries of old age pensions and decreasing the percentage of beneficiaries of disability pensions. The trend of increasing the average age of beneficiaries of old age pensions at the time of recognition of the right (effective age) is continued, as well as the trend of decreasing the number of recognised rights to disability pension in one calendar year. In addition to that, by reducing the lowest level of ensured years of service to 15 years, the strategic goals were achieved to reduce poverty of the elderly population and increase coverage of the population aged 65+ by pension insurance.

Until the end of 2015, the pension system in Republika Srpska was fully financed by the RS PDI Fund. As of 1 January 2016, the RS PDI Fund operates through the Single Treasury Account of RS. The accounts of the RS PDI Fund in all business banks were terminated by 31 December 2015, and the RS PDI Fund transferred all its funds into the Single Treasury Account of RS, along with all data on assets, claims and liabilities from their business books into the main Book of the RS Treasury. In addition to contributory funds for pension and disability insurance, the remaining funds for payment of pensions and the work of the administrative service of the RS PDI Fund, amounting to KM 236.9 million, were allocated from the RS Budget. By transferring to the treasury business system, additional safety was achieved in the provision of funds for payment of pensions.

Simulations carried out by the RS Ministry of Labour and Protection of War Veterans and Disabled Veterans and Ministry of Finance, in cooperation with World Bank experts, demonstrated that the pension system of RS is stable and sustainable for the following 10 to 15 years, but that will be followed by an increase of expenses, so that in the next three-year period no changes need to be made to parameters of the pension system and no structural reforms need to be carried out in this area.

4.3.9.1. Improving population health

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

Constitutions of all levels of government in BiH obligate health authorities to ensure the conditions for exercising the right to health and health protection, which are defined as fundamental human rights in international documents.

In order to monitor health expenditures in Bosnia and Herzegovina, the National Health Account was implemented in the 2012-2013 period, as part of the Project “Public Health Reform II”, which was financed by the European Union. Activities were subsequently continued on the development and analysis of national health accounts in BiH. The purpose of the analysis of indicators of health financing is the basis for macro-level health policies.

Pursuant to recommendations of the Report on National Health Accounts in Bosnia and Herzegovina, we propose the following activities:

- 1) Medium term and long term gradual introduction of a mixed health financing system – stabilising the social health insurance system by increasing transfers from the budget and increasing direct budget financing of health protection;
- 2) Launch a systematic increase of public funds for preventive health protection. In planned budgets and funds for future years, the growth rates of preventive and public health expenditures should be higher than the growth rates of total public funds for health.
- 3) Introduce fiscal measures such as increasing taxes on tobacco, alcohol and beverages with high sugar content. The measures are cost-effective in terms of illness prevention and have a positive effect on reducing health expenditures. It is necessary to adopt a programme which will define earmarked allocation of funds collected from the excise duties.

Special attention must be paid to measures for reducing health expenditures, i.e. improving the distribution of funds within the health sector, without jeopardising the quality of health protection. Due to improved control of expenditures and increased fiscal accountability, it will be possible to achieve savings in the health system and redirect the saved funds towards increasing the quality of health services.

In addition to the health status, the quality of life of the population will also be improved, as well as its working ability, which will reduce the number of days of sick leave and have a positive impact on the economy and revenues.

4.3.9.2. 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.

In accordance with negative forecasts regarding the social sustainability of the pension system in the Federation of BiH and unfavourable demographic prospects, it is necessary to reform the existing pension system in the Federation of BiH. The “pressure” on the pension system must be decreased by gradually tightening the conditions for exercising rights to old-age and survivor pension, with exceptions which will be appropriate to 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 extended 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 introduced 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), tightening the conditions for retirement, introduction of a penalty system, introduction of incentives for longer employment, tightening the conditions for survivor 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 Pension and Disability Insurance in FBiH, with the goal of introducing the principles of 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

a) ***Activities planned in 2018***

- Law on Pension and Disability Insurance.
- Law on Organisation of Pension and Disability Insurance.
- Law on Payment of Unpaid Contributions for PDI.

Expected impact on competitiveness: The Law on Binding Years of Employment should unburden companies and ensure uninterrupted continuation of operations.

Estimated cost of the activities and the budgetary impact: The financial consequences of the Law on Pension and Disability Insurance will range from KM 12 and 50 million of budget funds annually. The development 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 carried out as part of regular activities. Binding years of employment under the Law on Payment of Unpaid Contributions for PDI, depending on coverage, will in the most likely option amount to KM 450 million in the next 30 years.

4.3.9.3. Improving the functioning of the social protection system in FBiH

This measure is proposed/implemented by the 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 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 by year:

a) ***Activities planned in 2018***

- 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 – Sarajevo,
- Law on Social Services in the Federation of BiH,
- Law on Social Work Activities in the Federation of BiH.

b) ***Activities planned in 2019***

- Law on Principles of Social Protection in the Federation of BiH.

c) ***Activities planned in 2020***

- Activities will focus on implementation of activities planned earlier, which were not implemented in the planned timeframe due to justified reasons, as well as on monitoring the implementation of realised activities with the goal of improving the situation in this area.

Expected impact on competitiveness: We are unable to identify the way and scope of the impact of these measures on competitiveness, economic growth and growth of employment, as the main goals of ERP.

Estimated cost of the activities and the budgetary impact: We are currently unable to estimate the cost of implementing these activities. Namely, prior to adoption of any law, a regulation impact assessment must be carried out as the foundation for the legislator to select one option.

Expected impact on employment and gender: A positive impact on employment and gender is expected as the result of adoption of these solutions.

Potential risks: Bearing in mind that the Constitution of the Federation of BiH divided jurisdiction in the field of social policy between the FBiH 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.

Establishing an efficient system of protection, rehabilitation and social inclusion of persons with disabilities in FBiH in line with EU legislation

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

The goals are: to ensure regular payment of benefits to beneficiaries of rights of civilian victims of war and their families and persons with “non-war-related” disabilities; provide support to associations of civilian persons with disabilities; implement the Strategy for Enhancement of the Rights and Status of Persons with Disabilities in the Federation of Bosnia and Herzegovina 2016-2021; establish an efficient system of monitoring and control of budget expenditures for financing non-contributory benefits; establish a system for controlling the introduction of a special category of civilian victims of war, organise the work and financing of associations of persons with disabilities; establish a non-discriminatory system of cash benefits for persons with disabilities regardless of the cause of disability.

Activities per year:

a) Activities planned in 2018

- Law on Associations of Persons with Disabilities and Representative Associations of Persons with Disabilities and Civilian Victims of War;
- Law on Uniform Principles of Financial Support to Persons with Disabilities;
- Implementation of the Strategy for Enhancement of the Rights and Status of Persons with Disabilities in the Federation of Bosnia and Herzegovina 2016-2021;

b) Activities planned in 2019

- Adoption of implementation acts for adopted laws;

c) Activities planned in 2020

Expected impact on competitiveness: We are unable to identify the way and scope of the impact of these measures on competitiveness, economic growth and growth of employment, as the main goals of ERP.

Estimated cost of the activities and the budgetary impact: We are currently unable to estimate the cost of implementing these activities. Namely, prior to adoption of any law, a regulation impact assessment must be carried out as the foundation for the legislator to select one option.

As part of the implementation of the Strategy for Enhancement of the Rights and Status 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 300,000.00 from the Budget of the Federation of BiH for the first year for procurement of equipment and software, and in the following period KM 200,000.00 for maintenance. For support to the work of associations of persons with disabilities

expenditures in 2018 will be KM 500,000.00 from the Budget of the Federation of BiH, whereas no funding is planned for development of the Law on Associations of Persons with Disabilities. Expected impact on employment and 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.

Potential risks: Bearing in mind that the Constitution of the Federation of BiH divided jurisdiction in the field of social policy between the FBiH 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 2018-2020 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.

Vlada Republike Srpske

The Government of Republika Srpska has, on its 134th session held on 24 July 2017, was introduced to the Information on the activities related to development of the Economic Reform Programme of Bosnia and Herzegovina 2018-2020, number: 06.01/012-1722/17 of 20 July 2017, which it adopted, and issued a Conclusion, number: 04/1-012-2-1837/17, with which it initiated the process of the development of the Republika Srpska Economic Reform Programme 2018-2020.

The line ministries delivered the names of their representatives to the Ministry of Finance of Republika Srpska to comprise the Team of Republika Srpska for development of the RS ERP 2018–2020 (hereinafter: Team).

On 28 August 2017, the Ministry of Finance held a Workshop, održalo je 28. avgusta 2017. godine Radionicu, where the Team was once again familiarized with the obligations and deadlines for the elaboration of the Economic Reform Program, as well as with the methodology required by the European Commission.

On 19 September 2017, the Ministry of Finance of Republika Srpska sent letter number: 06.01/012-1722-3/17 to the the Chamber of Commerce of Republika Srpska, the Union of the Employers' Associations of Republika Srpska and the Confederation of Trade Unions of Republika Srpska with a request to deliver their proposals of measures for the development of the Draft of the Economic Reform Program of Republika Srpska 2018-2020.

The Ministry of Finance of Republika Srpska, together with each line ministry individually, prepared a unified analysis of the realization of the measures from the previous year, analyzing the situation from the sector, identifying barriers to growth and competitiveness, and preparing proposals of measures in a uniform manner, in accordance with the European Commission's Guidelines.

On 30 October 2017, the Ministry of Finance of Republika Srpska received the proposal of measures from the Confederation of Trade Unions of Republika Srpska and the city trade unions for the Economic Reform Program of Republika Srpska 2018-2020.

On 31 October 2017, the Ministry of Finance of Republika Srpska received the proposal of measures from the business community for the Economic Reform Program of Republika Srpska 2018-2020.

On 1 November 2017, the Ministry of Finance of Republika Srpska received the proposal of measures from the Union of the Employers' Associations of Republika Srpska for the Economic Reform Program of Republika Srpska 2018-2020.

The Government of the Republika Srpska, on its 151st session, on 9 November 2017, established the Preliminary Draft of the Economic Reform Program of the Republika Srpska for the period 2018-2020, placed it on the Internet portal of the Government of the Republika Srpska, and opened it to public discussion.

Public discussions took place from 10 – 24 November 2016 and on 25 November the final public discussion was held with all of the partners of the Government of the Republika Srpska. Bilateral public discussions were held with: the Chamber of Commerce of Republika Srpska; the Union of the Employers' Associations of Republika Srpska; the Confederation of Trade Unions of Republika Srpska; the Association of Pensioners of Republika Srpska; the

Association of Farmers, the Veteran's Organization of the Republika Srpska, the Association of Organizations and Associations of War Veterans of the Republika Srpska, the Organization of amputers "UDAS" of Republika Srpska, the Republic organization of families of captured and dead soldiers and missing civilians of the Republika Srpska, the Association of inmates of Republika Srpska, Association of Civil War Victims Associations, Association of Veterans of the Republic of Srpska, Association of Women Victims of War of Republika Srpska, Union of Students of Republika Srpska, Youth Council of Republika Srpska, and the Association of Municipalities and Towns of Republika Srpska.

On 22 November 2017, the Ministry of Finance of Republika Srpska received from the Chamber of Commerce of the Republika Srpska the comments and suggestions on the document Draft of the Economic Reform Program of Republika Srpska for the period 2018-2020.

At the 45th regular session of the Economic and Social Council of Republika Srpska, held on 28 November 2017 and continued on 30 November 2017, the Draft Economic Reform Program of Republika Srpska for the period 2018-2020 was considered and it received the unanimous support from all social partners.

All acceptable observations and comments that were agreed with each partner during the public discussion, as well as at the session of the Economic and Social Council of Republika Srpska, were incorporated in the document Economic Reform Program of Republika Srpska for the period 2018-2020 and the Republika Srpska Budget for 2018, which is fully in line with the Republika Srpska Economic Reform Program for the period 2018-2020.

The Government of Republika Srpska, at its 154th session, held on 30 November 2017, established the Draft Economic Reform Program of Republika Srpska for the period 2018-2020 after urgent procedure and sent it to the National Assembly of Republika Srpska for consideration and adoption.

At the 25th special session of the National Assembly of Republika Srpska, held from 12 to 14 December 2017, the Republika Srpska Economic Reform Program for the period 2018-2020 was considered and adopted.

Government of the Federation of BiH

The 2017-2019 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	2016.	2016.	2017.	2018.	2019.	2020.
		bn €	Rate of change				
1. Real GDP at market prices	B1*g	15,610	2,9	3,4	3,4	3,8	3,9
2. GDP at market prices	B1*g	15,780	4,0	3,3	4,7	5,3	5,5
Components of real GDP							
3. Private consumption expenditure	P3	12,165	1,8	2,0	2,4	2,4	2,6
4. Government consumption expenditure	P3	3,215	0,1	0,1	0,8	0,5	0,5
5. Gross fixed capital formation	P51	2,670	2,5	6,2	10,6	10,5	9,8
6. Changes in inventories and net acquisition of valuables (% of GDP)	P52+P53	0,351	191,5	2,6	-21,8	7,5	27,1
7. Exports of goods and services	P6	5,535	9,5	9,1	7,1	5,5	4,5
8. Imports of goods and services	P7	8,326	7,0	4,7	4,8	4,3	4,2
Contribution to real GDP growth							
9. Final domestic demand		18,1	1,8	2,6	3,8	3,9	3,9
10. Change in inventories and net acquisition of valuables	P52+P53	0,4	1,5	0,1	-0,5	0,1	0,5
11. External balance of goods/services	B11	-2,8	-0,4	0,7	0,0	-0,2	-0,5

Table 1b: Price developments

Percentage changes, annual averages	ESA code	2016.	2017.	2018.	2019.	2020.
1. GDP deflator	% yoy	1,1	-0,1	1,3	1,4	1,6
2. Private consumption deflator	% yoy	-0,1	0,9	1,2	1,4	1,4
3. HICP ⁶⁹	% yoy	:	:	:	:	:
4. National CPI change	% yoy	-1,1	1,1	1,2	1,4	1,5
5. Public consumption deflator	% yoy	-0,3	1,5	1,2	1,5	1,5
6. Investment deflator	% yoy	-0,6	0,3	0,3	0,4	0,4
7. Export price deflator (goods&services)	% yoy	-2,2	2,8	2,1	2,7	3,3
8. Import prices deflator (goods&services)	% yoy	-4,0	4,3	1,5	2,0	2,1

⁶⁹ BHAS does not publish HICP.

Table 1c: Labour markets developments

	ES A code	2016	2016.	2017.	2018.	2019.	2020.
		level	Rate of change				
1. Population (thousands)							
2. Population (growth rate in %)							
3. Working-age population (persons)							
4. Participation rate							
5. Employment, persons							
6. Employment, hours worked							
7. Employment (growth rate in %)							
Public sector employment (persons)							
9. Public sector employment (growth in %)							
10. Unemployment rate							
11. Labour productivity, persons							
12. Labour productivity, hours worked							
13. Compensation of employees	D1						

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	2016.	2017.*	2018.	2019.	2020.
1. Net lending/borrowing vis-à-vis the rest of the world	B.9					
of which:						
- Balance of goods and services						
- Balance of primary incomes & transfers						
- Capital account						
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 2017 is: Q1+Q2

Table 1e: GDP, investment and gross value added

	ESA code	2016.	2017.	2018.	2019.	2020.
GDP and investment						
GDP level at current market prices (in domestic currency)	B1g	30,9	31,9	33,4	35,1	37,1
Investment ratio (% of GDP)		16,8	17,3	18,4	19,3	20,2
Growth of Gross Value Added, percentage changes at constant prices						
1. Agriculture		7,6	:	:	:	:
2. Industry (excluding construction)		4,8	:	:	:	:
3. Construction		2,7	:	:	:	:
4. Services		2,0	:	:	:	:

Table 1f: External sector developments

		2016.	2017.	2018.	2019.	2020.
1. Current account balance (% of GDP)	% GDP	:	:	:	:	:
2. Export of goods	Bn EUR	3,9	:	:	:	:
3. Import of goods	Bn EUR	7,5	:	:	:	:
4. Trade balance	Bn EUR	-3,6	:	:	:	:
5. Export of services	Bn EUR	1,4	:	:	:	:
6. Import of services	Bn EUR	0,5	:	:	:	:
7. Service balance	Bn EUR	1,0	:	:	:	:
8. Net interest payments from abroad	Bn EUR	-0,1	:	:	:	:
9. Other net factor income from abroad	Bn EUR	0,1	:	:	:	:
10. Current transfers	Bn EUR	1,8	:	:	:	:
11. Of which from EU	Bn EUR	:	:	:	:	:
12. Current account balance	Bn EUR	-0,8	:	:	:	:
13. Capital and financial account	Bn EUR	-0,3	:	:	:	:
14. Foreign direct investment	Bn EUR	-0,5	:	:	:	:
15. Foreign reserves	Bn EUR	4,9	:	:	:	:
16. Foreign debt	Bn EUR	:	:	:	:	:
17. Of which: public	Bn EUR	4,5	:	:	:	:

18. O/w: foreign currency denominated	Bn EUR	:	:	:	:	:
19. O/w: 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	2,0	2,0	2,0	2,0	2,0
22. Net foreign saving	% GDP	:	:	:	:	:
23. Domestic private saving	% GDP	:	:	:	:	:
24. Domestic private investment	% GDP	:	:	:	:	:
25. Domestic public saving	% GDP	:	:	:	:	:
26. Domestic public investment	% GDP	:	:	:	:	:

Source: CBBiH

Table 1g: Sustainability indicators

	Dimension	2013.	2014.	2015.	2016.	2017.
1. Current account balance	% of GDP	:	:	:	:	:
2. Net international investment position	% of GDP	:	:	:	:	:
3. Export market shares	%, yoy	-1,8	-0,7	-2,7	-0,6	-0,1
4. Real effective exchange rate	%, yoy	:	:	:	:	:
5. Nominal unit labour costs	%, yoy	:	:	:	:	:
6. Private sector credit flow	% of GDP	:	:	:	:	:
7. Private sector debt	% of GDP	:	:	:	:	:

Source: CBBiH

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

	ESA code	Year 2016	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020
		Level	% of GDP				
Net lending (B9) by sub-sectors							
1. General government	S13	355.6	1.2	0.9	1.4	1.7	1.9
2. Central government	S1311	278.0	0.9	0.5	0.8	1.1	1.2
3. State government	S1312						
4. Local government	S1313	109.4	0.4	0.5	0.5	0.5	0.5
5. Social security funds	S1314	-31.8	-0.1	-0.1	0.1	0.1	0.1
General government (S13)							
6. Total revenue	TR	12,241.6	39.7	39.8	38.1	36.6	35.2
7. Total expenditure ⁷⁰	TE	11,886.0	38.5	38.9	36.7	34.9	33.4
8. Net borrowing/lending	EDP.B9	355.6	1.2	0.9	1.4	1.7	1.9
9. Interest expenditure	EDP.D41	253.0	0.8	1.0	0.9	0.9	0.8
10. Primary balance ⁷¹		608.6	2.0	1.9	2.3	2.6	2.7
11. One-off and other temporary measures ⁷²							
Components of revenues							
12. Total taxes (12=12a+12b+12c)		6,514.4	21.1	21.7	21.3	20.6	19.9
12a. Taxes on production and imports	D2	5,455.4	17.7	18.3	17.9	17.2	16.7
12b. Current taxes on income and wealth	D5	1,053.8	3.4	3.4	3.4	3.3	3.2
12c. Capital taxes	D91	5.2					
13. Social contributions	D61	4,430.8	14.4	14.0	13.4	12.9	12.4
14. Property income	D4	93.8	0.3	0.3	0.3	0.2	0.2
15. Other (15 = 16-(12+13+14)) ⁷³		1,202.6	3.9	3.8	3.1	2.9	2.8
16=6. Total revenue	TR	12,241.6	39.7	39.8	38.1	36.6	35.2
p.m. Tax burden (D2+D5+D61+D91-D995) ⁷⁴		10,945.2	35.5	35.7	34.7	33.5	32.3

⁷⁰ Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

⁷¹ The primary balance is calculated as (EDP.B9, item 8) plus (EDP D41 + FISIM recorded as intermediate consumption, item 9).

⁷² A plus sign means deficit-reducing one-off measures.

⁷³ P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91).

⁷⁴ Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate.

Table 2a (continued)

	ESA Code	Year 2016	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020
		Level	% of GDP				
Selected components of expenditures							
17. Collective consumption	P32	5,354.2	17.3	17.4	16.6	15.7	15.0
18. Total social transfers	D62 + D63	4,756.9	15.4	15.0	14.5	13.9	13.3
18a. Social transfers in kind	P31 = D63	702.3	2.3	2.1	2.1	2.0	1.9
18b. Social transfers other than in kind	D62	4,054.6	13.1	12.9	12.4	11.9	11.3
19=9. Interest expenditure	EDP.D41	253.0	0.8	1.0	0.9	0.9	0.8
20. Subsidies	D3	385.0	1.2	1.5	1.2	1.1	1.1
21. Gross fixed capital formation	P51	698.7	2.3	2.6	2.0	1.7	1.7
22. Other (22 = 23-(17+18+19+20+21) ⁷⁵		438.2	1.4	1.3	1.5	1.5	1.4
23=7. Total expenditures	TE ⁷⁶	11,886.0	38.5	38.9	36.7	34.9	33.4
p.m. Compensations of public sector employees	D1	3,325.2	10.8	10.7	10.1	9.7	9.2

⁷⁵ D.29+D4 (other than D.41)+D.5+D.7+D.9+P.52+P.53+K.2+D.8.

⁷⁶ Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

Table 2a: General government budgetary prospects – **Institutions of BiH**

	ESA code	Year 2016	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020
		Level	% of GDP				
Net lending (B9) by sub-sectors							
1. General government	S13	26.1	0.1	-0.1	-0.2	-0.2	-0.2
2. Central government	S1311	26.1	0.1	-0.1	-0.2	-0.2	-0.2
3. State government	S1312						
4. Local government	S1313						
5. Social security funds	S1314						
General government (S13)							
6. Total revenue	TR	934.7	3.0	2.9	2.7	2.5	2.4
7. Total expenditure ⁷⁷	TE	908.6	2.9	2.9	2.8	2.7	2.5
8. Net borrowing/lending	EDP.B9	26.1	0.1	-0.1	-0.2	-0.2	-0.2
9. Interest expenditure	EDP.D41	1.1					
10. Primary balance ⁷⁸		27.2	0.1	-0.1	-0.2	-0.2	-0.2
11. One-off and other temporary measures ⁷⁹							
Components of revenues							
12. Total taxes (12=12a+12b+12c)		750.0	2.4	2.4	2.2	2.1	2.0
12a. Taxes on production and imports	D2	750.0	2.4	2.4	2.2	2.1	2.0
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)) ⁸⁰		184.7	0.6	0.5	0.4	0.4	0.4
16=6. Total revenue	TR	934.7	3.0	2.9	2.7	2.5	2.4
p.m. Tax burden (D2+D5+D61+D91-D995) ⁸¹		750.0	2.4	2.4	2.2	2.1	2.0

⁷⁷ Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

⁷⁸ The primary balance is calculated as (EDP.B9, item 8) plus (EDP D41 + FISIM recorded as intermediate consumption, item 9).

⁷⁹ A plus sign means deficit-reducing one-off measures.

⁸⁰ P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91).

⁸¹ Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate.

Table 2a (continued)

	ESA code	Year 2016	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020
		Level	% of GDP				
Selected components of expenditures							
17. Collective consumption	P32	796.7	2.6	2.5	2.6	2.4	2.4
18. Total social transfers	D62 + D63	1.0					
18a. Social transfers in kind	P31 = D63						
18b. Social transfers other than in kind	D62	1.0					
19=9. Interest expenditure	EDP.D4 1	1.1					
20. Subsidies	D3						
21. Gross fixed capital formation	P51	80.9	0.3	0.3	0.1	0.1	0.1
22. Other (22 = 23-(17+18+19+20+21) ⁸²		28.9	0.1	0.1	0.1	0.1	0.1
23=7. Total expenditures	TE ⁸³	908.6	2.9	2.9	2.8	2.7	2.5
p.m. Compensations of public sector employees	D1	642.8	2.1	2.0	2.0	1.9	1.8

⁸² D.29+D4 (other than D.41)+D.5+D.7+D.9+P.52+P.53+K.2+D.8.

⁸³ Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

Table 2a: General government budgetary prospects – **Federation BiH**

	ESA code	Year 2016	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020
		Level	% of GDP				
Net lending (B9) by sub-sectors							
1. General government	S13	386.7	1.3	1.3	1.5	1.2	1.4
2. Central government	S1311	249.5	0.8	0.9	1.1	0.9	1.0
3. State government	S1312						
4. Local government	S1313	112.6	0.4	0.3	0.3	0.3	0.3
5. Social security funds	S1314	24.6	0.1				
General government (S13)							
6. Total revenue	TR	7,275.9	23.6	23.9	22.7	21.8	20.8
7. Total expenditure ⁸⁴	TE	6,889.2	22.3	22.6	21.3	20.5	19.5
8. Net borrowing/lending	EDP.B9	386.7	1.3	1.3	1.5	1.2	1.4
9. Interest expenditure	EDP.D41	136.6	0.4	0.6	0.5	0.6	0.5
10. Primary balance ⁸⁵		523.3	1.7	1.9	2.0	1.8	1.9
11. One-off and other temporary measures ⁸⁶							
Components of revenues							
12. Total taxes (12=12a+12b+12c)		3,660.5	11.9	12.0	11.8	11.4	11.0
12a. Taxes on production and imports	D2	3,030.1	9.8	10.1	9.8	9.5	9.1
12b. Current taxes on income and wealth	D5	628.8	2.0	2.0	2.0	1.9	1.8
12c. Capital taxes	D91	1.6					
13. Social contributions	D61	3,005.7	9.7	9.6	9.1	8.7	8.3
14. Property income	D4	27.2	0.1	0.1	0.1	0.1	0.1
15. Other (15 = 16-(12+13+14)) ⁸⁷		582.5	1.9	2.2	1.8	1.6	1.6
16=6. Total revenue	TR	7,275.9	23.6	23.9	22.7	21.8	20.8
p.m. Tax burden (D2+D5+D61+D91-D995) ⁸⁸		6,666.2	21.6	21.6	20.9	20.1	19.2

⁸⁴ Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

⁸⁵ The primary balance is calculated as (EDP.B9, item 8) plus (EDP D41 + FISIM recorded as intermediate consumption, item 9).

⁸⁶ A plus sign means deficit-reducing one-off measures.

⁸⁷ P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91).

⁸⁸ Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate.

Table 2a (continued)

	ESA code	Year 2016	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020
		Level	% of GDP				
Selected components of expenditures							
17. Collective consumption	P32	3,285.2	10.6	10.8	10.1	9.6	9.1
18. Total social transfers	D62 + D63	2,706.8	8.8	8.7	8.2	7.9	7.5
18a. Social transfers in kind	P31 = D63						
18b. Social transfers other than in kind	D62	2,706.8	8.8	8.7	8.2	7.9	7.5
19=9. Interest expenditure	EDP.D41	136.6	0.4	0.6	0.5	0.6	0.5
20. Subsidies	D3	246.7	0.8	1.0	0.8	0.7	0.7
21. Gross fixed capital formation	P51	324.5	1.1	1.2	1.1	1.0	1.0
22. Other (22 = 23-(17+18+19+20+21) ⁸⁹)		189.4	0.6	0.4	0.6	0.7	0.6
23=7. Total expenditures	TE ⁹⁰	6,889.2	22.3	22.6	21.3	20.5	19.5
p.m. Compensations of public sector employees	D1	1,653.8	5.4	5.4	5.0	4.8	4.5

⁸⁹ D.29+D4 (other than D.41)+D.5+D.7+D.9+P.52+P.53+K.2+D.8.

⁹⁰ Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

Table 2a: General government budgetary prospects – Republika Srpska

	ESA code	Year 2016	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020
		Level	% of GDP				
Net lending (B9) by sub-sectors							
1. General government	S13	-89.8	-0.3	-0.2	0.2	0.7	0.6
2. Central government	S1311	-30.2	-0.1	-0.3	0.0	0.4	0.4
3. State government	S1312		0.0	0.0	0.0	0.0	0.0
4. Local government	S1313	-3.2	0.0	0.2	0.2	0.2	0.2
5. Social security funds	S1314	-56.4	-0.2	-0.1	0.0	0.1	0.1
General government (S13)							
6. Total revenue	TR	3,828.7	12.4	12.3	12.1	11.7	11.5
7. Total expenditure ⁹¹	TE	3,918.5	12.7	12.5	11.9	11.1	10.8
8. Net borrowing/lending	EDP.B9	-89.8	-0.3	-0.2	0.2	0.6	0.6
9. Interest expenditure	EDP.D41	114.9	0.4	0.4	0.4	0.3	0.3
10. Primary balance ⁹²		25.1	0.1	0.2	0.5	1.0	0.9
11. One-off and other temporary measures ⁹³							
Components of revenues							
12. Total taxes (12=12a+12b+12c)		1,915.5	6.2	6.7	6.7	6.5	6.4
12a. Taxes on production and imports	D2	1,513.7	4.9	5.3	5.3	5.2	5.1
12b. Current taxes on income and wealth	D5	398.2	1.3	1.4	1.4	1.3	1.3
12c. Capital taxes	D91	3.6					
13. Social contributions	D61	1,425.1	4.6	4.4	4.4	4.2	4.1
14. Property income	D4	66.6	0.2	0.3	0.2	0.2	0.1
15. Other (15 = 16-(12+13+14)) ⁹⁴		421.5	1.4	1.0	0.9	0.8	0.8
16=6. Total revenue	TR	3,828.7	12.4	12.3	12.1	11.7	11.5
p.m. Tax burden (D2+D5+D61+D91-D995) ⁹⁵		3,340.6	10.8	11.1	11.0	10.7	10.5

⁹¹ Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

⁹² The primary balance is calculated as (EDP.B9, item 8) plus (EDP D41 + FISIM recorded as intermediate consumption, item 9).

⁹³ A plus sign means deficit-reducing one-off measures.

⁹⁴ P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91).

⁹⁵ Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate.

Table 2a (continued)

	ESA code	Year 2016	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020
		Level	% of GDP				
Selected components of expenditures							
17. Collective consumption	P32	1,177.1	3.8	3.8	3.6	3.3	3.3
18. Total social transfers	D62 + D63	2,006.6	6.5	6.1	6.1	5.8	5.6
18a. Social transfers in kind	P31 = D63	702.3	2.3	2.1	2.1	2.0	1.9
18b. Social transfers other than in kind	D62	1,304.3	4.2	4.0	3.9	3.8	3.6
19=9. Interest expenditure	EDP.D4 1	114.9	0.4	0.4	0.4	0.3	0.3
20. Subsidies	D3	111.7	0.4	0.5	0.4	0.4	0.4
21. Gross fixed capital formation	P51	291.0	0.9	1.0	0.7	0.4	0.6
22. Other (22 = 23-(17+18+19+20+21) ⁹⁶		217.2	0.7	0.8	0.8	0.7	0.7
23=7. Total expenditures	TE ⁹⁷	3,918.5	12.7	12.5	11.9	11.1	10.8
p.m. Compensations of public sector employees	D1	965.8	3.1	3.0	2.8	2.7	2.6

⁹⁶ D.29+D4 (other than D.41)+D.5+D.7+D.9+P.52+P.53+K.2+D.8.

⁹⁷ Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

Table 2a: General government budgetary prospects – **Brčko District**

	ESA code	Year 2016	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020
		Level	% of GDP				
Net lending (B9) by sub-sectors							
1. General government	S13	32.6	0.1	-0.1	0.0	0.0	0.0
2. Central government	S1311	32.6	0.1	-0.1	0.0	0.0	0.0
3. State government	S1312						
4. Local government	S1313						
5. Social security funds	S1314						
General government (S13)							
6. Total revenue	TR	202.3	0.7	0.7	0.6	0.6	0.5
7. Total expenditure ⁹⁸	TE	169.7	0.5	0.8	0.6	0.6	0.6
8. Net borrowing/lending	EDP.B9	32.6	0.1	-0.1			
9. Interest expenditure	EDP.D41	0.4					
10. Primary balance ⁹⁹		33.0	0.1	-0.1	0.0	0.0	0.0
11. One-off and other temporary measures ¹⁰⁰							
Components of revenues							
12. Total taxes (12=12a+12b+12c)		188.4	0.6	0.6	0.6	0.5	0.5
12a. Taxes on production and imports	D2	161.6	0.5	0.5	0.5	0.5	0.5
12b. Current taxes on income and wealth	D5	26.8	0.1	0.1	0.1	0.1	0.1
12c. Capital taxes	D91						
13. Social contributions	D61						
14. Property income	D4						
15. Other (15 = 16-(12+13+14)) ¹⁰¹		13.9	0.0	0.1	0.0	0.0	0.0
16=6. Total revenue	TR	202.3	0.7	0.7	0.6	0.6	0.5
p.m. Tax burden (D2+D5+D61+D91-D995) ¹⁰²		188.4	0.6	0.6	0.6	0.5	0.5

⁹⁸ Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

⁹⁹ The primary balance is calculated as (EDP.B9, item 8) plus (EDP D41 + FISIM recorded as intermediate consumption, item 9).

¹⁰⁰ A plus sign means deficit-reducing one-off measures.

¹⁰¹ P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91).

¹⁰² Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate.

Table 2a (continued)

	ESA code	Year 2016	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020
		Level	% of GDP				
Selected components of expenditures							
17. Collective consumption	P32	95.2	0.3	0.3	0.3	0.3	0.3
18. Total social transfers	D62 + D63	42.5	0.1	0.2	0.2	0.2	0.2
18a. Social transfers in kind	P31 = D63						
18b. Social transfers other than in kind	D62	42.5	0.1	0.2	0.2	0.2	0.2
19=9. Interest expenditure	EDP.D41	0.4					
20. Subsidies	D3	26.6	0.1	0.1	0.0	0.0	0.0
21. Gross fixed capital formation	P51	2.3	0.0	0.2	0.1	0.1	0.1
22. Other (22 = 23-(17+18+19+20+21) ¹⁰³		2.7					
23=7. Total expenditures	TE ¹⁰⁴	169.7	0.5	0.8	0.6	0.6	0.6
p.m. Compensations of public sector employees	D1	62.8	0.2	0.2	0.2	0.2	0.2

¹⁰³ D.29+D4 (other than D.41)+D.5+D.7+D.9+P.52+P.53+K.2+D.8.

¹⁰⁴ Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

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

	ESA code	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020
		Bn NCU				
1. General government	S13	355.6	292.2	480.4	596.6	686.7
2. Central government	S1311	278.0	169.7	281.5	392.2	448.0
3. State government	S1312					
4. Local government	S1313	109.4	144.9	172.0	183.6	186.3
5. Social security funds	S1314	-31.8	-22.1	26.9	20.8	52.4
6. Total revenue	TR	12,241.6	12,675.2	12,710.0	12,849.2	13,061.1
7. Total expenditure ¹⁰⁵	TE	11,886.0	12,382.9	12,229.7	12,252.6	12,374.5
8. Net borrowing/lending	EDP.B9	355.6	292.3	480.3	596.6	686.6
9. Interest expenditure	EDP.D41	253.0	317.9	288.1	316.4	306.7
10. Primary balance ¹⁰⁶		608.6	610.2	768.4	913.0	993.3
11. One-off and other temporary measures ¹⁰⁷		0.0	0.0	0.0	0.0	0.0
12. Total taxes (12=12a+12b+12c)		6,514.4	6,917.6	7,106.6	7,234.1	7,373.7
12a. Taxes on production and imports	D2	5,455.4	5,821.0	5,958.4	6,060.6	6,176.1
12b. Current taxes on income and wealth	D5	1,053.8	1,090.7	1,144.1	1,169.2	1,193.2
12c. Capital taxes	D91	5.2	5.9	4.1	4.3	4.4
13. Social contributions	D61	4,430.8	4,446.1	4,486.7	4,536.2	4,590.7
14. Property income	D4	93.8	104.2	86.3	74.0	75.7
15. Other (15 = 16-(12+13+14)) ¹⁰⁸		1,202.6	1,207.3	1,030.4	1,004.9	1,021.0
16=6. Total revenue	TR	12,241.6	12,675.2	12,710.0	12,849.2	13,061.1
p.m. Tax burden (D2+D5+D61+D91-D995) ¹⁰⁹		10,945.2	11,363.7	11,593.3	11,770.3	11,964.4

¹⁰⁵ Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

¹⁰⁶ The primary balance is calculated as (EDP.B9, item 8) plus (EDP D41 + FISIM recorded as intermediate consumption, item 9).

¹⁰⁷ A plus sign means deficit-reducing one-off measures.

¹⁰⁸ P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91).

¹⁰⁹ Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate.

Table 2b (continued)

	ESA code	Year	Year	Year	Year	Year
		2016	2017	2018	2019	2020
		Bn NCU				
17. Collective consumption	P32	5,354.2	5,554.4	5,538.6	5,523.1	5,570.1
18. Total social transfers	D62 + D63	4,756.9	4,786.4	4,840.6	4,899.3	4,923.7
18a. Social transfers in kind	P31 = D63	702.3	683.4	708.5	718.0	721.5
18b. Social transfers other than in kind	D62	4,054.6	4,103.0	4,132.1	4,181.3	4,202.2
19=9. Interest expenditure	EDP.D41	253.0	317.9	288.1	316.4	306.7
20. Subsidies	D3	385.0	486.5	385.3	399.1	404.2
21. Gross fixed capital formation	P51	698.7	831.7	675.1	590.2	640.6
22. Other (22 = 23-(17+18+19+20+21)) ¹¹⁰		438.2	405.8	502.0	524.5	529.2
23=7. Total expenditures	TE ¹¹¹	11,886.0	12,382.7	12,229.7	12,252.6	12,374.5
p.m. Compensations of public sector employees	D1	3325.2	3399.7	3380.0	3391.3	3399.7

¹¹⁰ D.29+D4 (other than D.41)+D.5+D.7+D.9+P.52+P.53+K.2+D.8.

¹¹¹ Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

Table 2b: General government budgetary prospects – Institutions of BiH

	ESA code	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020
		Bn NCU				
1. General government	S13	26.1	-21.1	-58.2	-62.6	-61.4
2. Central government	S1311	26.1	-21.1	-58.2	-62.6	-61.4
3. State government	S1312					
4. Local government	S1313					
5. Social security funds	S1314					
6. Total revenue	TR	934.7	914.4	889.7	879.8	880.6
7. Total expenditure ¹¹²	TE	908.6	935.5	947.9	942.4	942.0
8. Net borrowing/lending	EDP.B9	26.1	-21.1	-58.2	-62.6	-61.4
9. Interest expenditure	EDP.D41	1.1	1.1	1.1	1.1	1.1
10. Primary balance ¹¹³		27.2	-20.0	-57.1	-61.5	-60.3
11. One-off and other temporary measures ¹¹⁴						
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)) ¹¹⁵		184.7	164.4	139.7	129.8	130.6
16=6. Total revenue	TR	934.7	914.4	889.7	879.8	880.6
p.m. Tax burden (D2+D5+D61+D91-D995) ¹¹⁶		750.0	750.0	750.0	750.0	750.0

¹¹² Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

¹¹³ The primary balance is calculated as (EDP.B9, item 8) plus (EDP D41 + FISIM recorded as intermediate consumption, item 9).

¹¹⁴ A plus sign means deficit-reducing one-off measures.

¹¹⁵ P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91).

¹¹⁶ Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate.

Table 2b (continued)

	ESA code	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020
		Bn NCU				
17. Collective consumption	P32	796.7	808.0	868.4	859.8	873.1
18. Total social transfers	D62 + D63	1.0	1.5	2.2	2.1	2.1
18a. Social transfers in kind	P31 = D63					
18b. Social transfers other than in kind	D62	1.0	1.5	2.2	2.1	2.1
19=9. Interest expenditure	EDP.D41	1.1	1.1	1.1	1.1	1.1
20. Subsidies	D3					
21. Gross fixed capital formation	P51	80.9	92.0	43.4	48.2	34.5
22. Other (22 = 23-(17+18+19+20+21) ¹¹⁷		28.9	32.9	32.8	31.2	31.2
23=7. Total expenditures	TE ¹¹⁸	908.6	935.5	947.9	942.4	942.0
p.m. Compensations of public sector employees	D1	642.8	643.0	678.5	682.3	685.0

¹¹⁷ D.29+D4 (other than D.41)+D.5+D.7+D.9+P.52+P.53+K.2+D.8.

¹¹⁸ Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

Table 2b: General government budgetary prospects – Federation BiH

	ESA code	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020
		Bn NCU				
1. General government	S13	386.7	400.5	488.5	436.5	515.8
2. Central government	S1311	249.5	295.0	361.7	320.7	379.8
3. State government	S1312					
4. Local government	S1313	112.6	92.9	111.0	120.1	122.8
5. Social security funds	S1314	24.6	12.6	15.8	-4.3	13.2
6. Total revenue	TR	7,275.9	7,611.9	7,585.8	7,645.7	7,730.7
7. Total expenditure ¹¹⁹	TE	6,889.2	7,211.4	7,097.3	7,209.1	7,214.9
8. Net borrowing/lending	EDP.B9	386.7	400.5	488.5	436.6	515.8
9. Interest expenditure	EDP.D41	136.6	192.7	166.5	199.1	194.9
10. Primary balance ¹²⁰		523.3	593.2	655.0	635.7	710.7
11. One-off and other temporary measures ¹²¹						
12. Total taxes (12=12a+12b+12c)		3,660.5	3,839.4	3,936.6	4,005.6	4,061.6
12a. Taxes on production and imports	D2	3,030.1	3,207.7	3,275.4	3,332.1	3,380.1
12b. Current taxes on income and wealth	D5	628.8	630.4	661.2	673.5	681.5
12c. Capital taxes	D91	1.6	1.3	0.0	0.0	0.0
13. Social contributions	D61	3,005.7	3,055.8	3,033.0	3,052.0	3,072.0
14. Property income	D4	27.2	22.6	30.6	21.1	21.6
15. Other (15 = 16-(12+13+14)) ¹²²		582.5	694.1	585.6	567.0	575.5
16=6. Total revenue	TR	7,275.9	7,611.9	7,585.8	7,645.7	7,730.7
p.m. Tax burden (D2+D5+D61+D91-D995) ¹²³		6,666.2	6,895.2	6,969.6	7,057.6	7,133.6

¹¹⁹ Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

¹²⁰ The primary balance is calculated as (EDP.B9, item 8) plus (EDP D41 + FISIM recorded as intermediate consumption, item 9).

¹²¹ A plus sign means deficit-reducing one-off measures.

¹²² P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91).

¹²³ Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate.

Table 2b (continued)

	ESA code	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020
		Bn NCU				
17. Collective consumption	P32	3,285.2	3,435.3	3,361.5	3,380.8	3,379.3
18. Total social transfers	D62 + D63	2,706.8	2,779.6	2,743.4	2,775.1	2,789.5
18a. Social transfers in kind	P31 = D63					
18b. Social transfers other than in kind	D62	2,706.8	2,779.6	2,743.4	2,775.1	2,789.5
19=9. Interest expenditure	EDP.D41	136.6	192.7	166.5	199.1	194.9
20. Subsidies	D3	246.7	308.8	255.5	252.8	255.3
21. Gross fixed capital formation	P51	324.5	379.1	370.2	366.4	370.9
22. Other (22 = 23-(17+18+19+20+21) ¹²⁴		189.4	115.7	200.2	234.9	225.0
23=7. Total expenditures	TE ¹²⁵	6,889.2	7,211.2	7,097.3	7,209.1	7,214.9
p.m. Compensations of public sector employees	D1	1653.8	1728.7	1681.4	1683.0	1685.1

¹²⁴ D.29+D4 (other than D.41)+D.5+D.7+D.9+P.52+P.53+K.2+D.8.

¹²⁵ 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	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020
		Bn NCU				
1. General government	S13	-89.8	-64.3	55.5	228.5	238.0
2. Central government	S1311	-30.2	-81.3	-16.6	139.9	135.3
3. State government	S1312					
4. Local government	S1313	-3.2	52.0	61.0	63.5	63.5
5. Social security funds	S1314	-56.4	-35.0	11.1	25.1	39.2
6. Total revenue	TR	3,828.7	3,929.9	4,034.5	4,122.0	4,246.1
7. Total expenditure ¹²⁶	TE	3,918.5	3,994.1	3,979.1	3,893.6	4,008.2
8. Net borrowing/lending	EDP.B9	-89.8	-64.2	55.4	228.4	237.9
9. Interest expenditure	EDP.D41	114.9	123.6	119.8	115.5	110.1
10. Primary balance ¹²⁷		25.1	59.4	175.2	343.9	348.0
11. One-off and other temporary measures ¹²⁸						
12. Total taxes (12=12a+12b+12c)		1,915.5	2,135.5	2,230.9	2,287.9	2,369.0
12a. Taxes on production and imports	D2	1,513.7	1,696.7	1,768.0	1,811.5	1,877.0
12b. Current taxes on income and wealth	D5	398.2	434.2	458.8	472.1	487.6
12c. Capital taxes	D91	3.6	4.6	4.1	4.3	4.4
13. Social contributions	D61	1,425.1	1,390.3	1,453.7	1,484.2	1,518.7
14. Property income	D4	66.6	81.6	55.7	52.9	54.1
15. Other (15 = 16-(12+13+14)) ¹²⁹		421.5	322.5	294.2	297.0	304.3
16=6. Total revenue	TR	3,828.7	3,929.9	4,034.5	4,122.0	4,246.1
p.m. Tax burden (D2+D5+D61+D91-D995) ¹³⁰		3,340.6	3,525.8	3,684.6	3,772.1	3,887.7

¹²⁶ Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

¹²⁷ The primary balance is calculated as (EDP.B9, item 8) plus (EDP D41 + FISIM recorded as intermediate consumption, item 9).

¹²⁸ A plus sign means deficit-reducing one-off measures.

¹²⁹ P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91).

¹³⁰ Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate.

Table 2b (continued)

	ESA code	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020
		Bn NCU				
17. Collective consumption	P32	1,177.1	1,206.2	1,201.7	1,175.9	1,210.5
18. Total social transfers	D62 + D63	2,006.6	1,952.6	2,024.3	2,051.4	2,061.4
18a. Social transfers in kind	P31 = D63	702.3	683.4	708.5	718.0	721.5
18b. Social transfers other than in kind	D62	1,304.3	1,269.2	1,315.8	1,333.4	1,339.9
19=9. Interest expenditure	EDP.D41	114.9	123.6	119.8	115.5	110.1
20. Subsidies	D3	111.7	147.9	129.8	146.3	148.9
21. Gross fixed capital formation	P51	291.0	312.2	244.5	156.1	212.7
22. Other (22 = 23-(17+18+19+20+21) ¹³¹		217.2	251.6	259.0	248.4	264.6
23=7. Total expenditures	TE ¹³²	3,918.5	3,994.1	3,979.1	3,893.6	4,008.2
p.m. Compensations of public sector employees	D1	965.8	961.4	942.8	948.7	952.2

¹³¹ D.29+D4 (other than D.41)+D.5+D.7+D.9+P.52+P.53+K.2+D.8.

¹³² Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

Table 2b: General government budgetary prospects - Brčko District

	ESA code	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020
		Bn NCU				
1. General government	S13	32.6	-22.9	-5.4	-5.8	-5.7
2. Central government	S1311	32.6	-22.9	-5.4	-5.8	-5.7
3. State government	S1312					
4. Local government	S1313					
5. Social security funds	S1314					
6. Total revenue	TR	202.3	219.0	200.0	201.7	203.7
7. Total expenditure ¹³³	TE	169.7	241.9	205.4	207.5	209.4
8. Net borrowing/lending	EDP.B9	32.6	-22.9	-5.4	-5.8	-5.7
9. Interest expenditure	EDP.D41	0.4	0.5	0.7	0.7	0.6
10. Primary balance ¹³⁴		33.0	-22.4	-4.7	-5.1	-5.1
11. One-off and other temporary measures ¹³⁵						
12. Total taxes (12=12a+12b+12c)		188.4	192.7	189.1	190.6	193.1
12a. Taxes on production and imports	D2	161.6	166.6	165.0	167.0	169.0
12b. Current taxes on income and wealth	D5	26.8	26.1	24.1	23.6	24.1
12c. Capital taxes	D91					
13. Social contributions	D61					
14. Property income	D4					
15. Other (15 = 16-(12+13+14)) ¹³⁶		13.9	26.3	10.9	11.1	10.6
16=6. Total revenue	TR	202.3	219.0	200.0	201.7	203.7
p.m. Tax burden (D2+D5+D61+D91-D995) ¹³⁷		188.4	192.7	189.1	190.6	193.1

¹³³ Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

¹³⁴ The primary balance is calculated as (EDP.B9, item 8) plus (EDP D41 + FISIM recorded as intermediate consumption, item 9).

¹³⁵ A plus sign means deficit-reducing one-off measures.

¹³⁶ P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91).

¹³⁷ Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate.

Table 2b (continued)

	ESA code	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020
		Bn NCU				
17. Collective consumption	P32	95.2	104.9	107.0	106.6	107.2
18. Total social transfers	D62 + D63	42.5	52.7	70.7	70.7	70.7
18a. Social transfers in kind	P31 = D63					
18b. Social transfers other than in kind	D62	42.5	52.7	70.7	70.7	70.7
19=9. Interest expenditure	EDP.D41	0.4	0.5	0.7	0.7	0.6
20. Subsidies	D3	26.6	29.8			
21. Gross fixed capital formation	P51	2.3	48.4	17.0	19.5	22.5
22. Other (22 = 23-(17+18+19+20+21) ¹³⁸		2.7	5.6	10.0	10.0	8.4
23=7. Total expenditures	TE ¹³⁹	169.7	241.9	205.4	207.5	209.4
p.m. Compensations of public sector employees	D1	62.8	66.6	77.3	77.3	77.4

¹³⁸ D.29+D4 (other than D.41)+D.5+D.7+D.9+P.52+P.53+K.2+D.8.

¹³⁹ Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

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

Percentage of GDP	COFOG code	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020
1. General public services	1	8.2	8.6	8.1	7.7	7.3
2. Defence	2	1.0	1.0	0.9	0.9	0.9
3. Public order and safety	3	3.0	2.9	2.8	2.7	2.5
4. Economic affairs	4	1.8	1.9	1.8	1.5	1.5
5. Environmental protection	5	0.4	0.3	0.3	0.3	0.3
6. Housing and community	6	0.8	1.0	1.0	0.8	0.9
7. Health	7	5.5	5.3	4.8	4.7	4.4
8. Recreation, culture and	8	0.6	0.7	0.6	0.6	0.6
9. Education	9	3.5	3.6	3.4	3.2	3.1
10. Social protection	10	13.6	13.5	13.0	12.5	11.9
11. Total expenditure (item 7 = 23 in Table 2)	TE	38.5	38.9	36.7	34.9	33.4

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

Billions (national currency)	COFOG code	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020
1. General public services	1	2,534.3	2,755.3	2,710.1	2,720.3	2,724.3
2. Defence	2	318.7	312.3	310.3	315.4	322.4
3. Public order and safety	3	926.5	939.7	922.1	934.6	936.7
4. Economic affairs	4	551.8	599.4	585.0	542.2	565.5
5. Environmental protection	5	108.3	111.0	109.6	111.4	112.1
6. Housing and community	6	262.2	316.0	318.7	280.8	339.2
7. Health	7	1,683.4	1,700.3	1,607.5	1,635.6	1,634.6
8. Recreation, culture and	8	197.4	207.5	202.7	207.1	210.9
9. Education	9	1,093.1	1,150.2	1,128.7	1,128.6	1,131.4
10. Social protection	10	4,210.3	4,291.0	4,335.0	4,376.6	4,397.4
11. Total expenditure (item 7 = 23 in Table 2)	TE	11,886.0	12,382.7	12,229.5	12,252.5	12,374.6

Table 3: General government expenditure by function - Institutions of BiH

Percentage of GDP	COFOG code	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020
1. General public services	1	0.9	0.9	0.9	0.8	0.7
2. Defence	2	0.9	0.9	0.9	0.8	0.8
3. Public order and safety	3	0.9	0.8	0.8	0.8	0.7
4. Economic affairs	4	0.1	0.2	0.2	0.2	0.2
5. Environmental protection	5	0.0	0.0	0.0	0.0	0.0
6. Housing and community	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	0.1	0.0	0.0	0.0
11. Total expenditure (item 7 = 23 in Table 2)	TE	2.9	2.9	2.8	2.7	2.5

Table 3: General government expenditure by function – Institutions of BiH

Billions (national currency)	COFOG code	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020
1. General public services	1	283.9	284.3	297.3	288.8	277.7
2. Defence	2	279.3	285.7	284.1	288.8	295.8
3. Public order and safety	3	267.9	267.2	261.8	266.8	269.1
4. Economic affairs	4	42.4	55.8	61.0	57.2	57.8
5. Environmental protection	5	7.0	6.0	6.0	6.0	6.0
6. Housing and community	6	0.0	0.0	0.0	0.0	0.0
7. Health	7	5.2	6.1	8.7	6.3	6.7
8. Recreation, culture and	8	10.0	8.8	7.9	7.9	8.3
9. Education	9	3.1	5.3	4.8	5.1	5.1
10. Social protection	10	9.8	16.3	16.3	15.5	15.5
11. Total expenditure (item 7 = 23 in Table 2)	TE	908.6	935.5	947.9	942.4	942.0

Table 3: General government expenditure by function - Federation BiH

Percentage of BDP	COFOG code	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020
1. General public services	1	5.5	5.6	5.2	5.0	4.8
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	0.7	0.8	0.8	0.7	0.7
5. Environmental protection	5	0.3	0.3	0.3	0.3	0.2
6. Housing and community	6	0.5	0.5	0.4	0.4	0.4
7. Health	7	3.1	3.1	2.9	2.8	2.7
8. Recreation, culture and	8	0.3	0.4	0.3	0.3	0.3
9. Education	9	2.0	2.0	1.9	1.8	1.7
10. Social protection	10	8.8	8.7	8.2	7.9	7.5
11. Total expenditure (item 7 = 23 in Table 2)	TE	22.3	22.6	21.3	20.5	19.5

Table 3: General government expenditure by function – Federation BiH

Billions (national currency)	COFOG code	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020
1. General public services	1	1,687.1	1,769.0	1,740.7	1,768.5	1,765.3
2. Defence	2	25.3	26.5	26.1	26.5	26.5
3. Public order and safety	3	363.9	381.0	374.0	382.0	380.4
4. Economic affairs	4	224.6	255.2	251.1	256.1	254.3
5. Environmental protection	5	84.7	88.7	87.3	89.7	89.7
6. Housing and community	6	142.1	148.8	146.4	149.7	148.9
7. Health	7	943.3	997.6	981.7	999.4	999.4
8. Recreation, culture and	8	103.6	118.5	116.6	120.4	120.6
9. Education	9	607.8	646.4	630.0	641.7	640.3
10. Social protection	10	2,706.8	2,779.5	2,743.3	2,775.1	2,789.5
11. Total expenditure (item 7 = 23 in Table 2)	TE	6,889.2	7,211.2	7,097.2	7,209.1	7,214.9

Table 3: General government expenditure by function – Republika Srpska

Percentage of GDP	COFOG code	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020
1. General public services	1	1,6	1,9	1,8	1,7	1,6
2. Defence	2	0,0	0,0	0,0	0,0	0,0
3. Public order and safety	3	0,9	0,9	0,8	0,8	0,7
4. Economic affairs	4	0,9	0,9	0,8	0,7	0,7
5. Environmental protection	5	0,1	0,1	0,0	0,0	0,0
6. Housing and community	6	0,4	0,5	0,5	0,4	0,5
7. Health	7	2,3	2,1	1,8	1,8	1,7
8. Recreation, culture and	8	0,2	0,2	0,2	0,2	0,2
9. Education	9	1,5	1,4	1,4	1,3	1,2
10. Social protection	10	4,8	4,6	4,6	4,4	4,2
11. Total expenditure (item 7 = 23 in Table 2)	TE	12,7	12,5	11,9	11,1	10,8

Table 3: General government expenditure by function – Republika Srpska

Billions (national currency)	COFOG code	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020
1. General public services	1	499.8	590.3	592.9	581.7	598.1
2. Defence	2	14.1	0.1	0.1	0.1	0.1
3. Public order and safety	3	281.9	274	266.9	266.4	267.8
4. Economic affairs	4	284.8	288.4	272.9	228.9	253.4
5. Environmental protection	5	16.6	16.3	16.3	15.7	16.4
6. Housing and community	6	118.2	163.8	169.4	128.2	187.4
7. Health	7	714.6	666.2	607.2	620	618.6
8. Recreation, culture and	8	68.6	62.2	62.5	63.1	66.3
9. Education	9	449	461.5	453.5	441.4	445.6
10. Social protection	10	1,470.90	1,471.30	1,537.30	1,548.00	1,554.60
11. Total expenditure (item 7 = 23 in Table 2)	TE	3,918.5	3,994.1	3,979.0	3,893.5	4,008.3

Table 3: General government expenditure by function – Brčko District

Percentage of GDP	COFOG code	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020
1. General public services	1	0.2	0.4	0.2	0.2	0.2
2. Defence	2					
3. Public order and safety	3	0.0	0.1	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	0.0	0.1	0.0	0.0	0.0
9. Education	9	0.1	0.1	0.1	0.1	0.1
10. Social protection	10	0.1	0.1	0.1	0.1	0.1
11. Total expenditure (item 7 = 23 in Table 2)	TE	0.5	0.8	0.6	0.6	0.6

Table 3: General government expenditure by function – Brčko District

Billions (national currency)	COFOG code	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020
1. General public services	1	63.5	111.7	79.2	81.3	83.2
2. Defence	2					
3. Public order and safety	3	12.8	17.5	19.4	19.4	19.4
4. Economic affairs	4					
5. Environmental protection	5					
6. Housing and community	6	1.9	3.4	2.9	2.9	2.9
7. Health	7	20.3	30.4	9.9	9.9	9.9
8. Recreation, culture and	8	15.2	18.0	15.7	15.7	15.7
9. Education	9	33.2	37.0	40.4	40.4	40.4
10. Social protection	10	22.8	23.9	37.9	37.9	37.9
11. Total expenditure (item 7 = 23 in Table 2)	TE	169.7	241.9	205.4	207.5	209.4

Table 4: General government debt developments

Percentages of GDP	ESA code	Year X - 2	Year X - 1	Year X	Year X + 1	Year X + 2
1. Gross debt ¹⁴⁰		39.2	36.8	34.7	31.7	28.3
2. Change in gross debt ratio			-2.6	-2.0	-3.0	-3.4
Contributions to change in gross debt						
3. Primary balance ¹⁴¹		-1.97	-1.9	-2.3	-2.6	-2.7
4. Interest expenditure ¹⁴²		0.82	1.0	0.9	0.9	0.8
5. Stock flow adjustments		1.2	-1.7	-0.6	-1.3	-1.5
Of which:						
- Differences between cash and accruals ¹⁴³						
- Net accumulation of financial assets ¹⁴⁴						
Of which:						
- Privatisation proceeds						
- Valuation effects and other ¹⁴⁵						
p.m. implicit interest rate on debt ¹⁴⁶		2.1	2.6	2.5	2.7	2.8
Other relevant variables						
6. Liquid financial assets ¹⁴⁷						
7. Net financial debt (7 = 1 - 6)						

¹⁴⁰ As defined by Regulation 3605/93 (not in the ESA concept).

¹⁴¹ Cf. item 10 of Table 2.

¹⁴² Cf. item 9 of Table 2.

¹⁴³ Differences related to interest charges, other revenues and expenditures can be separated when relevant.

¹⁴⁴ Current funds, funds for third countries, government-controlled companies and the difference between quoted and unquoted funds can be separated when relevant.

¹⁴⁵ Changes in currencies movements and secondary market operations can be separated when relevant.

¹⁴⁶ The estimate based on interest expense divided by the level of indebtedness of the previous year.

¹⁴⁷ AF1, AF2, AF3 (consolidated at market value), AF5 (if listed on the stock exchange, including shares in the investment fund).

Table 5: Cyclical developments

% of GDP	ESA code	Year X - 2	Year X - 1	Year X	Year X + 1	Year X + 2
1. Real GDP growth (%)	B1g					
2. Net lending of general government	EDP.B. 9	1.2	0.9	1.4	1.7	1.9
3. Interest expenditure	EDP.D. 41	0.8	1.0	0.9	0.9	0.8
4. One-off and other temporary measures ¹⁴⁸		-0.1	0.0	-0.1	-0.1	-0.1
5. Potential GDP growth (%) ¹⁴⁹		3.2	3.5	3.8	3.9	3.8
Contributions:						
- labour						
- capital						
- total factor productivity						
6. Output gap		0.5	-0.8	0.2	0.3	0.5
7. Cyclical budgetary component		0.2	-0.3	0.1	0.1	0.2
8. Cyclically-adjusted balance (2-7)		1.0	1.2	1.4	1.6	1.7
9. Cyclically-adjusted primary balance (8-3)		1.8	2.2	2.3	2.5	2.5
10. Structural balance (8-4)		1.1	1.2	1.5	1.7	1.8

¹⁴⁸ A plus sign means deficit-reducing one-off measures.

¹⁴⁹ Until an agreement on the Production Function Method is reached, countries can use their own figures (SP).

Table 6: Divergence from previous programme

	Year X - 2	Year X - 1	Year X	Year X + 1	Year X + 2
1. GDP growth (% points)					
Previous					
Current					
Difference					
2. General government net lending (% of GDP)					
Previous	-0.4	-0.3	0.9	1.2	
Current	1.2	0.9	1.4	1.7	1.9
Difference	1.6	1.2	0.5	0.5	
3. General government gross debt (% of GDP)					
Previous	40.5	40.3	39.7	37.6	
Current	39.2	36.8	34.7	31.7	28.3
Difference	-1.3	-3.5	-5.0	-5.9	

Table 7: Long-term sustainability of public finances

Percentages of GDP	2007.	2010.	2020.	2030.	2040.	2050.	2060.
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>	:	:	:	:	:	:	:
Assumptions							
Labour productivity growth	:	:	:	:	:	:	:
Real GDP growth	:	:	:	:	:	:	:
Participation rate males (aged 20-64)	:	:	:	:	:	:	:
Participation rates females (aged 20-64)	:	:	:	:	:	:	:
Total participation rates (20-64)	:	:	:	:	:	:	:
Unemployment rate	:	:	:	:	:	:	:
Population aged 65+ over total population	:	:	:	:	:	:	:

Table 7a: Contingent liabilities

% of GDP	Year X - 1	Year X
Public guarantees	1.4	1.7
<i>Of which: linked to the financial</i>		Opt.

Table 8: Basic assumptions on the external economic environment underlying the programme framework

	Dimension	2016.	2017.	2018.	2019.	2020.
Short-term interest rate	Annual average	:	:	:	:	:
Long-term interest rate	Annual average	:	:	:	:	:
USD/EUR exchange	Annual average	:	:	:	:	:
Nominal effective exchange rate	Annual average	:	:	:	:	:
Exchange rate vis-à-vis the EUR	Annual average	1,96	1,96	1,96	1,96	1,96
Global GDP growth, excluding EU	Annual average	3,2	3,7	3,8	3,8	:
EU GDP growth	Annual average	1,9	1,8	1,8	1,7	:
Growth of relevant foreign markets	Annual average	:	:	:	:	:
World import volumes, excluding EU	Annual average	0,8	3	3,7	:	:
Oil prices (Brent, USD/barrel)	Annual average	44	51,8	52,6	53,1	:

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

Table 9: Selected employment and social indicators

	Izvor podataka	2014.	2015.	2016.	2017.	2018.
1. Labour market participation rate (%) total (pls indicate age bracket)	LFS	43,7	44,1	43,1	42,6	
- male	LFS	55,0	55,1	54,9	53,3	
- female	LFS	33,0	33,5	32,1	32,4	
2. Employment rate (%) total (pls indicate age bracket)	LFS	31,7	31,9	32,2	33,9	
- male	LFS	41,2	40,9	42,5	43,2	
- female	LFS	22,7	23,2	22,4	22,4	
3. Unemployment rate (%)total (pls indicate age bracket)	LFS	27,5	27,7	25,4	20,5	
- male	LFS	25,2	25,8	22,5	18,9	
- female	LFS	31,2	30,7	30,0	23,1	
4. Long-term unemployment rate (%) total	LFS	23,3	22,6	21,6		
- male	LFS	21,4	21,1	19,2		
- female	LFS	26,4	25,1	25,5		
5. Youth unemployment (15-24 yrs) rate (%) total	LFS	62,7	62,3	54,3	45,8	
- male	LFS	61,0	59,5	52,0	43,1	
- female	LFS	65,4	67,3	58,9	51,4	
6. Young people (please indicate the age bracket of the available figures) not in employment, education or training (NEET), in %, (15-24 yrs)		26,1	27,7	26,4		
7. Early school leavers, in % (Eurostat definition)	e	5,8	5,2	4,9		
8. Participation rate in early childhood education and care						
9. GINI coefficient	APD		31,2			
10. Inequality of income distribution S80/S20	e		4,9			
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)	APD		16,9			
15. Poverty gap (Please indicate which data are available for your country)	APD		24,6			

Source: Agency for Statistics BiH

Table 10: Matrix of policy commitments

Council of Ministers of Bosnia and Herzegovina

Description of policy		2017	2018	2019	2020
1. Strengthening public finance management					
The Public Finance Management Reform Strategy in the institutions of Bosnia and Herzegovina is aimed at ensuring greater functionality, transparency, accountability and efficiency in the management of public funds and thus contributes to the increase in BiH macroeconomic stability. Taken as a whole, this strategy, as well as the public finance management reform strategies in Entities and BD, should contribute to long-term fiscal stability and improvement of the quality of public finances in Bosnia and Herzegovina. This would primarily reflect in stabilisation of public spending, deficit reduction and the creation of fiscal space to increase capital spending.					
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
2. Transport market reform					
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

3. Improvement of agriculture, forestry and water management					
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. Trade liberalisation					
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
5. Improving links between education and labour market					
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
6. Improving the labour market efficiency					
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
7. Improving the population health					
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

Government of the Federation of BiH

Description of policy		2017	2018	2019	2020
1. Improving the quality of public finance					
<p>Activities under this policy will be carried out by FMF staff so, in addition to the regular payroll costs, in order to strengthen internal procedures and staff capacities for debt management, additional funding will be needed for staff training. Some activities will bring savings in the budget through elimination of irregularities in budget spending, while some of them (procurement of software) will require additional funds planned through various technical assistance projects (IPA fund, other donors) while charging and maintenance of the Guarantee Fund will require, both in the budget of the Federation of BiH and budgets of cantons, cities and municipalities, planning and providing the appropriate funds in accordance with the dynamics prescribed under the by-law.</p>					
A.	Duration of the reform *	X	X	X	
B.	Net direct budgetary impact (if any)	0.0	0.0	0.0	
B.1	Direct impact on budgetary revenue	0.0	0.0	0.0	
B.2	Direct impact on budgetary expenditure	0.0	0.0	0.0	
B.3	Possible non-budgetary financing	0.0	0.0	0.0	
- B.3.1	Of which committed IPA funding including WBIF funding	0.0	0.0	0.0	
2. Creating preconditions for the development of effective and target-oriented public finance system					
<p>The implementation of an interactive Register of fees and taxes in the Federation of BiH is carried out with the support of the US Agency for International Development (USAID), under the Fiscal Sector Reform project (FAR) based on the Memorandum of Understanding signed between the USAID and the Government of the Federation of BiH. These activities are also carried out within the framework of regular salary costs for the Ministry employees and do not require additional costs from the budget.</p> <p>The impact of changes to the current system of allocation of revenues on the consolidated fiscal capacity of all users of public revenues in the Federation of BiH is neutral. On the other hand, the impact on the Budget of the Federation of BiH alone, the budgets of lower levels of government and other users will be known after reviewing all the prepared proposals for amending the Law on Allocation of Public Revenues and reaching consensus on the selected model.</p>					
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
3. Redistribution of the tax burden					
Activities under this reform measure will include only the regular labour cost of the employees.					
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. Financial consolidation of health institutions					
Greater accountability of health care institutions will have a positive impact on budgets.					
A.	Duration of the reform *		X		
B.	Net direct budgetary impact (if any)		0.0		
B.1	Direct impact on budgetary revenue		0.0		
B.2	Direct impact on budgetary expenditure		0.0		
B.3	Possible non-budgetary financing		0.0		
- B.3.1	Of which committed IPA funding including WBIF funding		0.0		
5. Transport market reform					
The implementation costs are in line with the plans of the public road managers, the World Bank's Policy Note, the Strategy of the Federation of BiH and the FBiH budget (for railways).					
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
6. Increasing energy efficiency and use of renewable energy sources					
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
7. Enhancing agricultural production					
<p>Application, i.e. implementation of planned activities will not require additional funds from the Budget of FBiH.</p> <p>Total projected amount of funds from the total expenditures of the Federation Budget for subsidies to private enterprises and entrepreneurs in 2018 - The incentive for agriculture amounts to KM 69.2 million, and this amount is projected for the next two years as well. Planned investment in two agriculture projects according to the DAC classification, which are included in the PIP of the Federation of BiH 2017-2019, amount to 59.85 million KM, of which KM 6.39 million or 10.65% was spent in the previous years, while it was planned to spend KM 11.53 million in 2017, in 2018 KM 9.58 million and in 2019 KM 1.03 million (PIP for the period 2018-2020 has not yet been adopted.)</p>					
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

8. 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.					
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
-	Of which committed IPA funding	0.0	0.0	0.0	0.0
B.3.1	including WBIF funding				
9. Enhancement of the business environment					
The amount of KM 5 million will be spent for the project of supporting 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 allocation of loan funds in the amount of KM 2 million, as well as the amount of KM 3.07 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.					
Activities for the harmonisation of sectoral strategic documents at all levels and alignment with the Small Business Act shall be implemented by the staff of the FBiH Ministry of Development, Entrepreneurship and Crafts, so the implementation costs shall comprise regular costs of salaries (no additional cost).					
A.	Duration of the reform *	X	X	X	
B.	Net direct budgetary impact (if any)	0.0	0.0	0.0	
B.1	Direct impact on budgetary revenue	0.0	0.0	0.0	
B.2	Direct impact on budgetary expenditure	0.0	0.0	0.0	
B.3	Possible non-budgetary financing	0.0	0.0	0.0	
-	Of which committed IPA funding	0.0	0.0	0.0	
B.3.1	including WBIF funding				
10. Improving links between education and labour market					
Implementation costs for this reform measure are ensured in the Budget of FBiH and amount KM 0.9 million in 2017, KM 0.87 million in 2018 and KM 0.86 million in 2019.					

A.	Duration of the reform *	X	X	X	
B.	Net direct budgetary impact (if any)	-0.9	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
<i>11. Improving the labour market efficiency</i>					
The overall value of the Employment Support Project is KM 110 million, of which a little more than KM 50 million is allocated to FBiH, financed partly from a World Bank credit and partly from budget funds.					
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
<i>12. Establishing an efficient, financially sound and sustainable system of pension and disability insurance in FBiH</i>					
The financial consequences of the Law on Pension and Disability Insurance will range from KM 12 and 50 million of budget funds annually. The development 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 carried out as part of regular activities. Binding years of employment under the Law on Payment of Unpaid Contributions for PDI, depending on coverage, will in the most likely option amount to KM 450 million in the next 30 years.					
A.	Duration of the reform *	X	X		
B.	Net direct budgetary impact (if any)	0.0	0.0		
B.1	Direct impact on budgetary revenue	0.0	0.0		
B.2	Direct impact on budgetary expenditure	0.0	0.0		
B.3	Possible non-budgetary financing	0.0	0.0		

- B.3.1	Of which committed IPA funding including WBIF funding	0.0	0.0		
13. Improving the functioning of the social protection system in FBiH					
We are currently unable to estimate the cost of implementing these activities. Namely, prior to adoption of any law, a regulation impact assessment must be carried out as the foundation for the legislator to select one option.					
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
14. Establishing an efficient system of protection, rehabilitation and social inclusion of persons with disabilities in FBiH in line with EU legislation					
We are currently unable to estimate the cost of implementing these activities. Namely, prior to adoption of any law, a regulation impact assessment must be carried out as the foundation for the legislator to select one option.					
As part of the implementation of the Strategy for Enhancement of the Rights and Status 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 300,000.00 from the Budget of the Federation of BiH for the first year for procurement of equipment and software, and in the following period KM 200,000.00 for maintenance. For support to the work of associations of persons with disabilities expenditures in 2018 will be KM 500,000.00 from the Budget of the Federation of BiH, whereas no funding is planned for development of the Law on Associations of Persons with Disabilities.					
A.	Duration of the reform *		X	X	
B.	Net direct budgetary impact (if any)		0.0	0.0	
B.1	Direct impact on budgetary revenue		0.0	0.0	
B.2	Direct impact on budgetary expenditure		0.0	0.0	
B.3	Possible non-budgetary financing		0.0	0.0	

- B.3.1	Of which committed IPA funding including WBIF funding		0.0	0.0	
Total					
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

* 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 KM million)

	Description of policy	2017	2018	2019	2020
		X - 1	X	X + 1	X + 2
1. Improving the tax framework					
Improving the tax framework has several goals: Reform direct taxes in order to reduce the burden on labour; Abolish non-tax charges; Reform of the Value-Added Tax.					
A.	Duration of the reform *				
B.	Net direct budgetary impact (if any)	0.00	0.00	-10.00	0.00
B.1	Direct impact on budgetary revenue	0.00	0.00	-10.00	0.00
B.2	Direct impact on budgetary expenditure	0.00	0.00	0.00	0.00

B.3	Possible non-budgetary financing	0.00	0.00	0.00	0.00
-B3	Of which committed IPA funding including WBIF funding	0.00	0.00	0.00	0.00
2. Health sector reform, with reforms of child protection financing and sickness-related refunds					
Health sector reform, with reforms of child protection financing and sickness-related refunds has several objectives, as follows: an analysis of arrears of the health care sector; taking measures to prevent creating new liabilities in the public health care sector; finding options to settle outstanding arrears of public health care institutions; inclusion of all public health care institutions (except pharmacies) and the Health Insurance Fund of Republika Srpska into a treasury operations system; finding options for new models and sources of funding; standardising the network of health care institutions; and reform of child protection financing and sickness-related refunds.					
A.	Duration of the reform *		x	x	x
B.	Net direct budgetary impact (if any)	0.0	-2.0	-3.1	-5.1
B.1	Direct impact on budgetary revenue	0.0	-3.4	-5.1	-8.5
B.2	Direct impact on budgetary expenditure	0.0	1.4	2.0	3.4
B.3	Possible non-budgetary financing	0.0	0.0	0.0	0.0
-B3	Of which committed IPA funding including WBIF funding	0.0	0.0	0.0	0.0
3. Reducing the fiscal needs of the public sector					
Reducing the fiscal needs of the public sector will be implemented through measures across several areas: Creating a Register of employees in the public sector; Ensuring the efficiency of local self-government work; Increasing the efficiency of public investment; and Inspection reform.					
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
-B3	Of which committed IPA funding including WBIF funding	0.0	0.0	0.0	0.0
4. Restructuring the Railways of Republika Srpska					
The restructuring will be implemented through three components: ownership, financial and organisational restructuring.					
A.	Duration of the reform *	x	x	x	x
B.	Net direct budgetary impact (if any)	-2.90	-34.13	0.00	0.00
B.1	Direct impact on budgetary revenue	3.40	43.10	0.00	0.00
B.2	Direct impact on budgetary expenditure	-6.30	-77.23	0.00	0.00
B.3	Possible non-budgetary financing	1.70	1.50	7.50	3.30
-B3	Of which committed IPA funding including WBIF funding	0.00	0.00	0.00	0.00
5. Improving agriculture, forestry and water management					
Improving agriculture, forestry and water management will be implemented through the following activities: improvement of agrarian sector financing sources; adoption of legislation in the area of agriculture at the level of Republika Srpska and the harmonisation of this legislation within BiH; setting up a land parcel identification system; implementation of the animal identification process through development of the animal movement control system; improvement of foreign trade operations and protection of domestic agricultural production; work on creation of IPARD operational structure; building organisational and economic and market operators in order to connect the total agrarian reproduction and the market (clusters, cooperatives and forms of networking); improvement of the staff training and education system for agrarian businesses, primarily farmers; improvement of counselling etc.; introduction of new information system in forestry; development of a master plan for construction of forest roads; improvement of the work of reporting, diagnostic and forecasting services; placing forest harvesting areas at disposal of domestic wood processing companies; distribution of forest wood assortments					

according to the adopted criteria; adoption of new prices lists for forest wood assortments and establishment of water information system in water management.					
A.	Duration of the reform *	x	x	x	x
B.	Net direct budgetary impact (if any)	0.00	0.00	0.00	0.00
B.1	Direct impact on budgetary revenue	0.00	0.00	0.00	0.00
B.2	Direct impact on budgetary expenditure	0.00	0.00	0.00	0.00
B.3	Possible non-budgetary financing	0.00	0.00	0.00	0.00
-B3	Of which committed IPA funding including WBIF funding	0.00	0.00	0.00	0.00
<i>6. Introducing tighter prudential requirements of the banking operations and regulating the bank restructuring procedure</i>					
Introducing tighter prudential requirements of the banking operations and regulating the bank restructuring procedure has been implemented by the adoption of the Law on Banks of Republika Srpska and the Law on the Amendments to the Law on the Banking Agency of RS, the activity being linked to the World Bank's Banking Sector Strengthening Project.					
A.	Duration of the reform *	x	x	x	
B.	Net direct budgetary impact (if any)	0.00	0.00	0.00	0.00
B.1	Direct impact on budgetary revenue	0.00	0.00	0.00	0.00
B.2	Direct impact on budgetary expenditure	0.00	0.00	0.00	0.00
B.3	Possible non-budgetary financing	0.00	0.00	0.00	0.00
-B3	Of which committed IPA funding including WBIF funding	0.00	0.00	0.00	0.00
<i>7. Establishing a more efficient management system of scientific research and innovation potential in the Republika Srpska</i>					

The requirements for implementing these reform measures in the following period are: Improving the system of evaluating scientific research work and ensuring the material conditions for the work of the Scientometrics and Science Promotion Centre; Changing the financing model of research and innovation, which includes establishment of the Science and Innovation Fund of Republika Srpska (SIFRS); and Identifying and implementing necessary amendments to the legislative framework in accordance with reform goals.					
A.	Duration of the reform *		x	x	x
B.	Net direct budgetary impact (if any)	0.00	-0.05	-4.15	-4.20
B.1	Direct impact on budgetary revenue	0.00	0.00	0.00	0.00
B.2	Direct impact on budgetary expenditure	0.00	-0.05	-4.15	-4.20
B.3	Possible non-budgetary financing	0.00	0.00	0.00	0.00
-B3	Of which committed IPA funding including WBIF funding	0.00	0.00	0.00	0.00
8. Improving links between education and labour market					
Successful linkage of education with the labour market requires a detailed analysis of the situation in the labour market, with the goal of harmonising enrolment policies of secondary vocational schools and higher education institutions with demands of employers.					
A.	Duration of the reform *		x	x	x
B.	Net direct budgetary impact (if any)	0.00	0.00	0.00	0.00
B.1	Direct impact on budgetary revenue	0.00	0.00	0.00	0.00
B.2	Direct impact on budgetary expenditure	0.00	0.00	0.00	0.00
B.3	Possible non-budgetary financing	0.00	0.00	0.00	0.00
-B3	Of which committed IPA funding including WBIF funding	0.00	0.00	0.00	0.00
9. Improving the labour market efficiency and Employment Agency reform					

Partial success was achieved in the implementation of this measure, which was also planned in 2017. Namely, the key activity for improving the labour market efficiency in Republika Srpska under this measure was to reform and redefine the role of the public employment service – PI Republika Srpska Employment Institute, in line with adopted strategic goals from the Strategy of Employment of Republika Srpska 2016–2020 and Action Plan for Employment in Republika Srpska for 2017.

A.	Duration of the reform *		x		
B.	Net direct budgetary impact (if any)	0.00	0.00	0.00	0.00
B.1	Direct impact on budgetary revenue	0.00	0.00	0.00	0.00
B.2	Direct impact on budgetary expenditure	0.00	0.00	0.00	0.00
B.3	Possible non-budgetary financing	0.00	0.00	0.00	0.00
-B3	Of which committed IPA funding including WBIF funding	0.00	0.00	0.00	0.00
TOTAL					
B.	Net direct budgetary impact (if any)	-2.9	-36.2	-7.3	-9.3
B.1	Direct impact on budgetary revenue	3.4	39.7	-5.1	-8.5
B.2	Direct impact on budgetary expenditure	-6.3	-75.9	-2.2	-0.8
B.3	Possible non-budgetary financing	1.7	1.5	7.5	3.3
-B3	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

1. Strengthening public finance management	
Short description	The Public Finance Management Reform Strategy in the institutions of Bosnia and Herzegovina is aimed at ensuring greater functionality, transparency, accountability and efficiency in the management of public funds and thus contributes to the increase in BiH macroeconomic stability. Taken as a whole, this strategy, as well as the public finance management reform strategies in Entities and BD, should contribute to long-term fiscal stability and improvement of the quality of public finances in Bosnia and Herzegovina. This would primarily reflect in stabilisation of public spending, deficit reduction and the creation of fiscal space to increase capital spending.
Timetable by year	2018: -
	2019: -
	2020: -
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	
2. Transport market reform	
Short description	<p>Transport market reform is a comprehensive measure that should be implemented through the synergy of all institutions (at different levels of government) competent for transport.</p> <p>Key obstacles affecting the insufficient transport market reform in Bosnia and Herzegovina are reflected in the following elements:</p> <ol style="list-style-type: none"> 1. Underdeveloped transport infrastructure; 2. Lack of assumptions for a more significant share of multimodal transport; 3. Non-recognition of the need to invest in rail infrastructure and this mode of transport as a basis for the development of more sustainable and large-scale transport;

	4. Low level of road safety.
Timetable by year	2018: -
	2019: -
	2020: -
Costs of implementation and impact on the annual budget	It is not possible to estimate the expected fiscal effects of this activity.
Expected impact on competitiveness	-
Expected social outcomes including on employment and on social groups in particular on gender	-
3. Increasing energy efficiency and use of renewable sources of energy	
Short description	<p>On 22 June 2017, the BiH Ministry of Foreign Trade and Economic Relations invited the public, all stakeholders and interested organisations to submit their comments to the BiH Framework Energy Strategy for the period to 2035.</p> <p>The Government of the Federation of BiH by the Conclusion of the Government of the Federation of BiH no. 958/2017 of 10 July 2017 gave a positive opinion on the Framework Energy Strategy of Bosnia and Herzegovina, while the Government of the Republika Srpska has not yet given its opinion. After receiving a positive response from the Government of the Republika Srpska, the Framework Energy Strategy of Bosnia and Herzegovina will be submitted for adoption to the Council of Ministers of BiH. The goal is for the Council of Ministers of BiH to adopt this strategic document by the end of November 2017.</p> <p>The Conclusion of the Government of the Brčko District BiH of 6 November 2017 is to give their positive opinion on the Framework Energy Strategy of Bosnia and Herzegovina for the period to 2035.</p>
Timetable by year	2018: -
	2019: -
	2020: -
Costs of implementation and impact on the annual budget	It is not possible to estimate the expected fiscal effects of this activity.
Expected impact on competitiveness	-

Expected social outcomes including on employment and on social groups in particular on gender	-
4. Improving agriculture, forestry and water management	
Short description	<p>The agriculture sector in BiH is characterised by a foreign trade deficit for most agricultural products. The situation in agricultural production deteriorated in 2017 due to extreme droughts and frost at the beginning of vegetation period. In this regard, significant financial losses are likely in this sector, especially in maize production. Other aggravating factors are the risks of infectious diseases in animal production and the absence of appropriate measures to protect domestic production. In the forthcoming period, efforts will be made to improve agricultural production and to carry out the activities proposed in the previous year, since most of them have not been fully implemented.</p> <p>The available budgets of institutions dedicated to support agricultural development are not sufficient to support the reform processes and cannot ensure the strengthening of agricultural competitiveness in BiH. In order to fully meet the conditions for the use of the EU pre-accession funds dedicated to agriculture and rural sector, it is necessary to adopt strategic documents in this area and establish IPARD operational structure. The adoption of this sector's strategy would facilitate and accelerate activities that would directly affect the development of the agricultural information system and the implementation of the agricultural census. In order to improve the chain of management and the official human food and animal feed control system, it is necessary to harmonise legislation in this area. This would boost exports of animal origin products to the EU market.</p>
Timetable by year	2018: -
	2019: -
	2020: -
Costs of implementation and impact on the annual budget	Available budgets of institutions earmarked for support to the development of agriculture and rural development at all levels competent for agriculture in Bosnia and Herzegovina, which amount to KM 160 million, are not enough to support reform processes and cannot ensure the strengthening of competitiveness of the agriculture of BiH. The European Union has set aside EUR 35 million of pre-accession funds for Bosnia and Herzegovina as a potential membership candidate. The funds are very significant to support the competitiveness of agriculture and development of rural areas.

	In order to develop the Strategic Plan of Rural Development of Bosnia and Herzegovina, as well as establish the IPARD implementation structure, base funds will be necessary in the amount of ca. 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 entering a liberalised market is one of the priorities that is of special interest for Bosnia and Herzegovina. Ensuring the conditions, first and foremost, through the adoption of the package of laws 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, enhance legislation on organic production and maritime fishery), which will be in line with EU regulations and establishment of structures (inspection services and services for quality assessment of products) which will ensure achievement of the necessary quality standards and food safety standards for uninhibited trade in agricultural goods and export of all animal and plant origin products into the EU market.
Expected social outcomes including on employment and on social groups in particular on gender	
5. Business environment and reduction of the informal economy	
Short description	The current quality infrastructure system in BiH is not aligned with the European legislative framework, or with those of neighbouring countries, which reflects negatively on the business environment and affects the emergence of non-tariff barriers in trade.
Timetable by year	2018: -
	2019: -
	2020: -
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	-
6. BiH Trade liberalisation	

Short description	Bosnia and Herzegovina is fully committed to building a liberal economy based on market principles and free movement of people, capital, goods and services. In the area of international trade relations, that means full integration of the economy of Bosnia and Herzegovina into the international multilateral trade system, established within the framework of the World Trade Organisation (WTO), and development of trade legislation based on the rules and principles of the organisation.
Timetable by year	2018: -
	2019: -
	2020: -
Costs of implementation and impact on the annual budget	It is not possible to estimate the expected fiscal effects of this activity.
Expected impact on competitiveness	-
Expected social outcomes including on employment and on social groups in particular on gender	-
<i>7. Improving links between education and labour market</i>	
Short description	The labour market is constantly in demand for new and more adaptable labour force. Education should meet these demands. In that sense, it is necessary to improve the existing and develop new strategic documents at all levels of government with the goal of modernising and integrating BiH education systems into the European education system. In that respect, there are strategic documents at the BiH level which represent a foundation for further improvements in the area of education.
Timetable by year	2018: -
	2019: -
	2020: -
Costs of implementation and impact on the annual budget	It is not possible to estimate the expected fiscal effects of this activity.
Expected impact on competitiveness	It is necessary to improve the conditions for the education process, establish partnerships between schools, higher education institutions and employers, motivate all participants of the process to

	take part in training programmes and strengthen professional training of teachers. Through further development of the Qualification Framework for Lifelong Learning in BiH, the sectors of education and labour and employment would be more directly and adequately linked. As is known, qualifications frameworks include the development of knowledge, skills and competences based on learning outcomes, and are the best response to the demands of the labour market.
Expected social outcomes including on employment and on social groups in particular on gender	-
8. Improving the labour market efficiency	
Short description	The Council of Ministers of BiH has 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	2018: -
	2019: -
	2020: -
Costs of implementation and impact on the annual budget	It is not possible to estimate the expected fiscal effects of this activity.
Expected impact on competitiveness	-
Expected social outcomes including on employment and on social groups in particular on gender	-
Improving population health	
Short description	Spending on health is taking up an increasing share of economic resources and it is expected that, due to demographic and non-demographic factors, the pressures on increasing health expenditures will continue in the future decades. This emphasizes the need to increase efforts to slow down the growth of public spending on health, especially through improving the regulatory framework for increasing the efficiency of financing and provision of health services.
Timetable by year	2018: -
	2019: -

	2020: -
Costs of implementation and impact on the annual budget	It is not possible to estimate the expected fiscal effects 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 of BiH

<i>1. Improving the quality of public finance</i>	
Short description	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, creating prerequisites for development of target-oriented and results-based management, improving regulations and methodology of work of internal audit, capacity building of internal auditors, increasing the internal audit performance and developing the coordination role of CHU.
Timetable by year	2018: <ul style="list-style-type: none"> - Passing the Law on Debt, Borrowing and Guarantees in the Federation of BiH. - Adopting the by-laws deriving from the Law on Debt, Borrowing and Guarantees in the Federation of BiH <ul style="list-style-type: none"> o Regulation that establishes the obligation and governs the process of debt and guarantee reporting o Regulation pertaining to approval for borrowing and issuance of the guarantees of cantons, cities or municipalities in the Federation of BiH o Regulation that establishes the obligation and governs the procedure of recording debt and guarantees and reporting on them - Regulation providing for establishment, financing and management of the Guarantee Fund and other issues related to the Guarantee Fund.
	2019: <ul style="list-style-type: none"> - Procurement of software to establish a single database and enable recording debts of all levels of government in the Federation of BiH in one place
	2020: -

Costs of implementation and impact on the annual budget	Activities under this policy will be carried out by FMF staff so, in addition to the regular payroll costs, in order to strengthen internal procedures and staff capacities for debt management, additional funding will be needed for staff training. Some activities will bring savings in the budget through elimination of irregularities in budget spending, while some of them (procurement of software) will require additional funds planned through various technical assistance projects (IPA fund, other donors) while the filling and maintenance of the Guarantee Fund will require, both in the budget of the Federation of BiH and budgets of cantons, cities and municipalities, planning and providing the appropriate funds in accordance with the dynamics prescribed under the by-law.
Expected impact on competitiveness	More efficient public administration leads to a more competitive private sector, and better debt management that implies stability in the capital market and contributes to better competitiveness of the economy.
Expected social outcomes including on employment and on social groups in particular on gender	This reform measure contributes to increasing the competitiveness of the domestic economy, which will lead to increased employment.
<i>2. Creating preconditions for the development of effective and target-oriented public finance system</i>	
Short description	The implementation of this reform measure entails the publication and full implementation of the Register of fees and taxes in the Federation of BiH. The existing system of allocation of public revenues in the Federation of BiH needs to be changed through the adoption and implementation of the new Law on Allocation of Public Revenues in the Federation of BiH and the accompanying by-laws.
Timetable by year	2018: <ul style="list-style-type: none"> - Publication and implementation of the Register of fees and taxes in the Federation of BiH - Analysis of performance, allocation and distribution of total public revenues in the Federation of BiH with special emphasis on the review of the fiscal capacity of each individual user
	2019: <ul style="list-style-type: none"> - Analysis of legislation in order to ensure optimum burden and to protect the integrity of tax payers - Development of a preliminary draft of the new Law on Allocation of Public Revenues in the Federation of BiH
	2020: <ul style="list-style-type: none"> - Adoption of the new Law on Allocation of Public Revenues in the Federation of BiH
Costs of implementation and impact on the annual budget	The implementation of an interactive Register of fees and taxes in the Federation of BiH is carried out with the support of the US Agency for International Development (USAID), under the Fiscal Sector Reform project (FAR) based on the Memorandum of Understanding signed between the USAID and the Government of the Federation of

	<p>BiH. These activities are also carried out within the framework of regular salary costs for the Ministry employees and do not require additional costs from the budget.</p> <p>The impact of changes to the current system of allocation of revenues on the consolidated fiscal capacity of all users of public revenues in the Federation of BiH is neutral. On the other hand, the impact on the Budget of the Federation of BiH alone, the budgets of lower levels of government and other users will be known after reviewing all the prepared proposals for amending the Law on Allocation of Public Revenues and reaching consensus on the selected model.</p>
Expected impact on competitiveness	One of the goals of the implementation of the interactive Register of fees and taxes is to provide full transparency in terms of all fees and taxes throughout the Federation of BiH, which should lead to increased competitiveness between local communities and, ultimately to economic growth for local communities.
Expected social outcomes including on employment and on social groups in particular on gender	Full implementation of the interactive Register of fees and taxes will improve the business environment in the Federation of BiH and thereby spur new investments, growth and employment.
<i>3. Redistribution of the tax burden</i>	
Short description	As the first step towards reducing the tax burden on labour, FBiH plans to undertake the alignment of the taxation regime with 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 new Law on Contributions, as well as adopting the Rulebook on the implementation of the Law on Personal Income Tax, instructions and other by-laws and the Rulebook on the implementation of the Law on Contributions, instructions and other by-laws.
Timetable by year	<p>2018:</p> <ul style="list-style-type: none"> - The Law on Personal Income Tax and the Law on Contributions (Parliament of FBiH); - Risk analysis of the state of tax debt (Federal Ministry of Finance).
	<p>2019:</p> <ul style="list-style-type: none"> - Published Rulebook on the implementation of the Law on Personal Income Tax and Rulebook on the implementation of the Law on Contributions (Federal Ministry of Finance); - Report on the Analysis of the property taxation process in FBiH (cantonal ministries of finance, Federal Ministry of Finance); - Report on the Risk analysis of the state of tax debt (Federal Ministry of Finance and the FBiH Government);

	- Preparation of legislative framework for property taxation in FBIH (Federal Ministry of Finance).
	2020: - Preparation of legislative framework for solving the issue of tax arrears (FBIH (Federal Ministry of Finance)); - Adoption of the Law on Ownership and Transfer of Property in FBIH (Parliament of FBIH).
Costs of implementation and impact on the annual budget	Activities under this reform measure will include only the regular labour cost of the employees.
Expected impact on competitiveness	Disburdening of the economy through a unified approach throughout FBiH, and reducing administrative barriers will improve the competitiveness of domestic business entities and lead to greater investment and economic growth. By relieving the economy of old tax debt, a positive impact on competitiveness and development is expected due to more funds available for investment and other business projects.
Expected social outcomes including on employment and on social groups in particular on gender	-
4. Financial consolidation of health institutions	
Short description	The health sector reforms have to be primarily linked to the health care financing reform, which is crucial to financial sustainability of the health sector as a whole. Therefore, it is particularly important to address the large stock of arrears of public health institutions through the adoption of the new Law on Financial Consolidation of Public Health Institutions in the Federation of BiH, in accordance to the Reform Agenda of Bosnia and Herzegovina 2015-2018 and Work Programme for the mandate period of the FBiH Government.
Timetable by year	2018: - - Preparation of the draft Law Financial Consolidation of Public Health Institutions
	2019: -
	2020: -
Costs of implementation and impact on the annual budget	Greater accountability of health care institutions will have a positive impact on budgets.
Expected impact on competitiveness	Better health services should bring improvements to operations of economy too and thereby greater competitiveness as well.

Expected social outcomes including on employment and on social groups in particular on gender	In the first phase of the implementation of this measure it is necessary to take into account the risk of endangering the social position of the social protection beneficiaries while, after the consolidation of the health sector financing we expect higher quality and better organised services.
5. Improving the communication infrastructure	
Short description	<p>To create a sustainable rail infrastructure financing system by finding funds for these purposes so as to complete separation, i.e. restructuring of the Public Company <i>Željeznice Federacije BiH</i>, which is also a commitment under EU directives and the Law on Railways of BiH;</p> <p>To create a database on the situation of aviation infrastructure in FBiH to enable the airport infrastructure facilitate the increased number of passengers and goods;</p> <p>To create better assumptions for construction of road infrastructure and motorway financing models with emphasis on concessions and public-private partnership;</p> <p>New Law on Roads.</p>
Timetable by year	<p>2018:</p> <ul style="list-style-type: none"> - To determine the model of railway restructuring upon acquiring the conditions, i.e. by implementing the Reform Agenda activities within the competence of the Prime Minister of the Government of the Federation of BiH and FMEMI/ implementer – FBiH Government, FMTC, JP <i>Željeznice Federacije BiH</i>; - After determining the railway restructuring model, draw up an action plan for railway restructuring – establish obligations and financial structure/ implementer – FBiH Government, FMTC, FMF, JP <i>Željeznice Federacije BiH</i>; - Preparatory activities for development of the new Law on Roads in the Federation of BiH/implementer FMTC in cooperation with respective companies and Cantons; - To continue the construction of the motorway on corridor Vc / implementer JP <i>Autoceste FBiH</i> in cooperation with FMTC and MCTBiH; - To continue reconstruction of the railway corridor Vc from Sarajevo to Podlugovi in a length of 270 km/ implementer JP <i>Željeznice Federacije BiH</i>, BHŽJK in cooperation with FMTC and MCTBiH; - Implementation of the Magistral Roads Modernisation Programme (subject to the prior adoption of the Law on Excise Duties)/ implementer JP <i>Ceste FBiH</i> in cooperation with FMTC, FMF and MCTBiH; - Implementation of the FBiH Government Programme for the implementation of projects from the funds of the Russian Federation's clearing debt and the profit of public companies (subject to the prior adoption of the FBiH budget for 2018 and rebalance of 2017 budget)/ implementer JP <i>Autoceste FBiH</i>, JP <i>Ceste FBiH</i> in cooperation with FMTC, FMF and MCTBiH;

	<ul style="list-style-type: none"> - Implementation of the FBiH Government Programme for the implementation of projects from the remaining funds of the GSM licence (subject to the prior adoption of rebalance of 2017 budget/ implementer JP Ceste FBiH, Cantons, municipalities, in cooperation with FMTC; - Adoption and implementation of the Programme of expenditure of the current and capital transfers to airports in the Federation of BiH (subject to the prior adoption of the FBiH budget for 2018)/ implementer FMTC and airports in the Federation of BiH.
	<p>2019:</p> <ul style="list-style-type: none"> - Development of the new Law on Roads in the Federation of BiH/implementer FMTC in cooperation with respective companies and Cantons, - Continuation of the construction of the motorway on corridor Vc / implementer JP Autoceste FBiH in cooperation with FMTC and MCTBiH; - Continuation of reconstruction of the railway corridor Vc from Sarajevo to Podlugovi in a length of 270 km/ implementer JP Željeznice Federacije BiH, in cooperation with FMTC and MCTBiH; - Implementation of the Magistral Roads Modernisation Programme (subject to the prior adoption of the Law on Excise Duties)/ implementer JP Ceste FBiH in cooperation with FMTC, and MCTBiH; - Implementation of the FBiH Government Programme for the implementation of projects from the funds of the Russian Federation's clearing debt and the profit of public companies (subject to the prior adoption of the FBiH budget for 2018 and rebalance of 2017 budget)/ implementer JP Autoceste FBiH, JP Ceste FBiH in cooperation with FMTC, FMF and MCTBiH; - Implementation of the FBiH Government Programme for the implementation of projects from the remaining funds of the GSM licence (subject to the prior adoption of rebalance of 2017 budget/ implementer JP Ceste FBiH, Cantons, municipalities, in cooperation with FMTC; - Adoption and implementation of the Programme of expenditure of the current and capital transfers to airports in the Federation of BiH (subject to the prior adoption of the FBiH budget for 2019)/ implementer FMTC and airports in the Federation of BiH.
	<p>2020:</p> <ul style="list-style-type: none"> - Continuation of the construction of the motorway on corridor Vc / implementer JP Autoceste FBiH in cooperation with FMTC and MCTBiH; - Continuation of reconstruction of the railway corridor Vc from Sarajevo to Podlugovi in a length of 270 km/ implementer JP Željeznice Federacije BiH, in cooperation with FMTC and MCTBiH; - Implementation of the Magistral Roads Modernisation Programme (subject to the prior adoption of the Law on Excise Duties)/ implementer JP Ceste FBiH in cooperation with FMTC, and MCTBiH;

	<ul style="list-style-type: none"> - Implementation of the FBiH Government Programme for the implementation of projects from the funds of the Russian Federation's clearing debt and the profit of public companies (subject to the prior adoption of the FBiH budget for 2018 and rebalance of 2017 budget)/ implementer JP Autoceste FBiH, JP Ceste FBiH in cooperation with FMTC, FMF and MCTBiH; - Implementation of the FBiH Government Programme for the implementation of projects from the remaining funds of the GSM licence (subject to the prior adoption of rebalance of 2017 budget/ implementer JP Ceste FBiH, Cantons, municipalities, in cooperation with FMTC; - Adoption and implementation of the Programme of expenditure of the current and capital transfers to airports in the Federation of BiH (subject to the prior adoption of the FBiH budget for 2020)/ implementer FMTC and airports in the Federation of BiH.
Costs of implementation and impact on the annual budget	The implementation costs are in line with the plans of the public road managers, the World Bank's Policy Note, the Strategy of the Federation of BiH and the FBiH budget (for railways).
Expected impact on competitiveness	<p>Investing in airport infrastructure in the Federation of BiH improves their competitiveness in relation to airports in surrounding countries.</p> <p>Separation of infrastructure from the operator will contribute to increasing the competitiveness on the market, with the need to create conditions for our companies, in this case <i>JPŽFBiH</i> to be competitive on the EU market, i.e. to facilitate their access to EU railway network, more precisely to the Port of Ploče, in order to be able to transport goods from the Port, which is 98% related to the BiH market.</p> <p>Financing of the entire railway infrastructure maintenance by the Federation of BiH would put a stop on discrimination or favouring other modes of transport, in this case the road transport, which has its own funding sources (excise on oil and road tolls).</p>
Expected social outcomes including on employment and on social groups in particular on gender	-
6. Increasing energy efficiency and use of renewable energy sources	
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"> - 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.
	<p>2018: -</p> <ul style="list-style-type: none"> - 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.
	<p>2019:</p> <ul style="list-style-type: none"> - Distribution of electricity - "Smart Meters"

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	-
7. Enhancing agricultural production	
Short description	<p>In order to implement the proposed measure, the following activities will be pursued: development of new and amending the existing laws and subordinate legislation in the field of agriculture, rural development and financial support at the level of the Federation of BiH; development of strategies and programmes for agricultural sector harmonised within BiH and aligned with the EU <i>acquis</i> and international standards; improvement of implementation of the applicable legal provisions; establishment of regular payments of financial support and arrears to farmers; improvement of agricultural sector funding sources; setting up appropriate measures to protect domestic agricultural output; strengthening the control system; support and initiate the development and adoption of sectoral strategies and laws in the area of agriculture and rural development at the level of BiH (regulation of agricultural product market; domestic production protection; improvement of control system); improvement of the quality of public services (professional and advisory services); organisation of trainings for farmers; and the improvement and updating the information system, registers and databases in agriculture in compliance with the EU requirements (LPIS, GIS; Registers, etc.).</p>
Timetable by year	<p>2018:</p> <ul style="list-style-type: none"> - Develop and adopt laws regulating the field of agriculture, rural development and financial support harmonised within BiH and aligned with the EU <i>acquis</i>, which have the greatest impact on the enhancement of agricultural production. Activities will be implemented in cooperation with the Cantonal authorities competent for agriculture

	<p>and the Federation of BiH and Cantonal expert administrative organisations, as well as in cooperation with the competent state level institutions and stakeholders of this ministry;</p> <ul style="list-style-type: none"> - Reform the direct payment system in order to set up a payment system per head for dairy cows in the system of milk collection and direct payment per hectare for incentives for agriculture in cooperation with the Cantonal authorities competent for agriculture, expert administrative organisations and stakeholders of this Ministry; - Improve the model of funding the agricultural sector development by providing funds from the FBiH budget and the budgets of 10 Cantons, international funding sources, establishing a special credit line with the Development Bank of the Federation of BiH for financing investment projects in agriculture and rural development, and establishing a Guarantee Fund with support from DB FBiH; - Apply the existing provision of the Law on Agricultural Land for the purpose of putting into operation the production from uncultivated agricultural land and streamlining into this the collected charges, as dedicated revenue type of municipal budget that can be used for development, incentives and intensification of agricultural production in the municipality where they are collected, in cooperation with the Association of Municipalities and Cities and the Cantonal authorities competent for agriculture; - Improve information systems for agriculture and rural development in line with EU requirements and standards, in cooperation with all institutions in BiH competent for agriculture, the FBiH Geodetic Administration and the FBiH Tax Administration.
	<p>2019:</p> <ul style="list-style-type: none"> - Establish a framework (draft subordinate legislation) for the application of the Law on Agriculture and Rural Development and Financial Support harmonised within BiH and aligned with the EU acquis, in cooperation with the Cantonal authorities competent for agriculture and state institutions responsible for agriculture and rural development; - Monitor spending of collected charges, as dedicated revenue type of municipal budget that can be used for development, incentives and intensification of agricultural production in the municipality in the Federation of BiH, in cooperation with the Association of Municipalities and Cities and the Cantonal authorities competent for agriculture; - Improve the quality of public services - professional and advisory services, organise trainings for farmers and improve and update the information systems, registers and databases in agriculture in compliance with the EU requirements (LPIS, GIS; Registers, etc) in cooperation with the FBiH Geodetic Administration;
	<p>2020:</p> <ul style="list-style-type: none"> - Establish institutional framework for the application of the Law on Agriculture and Rural Development and Financial Support harmonised within BiH and aligned with the EU acquis, in cooperation with the Cantonal authorities competent for agriculture and state institutions responsible for agriculture and rural development;

	<ul style="list-style-type: none"> - Monitor spending of collected charges, as dedicated revenue type of municipal budget that can be used for development, incentives and intensification of agricultural production in the municipality in the Federation of BiH, in cooperation with the Association of Municipalities and Cities and the Cantonal authorities competent for agriculture; - Establish and strengthen institutional framework for provision of public services to farmers by professional and advisory services and organise trainings for farmers; - Improve and update the information systems, registers and databases in agriculture in compliance with the EU requirements (LPIS, GIS; Registers, etc) in cooperation with the FBiH Geodetic Administration.
Costs of implementation and impact on the annual budget	<p>Implementation of planned activities will not require additional funds to be allocated from the Budget of the Federation of BiH.</p> <p>Total projected amount of funds from the total expenditures of the Federation Budget for subsidies to private enterprises and entrepreneurs in 2018 - The incentive for agriculture amounts to KM 69.2 million, and this amount is projected for the next two years as well.</p> <p>Planned investment in two agriculture projects according to the DAC classification, which are included in the PIP of the Federation of BiH 2017-2019, amount to 59.85 million KM, of which KM 6.39 million or 10.65% was spent in the previous years, while it was planned to spend KM 11.53 million in 2017, in 2018 KM 9.58 million and in 2019 KM 1.03 million (PIP for the period 2018-2020 has not yet been adopted.).</p>
Expected impact on competitiveness	The expected impact on competitiveness of agricultural sector is positive and we expect stabilisation of incomes of farmers, increased productivity and profitability of agricultural production.
Expected social outcomes including on employment and on social groups in particular on gender	Implementation of planned activities is expected to contribute to sustainable and steady growth of agricultural production and ensure a better standard of living for farmers, which is set to result in growth of employment in the agricultural sector and activities associated with agriculture and in engagement of a larger number of women.
8. Conserving, protecting and improving environmental quality	
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	<p>2018:</p> <ul style="list-style-type: none"> - 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.

	<ul style="list-style-type: none"> - FBiH Ministry of Environment and Tourism, the Environmental Protection Fund, the Government of FBiH and the Parliament of FBiH are responsible for the implementation of measures aimed at improving the economic instruments and the improvement of the system of environmental permits. - 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. - New Environmental Protection Law.
	<p>2019:</p> <ul style="list-style-type: none"> - Implementation of the legislative framework in the environmental area with the appropriate provision of financial mechanisms. Improvement of the business environment and the conditions for investment, with the appropriate environmental protection measures. Institutions responsible for implementation are the FBiH Ministry of Environment and Tourism, the Environmental Protection Fund, and the Government of FBiH.
	<p>2020:</p> <ul style="list-style-type: none"> - Implementation of the legislative framework in the environmental area with the appropriate provision of financial mechanisms. Improvement of the business environment and the conditions for investment, with the appropriate environmental protection measures. Institutions responsible for implementation are the FBiH Ministry of Environment and Tourism, the Environmental Protection Fund, and the Government of FBiH.
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 expected impact is positive.
Expected social outcomes including on employment and on social groups in particular on gender	Environmental protection generates new jobs, without impact on gender.
9. Enhancement of the business environment	
Short description	<p>With the purpose of creating a favourable business environment, sectoral strategies must be harmonised and aligned with recommendations from the Small Business Act.</p> <p>Support to the development of entrepreneurial infrastructure in the Federation of BiH will continue in the future, with the goal of increasing economic growth and employment at the local level. The measure also contributes to</p>

	the realisation of economic priorities defined in development strategies of local self-government units, and to the realisation of priorities defined in the strategic documents of the Federation of BiH.
Timetable by year	2018: <ul style="list-style-type: none"> - Amendments to the Law on Incentives to Small Businesses. The goal is to create a favourable business environment for the growth and development of small and medium-sized entrepreneurship; - Development of an information system with a web-portal of entrepreneurial zones in the Federation of BiH; - 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; - Development of the Law on Improving the Entrepreneurial Infrastructure in FBiH; - 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; - Adopt Strategy for Development of Tourism 2018-2028.
	2019: <ul style="list-style-type: none"> - 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.
	2020: -
Costs of implementation and impact on the annual budget	<p>The amount of KM 5 million will be spent for the project of supporting 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 allocation of loan funds in the amount of KM 2 million, as well as the amount of KM 3.07 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>Activities for the harmonisation of sectoral strategic documents at all levels and alignment with the Small Business Act shall be implemented by the staff of the FBiH Ministry of Development, Entrepreneurship and Crafts, so the implementation costs shall comprise regular costs of salaries (no additional cost).</p>
Expected impact on competitiveness	There are a number of studies demonstrating how improving the business environment positively affects the competitiveness of the economy. More efficient action plans for implementation of sectoral strategies will contribute to increasing competitiveness of the private sector.

Expected social outcomes including on employment and on social groups in particular on gender	Positive effect on employment.
10. Improving links between education and labour market	
Short description	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. 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.
Timetable by year	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.
	2019: -
	2020: -
Costs of implementation and impact on the annual budget	Implementation costs for this reform measure are ensured in the Budget of FBiH and amount KM 0.9 million in 2017, KM 0.87 million in 2018 and KM 0.86 million in 2019.
Expected impact on competitiveness	A positive impact on competitiveness is expected.
Expected social outcomes including on employment and on social groups in particular on gender	A positive impact on employment is expected; no negative impact on gender is expected.
11. Improving the labour market efficiency	
Short description	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

	<p>incentives to employers, promoting self-employment, strengthening the capacities of public employment services and enhancing their functionality.</p> <p>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>2018:</p> <ul style="list-style-type: none"> - 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. - Implement employment and self-employment programmes aimed at young people, women and other vulnerable groups of the unemployed. - Law on Representation of Trade Unions and Employers' Associations.
	<p>2019:</p> <ul style="list-style-type: none"> - Law on Economic and Social Council.
	<p>2020:</p> <ul style="list-style-type: none"> - Law on Employees' Council.
Costs of implementation and impact on the annual budget	The overall value of the Employment Support Project is KM 110 million, of which a little more than KM 50 million is allocated to FBiH, 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	Employment of about 21,000 persons from employment bureaus is expected through implementation of the planned project, from the category of youth (aged 15-30) and the hardly employable. It is expected that this measure will lead to an increase in the number of employed persons in FBiH. Increase of employment will contribute to lifting vulnerable groups and their families from poverty, preventing brain drain, and economic empowerment of women by creating equal opportunities and equal access to the labour market.
<i>12. Establishing an efficient, financially sound and sustainable system of pension and disability insurance in FBiH</i>	
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. The “pressure” on the pension system must be decreased 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	2018: - Law on Pension and Disability Insurance. - Law on Organisation of Pension and Disability Insurance. - Law on Payment of Unpaid Contributions for PDI.
	2019: -
	2020: -
Costs of implementation and impact on the annual budget	The financial consequences of the Law on Pension and Disability Insurance will range from KM 12 and 50 million of budget funds annually. The development 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 carried out as part of regular activities. Binding years of employment under the Law on Payment of Unpaid Contributions for PDI, 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	-
<i>13. Improving the functioning of the social protection system in FBiH</i>	
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	2018:

	<ul style="list-style-type: none"> - 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 – Sarajevo, - Law on Social Services in the Federation of BiH, - Law on Social Work Activities in the Federation of BiH.
	<p>2019:</p> <ul style="list-style-type: none"> - Law on Principles of Social Protection in the Federation of BiH.
	<p>2020:</p> <ul style="list-style-type: none"> - Activities will focus on implementation of activities with the goal of improving the situation in this area.
Costs of implementation and impact on the annual budget	We are currently unable to estimate the cost of implementing these activities. Namely, prior to adoption of any law, a regulation impact assessment must be carried out as the foundation for the legislator to select one option.
Expected impact on competitiveness	We are unable to identify the way and scope of the impact of these measures on competitiveness, economic growth and growth of employment, as the main goals of ERP.
Expected social outcomes including on employment and on social groups in particular on gender	A positive impact on employment and gender is expected as the result of adoption of these solutions.
<i>14. Establishing an efficient system of protection, rehabilitation and social inclusion of persons with disabilities in FBiH in line with EU legislation</i>	
Short description	Ensure regular payment of benefits to beneficiaries of rights of civilian victims of war and their families and persons with “non-war-related” disabilities; provide support to associations of civilian persons with disabilities; implement the Strategy for Enhancement of the Rights and Status of Persons with Disabilities in the Federation of Bosnia and Herzegovina 2016-2021; establish an efficient system of monitoring and control of budget expenditures for financing non-contributory benefits; establish a system for controlling the introduction of a special category of civilian victims of war, organise the work and financing of associations of persons with disabilities; establish a non-discriminatory system of cash benefits for persons with disabilities regardless of the cause of disability.
Timetable by year	<p>2018:</p> <ul style="list-style-type: none"> - Law on Associations of Persons with Disabilities and Representative Associations of Persons with Disabilities and Civilian Victims of War; - Law on Uniform Principles of Financial Support to Persons with Disabilities; - Implementation of the Strategy for Enhancement of the Rights and Status of Persons with Disabilities in the Federation of Bosnia and Herzegovina 2016-2021. <p>2019:</p>

	- Adoption of implementation acts for adopted laws. 2020: -
Costs of implementation and impact on the annual budget	We are currently unable to estimate the cost of implementing these activities. Namely, prior to adoption of any law, a regulation impact assessment must be carried out as the foundation for the legislator to select one option. As part of the implementation of the Strategy for Enhancement of the Rights and Status 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 300,000.00 from the Budget of the Federation of BiH for the first year for procurement of equipment and software, and in the following period KM 200,000.00 for maintenance. For support to the work of associations of persons with disabilities expenditures in 2018 will be KM 500,000.00 from the Budget of the Federation of BiH, whereas no funding is planned for development of the Law on Associations of Persons with Disabilities.
Expected impact on competitiveness	We are unable to identify the way and scope of the impact of these measures on competitiveness, economic growth and growth of employment, as the main goals of ERP.
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

1. Improving the tax framework	
Short description	Improving the tax framework has several objectives: Reform of direct taxes to reduce the burden on labour; Analysis and reduction of non-tax charges; and Reform of value added tax.

Timetable by year	2018:-
	2019: -
	2020: -
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	Eliminating barriers to employment and reducing the tax burden on labour will create the conditions for additional investment and new employment, i.e. better social status of the population of Republika Srpska. Implementation of the measure will not jeopardise gender equality.
<i>2. Health sector reform, with reforms of child protection financing and sickness-related refunds</i>	
Short description	Health sector reform, with reforms of child protection financing and sickness-related refunds has several objectives, as follows: an analysis of arrears of the health care sector; taking measures to prevent creating new liabilities in the public health care sector; finding options to settle outstanding arrears of public health care institutions; inclusion of all public health care institutions (except pharmacies) and the Health Insurance Fund of Republika Srpska into a treasury operations system; finding options for new models and sources of funding; standardising the network of health care institutions; and reform of child protection financing and sickness-related refunds.
Timetable by year	2018:-
	2019: -
	2020: -
Costs of implementation and impact on the annual budget	There is a possibility that public health institutions will act more responsibly if they are aware that there is some control over their operations and that their business situation is being analysed. Apart from that, 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, so as not to endanger the social position of the health care users.
3. Reducing the fiscal needs of the public sector	
Short description	Reducing the fiscal needs of the public sector will be implemented through a number of measures in several areas: Creating a Register of employees in the public sector; Ensuring the efficiency of local self-government work; Increasing the efficiency of public investment; and Inspection reform.
Timetable by year	2018:-
	2019: -
	2020: -
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	
4. Restructuring the railways of Republika Srpska	
Short description	The restructuring will be implemented through three components: ownership, financial and organisational restructuring.
Timetable by year	2018: -

	2019: -
	2020: -
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	
5. Improving agriculture, forestry and water management	
Short description	Improving agriculture, forestry and water management will be implemented through the following activities: improvement of agrarian sector financing sources; adoption of legislation in the area of agriculture at the level of Republika Srpska and the harmonisation of this legislation within BiH; setting up a land parcel identification system; implementation of the animal identification process through development of the animal movement control system; improvement of foreign trade operations and protection of domestic agricultural production; work on creation of IPARD operational structure; building organisational and economic and market operators in order to connect the total agrarian reproduction and the market (clusters, cooperatives and forms of networking); improvement of the staff training and education system for agrarian businesses, primarily farmers; improvement of counselling etc.; introduction of new information system in forestry; development of a master plan for construction of forest roads; improvement of the work of reporting, diagnostic and forecasting services; placing forest harvesting areas at disposal of domestic wood processing companies; distribution of forest wood assortments according to the adopted criteria; adoption of new prices lists for forest wood assortments and establishment of water information system in water management.
Timetable by year	2018: -
	2019: -
	2020: -

Costs of implementation and impact on the annual budget	All previously described activities do not have a direct fiscal effect.
Expected impact on competitiveness	Improving agricultural production will have an influence on increasing the competitiveness of agricultural producers from Republika Srpska.
Expected social outcomes including on employment and on social groups in particular on gender	Increased competitiveness and improved market position will enable more employment and self-employment and, consequently, improve the social position of agricultural producers from Republika Srpska.
<i>6. Introducing tighter prudential requirements of the banking operations and regulating the bank restructuring procedure</i>	
Short description	The introduction of tighter prudential requirements of the banking business and regulation of the bank restructuring procedure has been implemented by the adoption of the Law on Banks of Republika Srpska and the Law on the Amendments to the Law on the Banking Agency of RS, and the activity is linked to the World Bank's Banking Sector Strengthening Project.
Timetable by year	2018: -
	2019: -
	2020: -
Costs of implementation and impact on the annual budget	
Expected impact on competitiveness	<ol style="list-style-type: none"> 1) The proposed measure aims at securing steady and secure banking system and protection of depositors, as well as greater market discipline of bank operations. 2) The new mode of operation of investment funds after restructuring should lead to a more active role of funds on the securities market through restructuring of the portfolio, and alignment of their business with the rules of business of these types of financial intermediaries in developed markets.
Expected social outcomes including on employment and on social groups in particular on gender	<ol style="list-style-type: none"> 1) The activity does not impact employment or produce any social effect. 2) The activity does not significantly impact employment or produce any social effect.
<i>7. Establishing a more efficient management system of scientific research and innovation potential in the Republika Srpska</i>	
Short description	The requirements for implementing these reform measures in the following period are: Improving the system of evaluating scientific research work and ensuring the material conditions for the work of the Scientometrics and Science Promotion Centre; Changing the financing model of research

	and innovation, which includes establishment of the Science and Innovation Fund of Republika Srpska (SIFRS); and Identifying and implementing necessary amendments to the legislative framework in accordance with reform goals.
Timetable by year	2018: -
	2019: -
	2020: -
Costs of implementation and impact on the annual budget	The significant fiscal effects of proposed reform measures will only be visible in the long term, considering the specificity of investments into research and development. In the short term (2-3 years), financially measurable benefits will start to show through increased capacities of human research resources, in terms of reduced need for budget support to science and research and greater interest of the real sector to take over a significant portion of financing, which will enable significant financial benefits of engaging researchers.
Expected impact on competitiveness	The application of innovative processes or products, taken over or developed within the business entity will have a powerful financial impact and result in intensive growth and development. This will lead to an additional effect – greater earnings mean greater possibilities for investment and financing of research and development, which will continue the cycle of positive activities in the area, and financial flows 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 influence on increasing employment in scientific research and innovations system, which will be seen in an improved social status of the employed.
8. Improving links between education and labour market	
Short description	Successful linkage of education with the labour market requires a detailed analysis of the situation in the labour market, with the goal of harmonising enrolment policies of secondary vocational schools and higher education institutions with demands of employers.
Timetable by year	2018: Medium-term measure, which will be continuously implemented.
	2019: Medium-term measure, which will be continuously implemented.
	2020: Medium-term measure, which will be continuously implemented.
Costs of implementation and impact on the annual budget	Currently, it is not possible to estimate the fiscal effects, considering that the measure is to be implemented in the medium-term period.

Expected impact on competitiveness	Increased efficiency of education and, consequently, of the labour market will significantly affect competitiveness of the economy of Republika Srpska, with the ultimate goal of reducing the unemployment rate.
Expected social outcomes including on employment and on social groups in particular on gender	Increased competitiveness of the economy of Republika Srpska and increased attraction of foreign investment through increasing competitiveness of the economy will have a direct impact on employment and social situation of the population.
9. Improving the labour market efficiency and Employment Agency reform	
Short description	Partial success was achieved in the implementation of this measure, which was also planned in 2017. Namely, the key activity for improving the labour market efficiency in Republika Srpska under this measure was to reform and redefine the role of the public employment service – PI Republika Srpska Employment Institute, in line with adopted strategic goals from the Strategy of Employment of Republika Srpska 2016–2020 and Action Plan for Employment in Republika Srpska for 2017.
Timetable by year	2018: -
	2019: -
	2020: -
Costs of implementation and impact on the annual budget	It is not possible to estimate the fiscal effects of this measure at this time, as their effects are predominantly indirect.
Expected impact on competitiveness	Improving the labour market efficiency will have a significant impact on 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.

Table 12: Reporting on the implementation of the structural reform measures of the ERP 2016-2018 and ERP 2017-2019

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)

Public finance management

- Ensuring sustainability of public spending and strengthening financial accountability through strengthening management and control mechanisms
- Creating preconditions for the development of effective and target-oriented public finance system
- Reducing the tax burden on labour

Federal Ministry of Finance

	Name and number of reform measure Ensuring sustainability of public spending and strengthening financial accountability through strengthening management and control mechanisms
Activities planned in 2017	<p>2017</p> <ol style="list-style-type: none"> 1. The Law on debt, borrowing and guarantees in the Federation of Bosnia and Herzegovina 2. Information system for budget preparation BPMIS operational throughout the Federation BiH 3. The Law on salaries of employees in extra budgetary funds 4. The regulation that will govern the process of collection of claims under placed loans and form protested guarantees of the Federation BiH 5. The regulation that establishes the obligation and governs the process of debt and guarantee reporting 6. 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. 7. The regulation pertaining to approval for borrowing and issuance of the guarantees of cantons, cities or municipalities in the Federation BiH 8. The regulation that establishes the obligation and governs the procedure of recording debt and guarantees and reporting on them 9. Information system for debt management (recording and tracking debt and guarantees, debt reporting, etc.) 10. FMC Manual 11. The regulation providing for establishment, financing and management of the Guarantee Fund and other issues related to the Guarantee Fund 12. Amendments to the applicable regulations in the field of internal audit.
Were the activities planned for 2017 implemented?	<ol style="list-style-type: none"> 1. Yes/no/partially 2. Yes/no/partially 3. Yes/no/partially

	<p>4. Yes/no/partially</p> <p>5. Yes/no/partially</p> <p>6. Yes/no/partially</p> <p>7. Yes/no/partially</p> <p>8. Yes/no/partially</p> <p>9. Yes/no/partially</p> <p>10. Yes/no/partially</p> <p>11. Yes/no/partially</p> <p>12. Yes/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 2018</p>	<p>1. In its 122nd session held on 10 October 2017, the Government of the Federation of BiH adopted the Draft Law on debt, borrowing and guarantees in the Federation of Bosnia and Herzegovina and submitted it under parliamentary procedure. Further activities will depend on the Parliament of the Federation of BiH. Activities will continue in 2018.</p> <p>2. The technical preconditions for introducing programme-based budgeting in the budget planning phase for institutions of FBiH are ensured through implementation of BPMIS. The coordination team monitors phases of implementation of this system at the cantonal level, taking into account their specificities. It is expected that the BPMIS system will become fully operational at the cantonal level by the end of 2017.</p> <p>3. -</p>
<p>If no, explain why not</p>	<p>4. The regulation can only be adopted after the Law on debt, borrowing and guarantees in the Federation of Bosnia and Herzegovina enters into force, i.e. after it is adopted by the Parliament of FBiH and it is published in the Official Gazette of FBiH.</p> <p>5. The regulation can only be adopted after the Law on debt, borrowing and guarantees in the Federation of Bosnia and Herzegovina enters into force, i.e. after it is adopted by the Parliament of FBiH and it is published in the Official Gazette of FBiH.</p> <p>6. The regulation can only be adopted after the Law on debt, borrowing and guarantees in the Federation of Bosnia and Herzegovina enters into force, i.e. after it is adopted by the Parliament of FBiH and it is published in the Official Gazette of FBiH.</p> <p>7. The regulation can only be adopted after the Law on debt, borrowing and guarantees in the Federation of Bosnia and Herzegovina enters into force, i.e. after it is adopted by the Parliament of FBiH and it is published in the Official Gazette of FBiH.</p> <p>8. The regulation can only be adopted after the Law on debt, borrowing and guarantees in the Federation of Bosnia and Herzegovina enters into force, i.e. after it is adopted by the Parliament of FBiH and it is published in the Official Gazette of FBiH.</p>

	<p>9. Considering the changes in the legislative framework in terms of adoption of new fiscal rules of debt for all levels of government in FBiH, which create the preconditions for increasing transparency of debt and debt reporting in FBiH and enable adequate debt management, the implementation of this activity has been moved for the fourth quarter of 2019. Namely, the new IT system for debt management should be harmonised with obligations under the new Law on debt, borrowing and guarantees in the Federation of Bosnia and Herzegovina so that limitations and payment obligations under the new Law are automatically monitored, so that it provides the possibility for fulfilment of all legally prescribed obligations related to records on public debt, guarantees, insurance means, so that it provides the possibility of comprehensive analysis and monitoring of debt in accordance with all relevant international standards; so that it enables the process of monitoring and reporting in relation to debt and exposure limitations, as well as related controls in a way that will enable each canton, town and municipality to record and monitor data on indebtedness and guarantees of the canton, town or municipality, including debts of public companies under their authority, and exchange data on the debts of each level of government; and to enable standard reporting and creation of individually adjusted reports and presentations of data in the system.</p> <p>10. Publishing of the Handbook for Financial Management and Control in the Public Sector in the Federation of BiH is planned in the fourth quarter of 2017. The delays in implementation occurred due to an increased scope of work and reduced capacities of the sector.</p> <p>11. The regulation can only be adopted after the Law on debt, borrowing and guarantees in the Federation of Bosnia and Herzegovina enters into force, i.e. after it is adopted by the Parliament of FBiH and it is published in the Official Gazette of FBiH.</p> <p>12. The Rulebook on amendments to the Rulebook on internal audits in the public sector of the Federation of BiH (Official Gazette of FBiH, 48/17) was adopted on 29 June 2017, and the development of the Rulebook on amendments to the Rulebook on the criteria for establishment of internal auditing units in the public sector of the Federation of BiH is planned by the end of 2017. Delays in implementation occurred due to an increased scope of work and reduced capacities of the sector. Continuation is planned in 2018 (updating the Methodology of work of internal audits in the public sector of FBiH).</p>
<p>Actual cost of implementation and impact on the annual budget (indicate deviation from estimated costs if any)</p>	<p>1. There are no implementation costs and no additional funding needs to be secured from the budgets in the Federation of BiH, considering that its adoption has no financial impact on the budget. Implementation of the Law on debt, borrowing and guarantees in the Federation of Bosnia and Herzegovina can create financial liabilities solely due to individual decisions on debt and issuing of guarantees, which contain precise conditions of debt and issuing of guarantees, as well as related budgetary fiscal risks.</p> <p>2, 4, 5, 6, 7 and 8. There are no expenses in the procedure of adopting these regulations that would affect the annual budget. However, activities that will result from the Law and by-laws implemented by the FMF will require more staff than currently employed in the FMF, which translates as additional funds for staff and their training</p> <p>9. Implementation requires additional funding planned in various technical assistance projects</p>

	<p>10. Implementation costs are the regular costs of salaries of employees from the Budget of the Federation of BiH</p> <p>11. Although implementation of the Law on debt, borrowing and guarantees in the Federation of Bosnia and Herzegovina does not entail special funding from the budgets, the level of government that commits to issuing guarantees is obligated to establish and maintain a Guarantee Fund both in FBiH and in the cantons, towns and municipalities.</p>
	<p>Name and number of reform measure Creating preconditions for the development of effective and target-oriented public finance system</p>
Activities planned in 2017	<p>2017</p> <ul style="list-style-type: none"> - 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 -
Were the activities planned for 2017 implemented?	<ol style="list-style-type: none"> 1. Yes/no/partially 2. Yes/no/partially 3. Yes/no/partially 4. Yes/no/partially 5. Yes/no/partially 6. Yes/no/partially
<p>If yes/partially, include: Description of steps taken Timeline of implemented actions Difficulties and delays in implementation Whether the reform will continue in 2018</p>	<ol style="list-style-type: none"> 1, 2 The Government of the Federation of BiH adopted the Draft Laws (Law on Accounting and Auditing in the Federation BiH and Law on the Registry of Financial Reports); their discussion and adoption are expected to take place in sessions of the House of Representatives and House of Peoples of the Parliament of the Federation of Bosnia and Herzegovina. Development and adoption of the by-laws is planned in 2018. 3. The preliminary, working version of the Registry of fees and taxes in the Federation of BiH was completed and presented to the public at the end of 2016. With the goal of developing a comprehensive Registry, all FBiH institutions, lower levels of government and representatives of the business community in the Federation of BiH received a notice and were given a deadline for delivering their comments and suggestions on the working draft, after which it was updated. Implemented activities resulted in the interactive Registry of fees and taxes in the Federation of BiH that is structured by type of collected fees and taxes, legislative framework, payers, manner of payment and allocation. The interactive Registry was submitted to the Government of the Federation of BiH for discussion and adoption, and its official publication is expected

	<p>by the end of 2017. Full implementation of the Registry will provide a detailed image of non-tax revenues in the Federation of BiH, and will serve as a basis for establishment of control and supervision over non-tax revenues in FBiH.</p> <ol style="list-style-type: none"> 4. The Law on Development Planning and Management of Development in FBiH, was adopted by the Parliament of FBiH in the session of the House of Representatives held on 14 March 2017 and in the session of the House of Peoples held on 30 March 2017 (Official Gazette of FBiH, 32/17 dated 28 April 2017). 5. Development is in progress, adoption is expected by the end of the year. 6. Due to the complexity of the issue of allocation of public revenues, especially the allocation of revenues from indirect taxes, the International Monetary Fund (IMF) was included in the process of development of a new legislative solution in 2016, which gave their recommendations and suggestions, with a focus on resolving the issue of repayment of external debt, which would increase accountability of all levels of government and transparency of debt repayment. In line with IMF recommendations and initiatives of users, the technical part was implemented (modelling the proposal), as well as a series of detailed analyses of the effects of application of possible future solutions of the vertical and horizontal system of allocation of revenues from indirect taxes, and based on them several working drafts of legislative solutions were developed. Taking into account the complexity of the issue, before delivering the Draft Law on Allocation of Public Revenues in the Federation BiH to the Government of FBiH, all developed proposals will be considered jointly in coordination with all interested parties in the allocations system, so that the proposal is chosen which will achieve improvements in the existing system of allocating revenues from indirect taxes with as little budgetary shocks for their users as possible.
If no, explain why not	
Actual cost of implementation and impact on the annual budget (indicate deviation from estimated costs if any)	<ol style="list-style-type: none"> 3. The development and establishment of an interactive Registry of fees and taxes in the Federation of BiH is carried out with support from the US Agency for International Development (USAID) within the Fiscal Sector Reform Activity (FAR), based on the Memorandum of Understanding signed between the USAID and the Government of the Federation of BiH, and requires no additional financing from the budget. 6. Activities are implemented within the boundaries of regular costs of employees' salaries and require no additional costs.
	<p>Name and number of reform measure Reducing the tax burden on labour</p>
Activities planned in 2017	<p>2017</p> <ol style="list-style-type: none"> 1. Adoption of the Law on Personal Income Tax and the accompanying by-laws 2. Adoption of the Rulebook on Implementation of the Law on Personal Income Tax, the instructions and other regulations 3. Development of Draft Law on Contributions
Were the activities planned for 2017 implemented?	<ol style="list-style-type: none"> 1. Yes/no/partially 2. Yes/no/partially

<p>If yes/partially, include: Description of steps taken Timeline of implemented actions Difficulties and delays in implementation Whether the reform will continue in 2018</p>	<p>1. In its 96th session held on 23 March 2017, the Government of the Federation of BiH adopted the Draft Law on Personal Income Tax and Draft Law on Contributions. The House of Representatives of the Parliament of FBiH adopted the draft laws in its 20th regular session held on 25 April 2017, and proposed a 60-day public consultations process, while the House of Peoples of the Parliament of FBiH adopted both draft laws in its 21st regular session held on 21 September 2017 and proposed a 90-day public consultations process. In the future period, the process of adoption of the draft laws will continue, followed by publishing in the Official Gazette.</p> <p>3. The Draft Law on Contributions was adopted by both Houses of the Parliament of FBiH. The development of the Draft Law on Contributions is planned in 2018 (followed by adoption of the Law and publishing in the Official Gazette of the Federation of BiH). Development and adoption of the Rulebook on Implementation of the Law on Personal Income Tax, the instructions and other regulations</p>
<p>If no, explain why not</p>	<p>2. Adoption of by-laws will follow after the adoption of the Laws and their publication in the Official Gazette.</p>
<p>Actual cost of implementation and impact on the annual budget (indicate deviation from estimated costs if any)</p>	<p>Adoption of the Laws will have no financial effect on the budgets.</p>

Energy, transport and telecoms markets

- Increasing energy efficiency and use of renewable energy sources
- Improving the communication infrastructure for growth and development

Federal Ministry of Energy, Mining and Industry

	<p>Name and number of reform measure Increasing energy efficiency and use of renewable energy sources</p>
<p>Activities planned in 2017</p>	<p>2017</p> <ol style="list-style-type: none"> 1. Development of the Energy Strategy of the Federation of Bosnia and Herzegovina 2015-2035 with projections by 2050; 2. Law on Energy Efficiency of the Federation of Bosnia and Herzegovina; 3. Amendments to the Law on Exploration and Exploitation of Oil and Gas in the Federation BiH; 4. 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; 5. SCADA/DMS/OMS with the accompanying communication system – electronic networking of all energy facilities;

	<p>6. 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;</p> <p>7. 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</p> <p>8. Distribution of electricity - "Smart Meters" KM 23.36 million (loan in the amount of KM 19.56 million)</p> <p>9. Law on Gas of FBiH</p> <p>10. National Energy Efficiency Action Plan (NEAP) in BiH</p>
<p>Were the activities planned for 2017 implemented?</p>	<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>5. Yes/no/partially</p> <p>6. Yes/no/partially</p> <p>7. Yes/no/partially</p> <p>8. Yes/no/partially</p> <p>9. Yes/no/partially</p> <p>10. Yes/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 2018</p>	<p>1. Framework Energy Strategy of Bosnia and Herzegovina to 2035 The Government of the Federation of Bosnia and Herzegovina issued the Conclusion V. No: 958/2017 dated 10 July 2017, supporting the development and adoption of the Framework Energy Strategy of Bosnia and Herzegovina to 2035 and providing positive feedback to the document Framework Energy Strategy of Bosnia and Herzegovina to 2035, whose development and adoption is one of Bosnia and Herzegovina's international obligations under the Energy Community Treaty, and delivered the Conclusion to the Ministry of External Trade and Economic Relations.</p> <p>Framework Energy Strategy of the Federation of Bosnia and Herzegovina to 2035 The Framework Energy Strategy of the Federation of Bosnia and Herzegovina to 2035 is part of the project implemented under the patronage of the European Commission and with financial support from the Department for International Development of the Government of Great Britain and engagement of consultants of Pricewaterhouse Coopers in cooperation with other partners. The Government of the Federation of Bosnia and Herzegovina agreed on the Framework Energy Strategy of the Federation of Bosnia and Herzegovina in its Conclusion V. No: 958/2017 dated 10 July 2017 and proposed its adoption to the Parliament of the Federation of Bosnia and Herzegovina.</p>

	<p>The Framework Energy Strategy of the Federation of Bosnia and Herzegovina to 2035, together with the updated Energy Strategy of Republika Srpska and Framework Energy Strategy of the Brčko District, comprises the foundation for development of the Framework Energy Strategy of Bosnia and Herzegovina to 2035.</p> <p>Development of the Framework Energy Strategy of the Federation of Bosnia and Herzegovina 2015 – 2035 with projections to 2050 was temporarily halted by a Conclusion of the Government of the Federation of Bosnia and Herzegovina until the aforementioned documents developed and adopted.</p> <ul style="list-style-type: none"> - The aforementioned activities will be continued. <ol style="list-style-type: none"> 2. The Law on Energy Efficiency in the Federation of Bosnia and Herzegovina was adopted by the Parliament of the Federation of Bosnia and Herzegovina and published in the Official Gazette of FBiH, 22/17. <ul style="list-style-type: none"> - Activities on the adoption of by-laws will be continued. 3. Amendments to the Law on Exploration and Exploitation of Oil and Gas in the Federation BiH were adopted by the Parliament of the Federation of BiH and published in the Official Gazette of FBiH 19/17. <ul style="list-style-type: none"> - Activities will be continued in terms of publishing an international open tender for the procurement of consultancy services in the process of conducting public tendering for awarding of the concession for exploration and exploitation of oil and gas in the territory of the Federation of Bosnia and Herzegovina and the activities that follow after the selection of consultants. 4. Activities under the project 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 will require a long period of time. <p>As part of the activities, the project for electricity generation on the river Bosna is in implementation (construction of HE Vranduk on the river Bosna - 20 MW and HE Janjići – on the river Bosna -15.75 MW) for which concessions were awarded to JP Elektroprivreda BiH d.d. Sarajevo.</p> <p>Continuation of activities on implementation of the project for the construction of HE Vranduk and HE Janjići on the river Bosna is expected.</p> 5. SCADA/DMS/OMS with the accompanying communication system – electronic networking of all energy facilities during 2017. The project is in the phase of implementation. <p>Project implementation activities will continue.</p> 6. Activities related to the preparation of project documentation are currently underway, which is necessary to continue activities on 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.
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	<p>8. Distribution of electricity – “Smart Meters”. The project is in the phase of implementation. Contract with contractors signed. Extension of deadline for drawing funds requested. Project implementation activities will continue.</p> <p>10. Pursuant to Article 12 paragraph (1) of the Law on Energy Efficiency in the Federation of Bosnia and Herzegovina (Official Gazette of FBiH, 22/17), in its 78th emergency session held on 10 July 2017, the FBiH Government issued Conclusion 960/2017 dated 10 July 2017, adopting the Energy Efficiency Action Plan of FBiH (EEAPF) for a period of three years. The EEAPF constitutes part of the National Energy Efficiency Action Plan of BiH (NEEAP). In the Conclusion, the Government of FBiH adopted its Annex – Roadmap for Transposition and Implementation of Obligations Under the Treaty Establishing the Energy Community for the area of energy efficiency, which constitutes part of the EEAPF, and gave a positive review of the draft NEEAP BiH in parts which refer to the EEAPF and Roadmap – Chapter 4. The Roadmap – Chapter 4 of the EEAPF, as the part that refers to obligations under the Treaty establishing the Energy Community, shall be in application after the adoption of the NEEAP BiH. The Conclusion of the FBiH Government has been forwarded to the Ministry of Foreign Trade and External Relations for further procedure.</p>
If no, explain why not	<p>7. 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. The Government of the Federation of BiH adopted the Programme of Restructuring the Energy and Electricity Sector in FBiH and submitted it into parliamentary procedure for approval, which was received from the House of Representatives of the FBiH Parliament, while the House of Peoples is yet to discuss the Programme. The Programme envisages legislative and functional separation of distribution activities from other activities in existing electric power companies. Aforementioned activities will continue.</p> <p>9. The Law on Gas of the Federation of BiH was adopted by the House of Representatives of the Parliament of the Federation of BiH. The House of Peoples has not discussed the Law on Gas of FBiH, and it was withdrawn from the Parliament of FBiH until the Law on Electric Power and Natural Gas Regulator, Transmission and Market in Bosnia and Herzegovina is adopted. In the meantime, the Agreement on the Elimination of Serious and Long-Term Violations of the Energy Community Treaty in the gas sector prescribes adoption of the state-level Law on Gas, and adoption of harmonised entity-level laws. Comments and suggestions have been delivered on the proposed Draft Law on Electric Power and Natural Gas Regulator, Transmission and Market in Bosnia and Herzegovina.</p>

	Accordingly, the listed activities are expected to continue.
Actual cost of implementation and impact on the annual budget (indicate deviation from estimated costs if any)	

Federal Ministry of Transport and Communications

	Name and number of reform measure Improving the communication infrastructure for growth and development
Activities planned in 2017	2017 1. To set up a model for reconstruction of railways; 2. To amend the Law on Railways of FBiH; 3. To develop an action plan for restructuring of railways – establish the obligations and financial structure; 4. To re-define original revenues (from oil and registration) and create better assumptions for construction of the road infrastructure; 5. To continue the construction of the motorway on corridor Vc; 6. To amend the Ordinance on defining the charge model for motorways; 7. The amendments to the Law on Roads – finishing; 8. The Law on the authorities delegated to automobile clubs; 9. To redefine models of funding the motorways with a focus on concessions and public-private partnership; 10. The Decision on categorisation of roads and the review of the existing studies that will influence the Decision on categorisation of roads; 11. To create a database on the situation of aviation infrastructure in FBiH so as to determine the situation and the development needs.
Were the activities planned for 2017 implemented?	1. Yes/ <u>no</u> /partially 2. Yes/ <u>no</u> /partially 3. Yes/no/ <u>partially</u> 4. Yes/no/ <u>partially</u> 5. <u>Yes</u> /no/partially 6. Yes/no/ <u>partially</u> 7. Yes/no/ <u>partially</u> 8. Yes/no/ <u>partially</u> 9. Yes/no/ <u>partially</u>

	<p>10. Yes/no/<u>partially</u></p> <p>11. Yes/no/<u>partially</u></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 2018</p>	<p>3. The Policy Note laid down three main alternative approaches to the organisation of railway companies in BiH:</p> <ul style="list-style-type: none"> - Unbundle Infrastructure Management and Transport Operating companies; - Group structure with holding company; - Synthesised structure. <p>The document contains estimates of the most appropriate model and an approximation of necessary funds for investment into the selected restructuring model.</p> <p>4. The Government of the Federation of BiH has appointed a Cross-sectoral group at the proposal of the Ministry, whose task is to place original revenues for financing public roads under complete control. This primarily refers to revenues for road financing which are collected from motor vehicle registration charges and road financing fees collected from the retail price of petroleum products.</p> <p>5. Activities are underway and will be continued in 2018, because they demand a series of measures and interventions in the monitoring and supervision model, along with amendments of by-laws.</p> <p>6. Construction of the highway on the Corridor Vc continues, activities on preparation of documentation, securing loans and implementation on prepared sections of the highway continue.</p> <p>7. Adjustment of the contents of the Decree on Highways is underway.</p> <p>8. Adjustment of the contents of the Law is underway.</p> <p>9. Adjustment of the contents of the Law on Auto-Moto Clubs is underway.</p> <p>Activities are underway on creating the conditions for project implementation based on a concession model.</p> <p>10. The Decision on Amendments to the Decision on road categorization is in preparation.</p> <p>11. Collection of data from the International Airports in the Federation of Bosnia and Herzegovina (Sarajevo, Tuzla and Mostar) on the state of the aeronautical infrastructure related to the design of buildings and civil engineering, radio navigation equipment, airport equipment for the reception and shipping of passenger and cargo aircrafts, as well as equipment for cargo traffic and accompanying facilities, are the main activities. The data have been delivered partly by the International Airports in the Federation of BiH, but are incomplete and inoperative, and further efforts are needed to start the development of the database of the state of the aviation infrastructure in FBiH in order to effectively identify the development needs. In 2018, the Federal Ministry of Transport and Communications will continue the reforms and try to obtain relevant data from the users and start the development of the database and arrange the data tabularly in order to identify the development needs and the real state of the infrastructure. Considering that the airport regulations are within the competence of the Directorate for Civil Aviation of BiH (BHDCA), the Federal Ministry of Transport and Communications will coordinate with the BHDCA for the purpose of establishing an operational and valid database on the status of the aviation infrastructure in FBiH in order to identify the situation and development needs.</p>

If no, explain why not	<ol style="list-style-type: none"> 1. No restructuring model has been selected because the selection of an organization model has not been harmonized within the railway sector itself, and the position or opinion of the Federal Ministry of Finance is also unknown, which the FMoTC finds crucial to the planning of funds to be allocated to restructuring the companies. The Action Plan of Implementation of the Reform Agenda also stipulates the activity of restructuring of the mines and railways, under authority of the Prime Minister and the Federal Ministry of Energy, Mining and Industry, so the FMoTC participated in the development of the World Bank document, but could not take responsibility for defining the restructuring model without established or in the future approved funds for these purposes. 2. The procedure of amending the Law on Railways of FBiH was not initiated because the activity was planned after the selection of a restructuring model, i.e. the future organisation of the company established in line with the current Law on Railways of FBiH.
Actual cost of implementation and impact on the annual budget (indicate deviation from estimated costs if any)	

Sectors

Financial market

- Improving the financial market

Agriculture

- Enhancing agricultural production

Environment

- Conserving, protecting and improving environmental quality

Federal Ministry of Finance

	Name and number of reform measure Improving the financial market
Activities planned in 2017	2017 <ol style="list-style-type: none"> 1. The Law on Banks 2. Law on Insurance Mediation 3. Law on the Banking Agency 4. Law on Microcredit Organisations 5. Law on Leasing (amendments) 6. Law on Investment Funds (amendments)

Were the activities planned for 2017 implemented?	<ol style="list-style-type: none"> 1. Yes/no/partially 2. Yes/no/partially 3. Yes/no/partially 4. Yes/no/partially 5. Yes/no/partially 6. Yes/no/partially
If yes/partially, include: Description of steps taken Timeline of implemented actions Difficulties and delays in implementation Whether the reform will continue in 2018	<ol style="list-style-type: none"> 3. The Law on the Banking Agency, which was adopted in different texts, was adjusted in the Parliament of FBiH and its publication is expected. 4. The development of the new Law on Microcredit Organisations is underway.
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 Agriculture

	Name and number of reform measure Enhancing agricultural production
Activities planned in 2017	2017 <ol style="list-style-type: none"> 1. Direct payments per head for dairy cows in the system of milk collection.
Were the activities planned for 2017 implemented?	<ol style="list-style-type: none"> 1. Yes/no/partially
If yes/partially, include: Description of steps taken Timeline of implemented actions	2016 The Decision on Adoption of the Programme of Allocation of Funds with Allocation Criteria “Incentives for private enterprises and entrepreneurs - Incentives for Agriculture”, included in the Budget of the Federation of Bosnia and Herzegovina for 2016 stipulates that, as of 2016, the Federal Ministry of Agriculture, Water Management and Forestry (Official Gazette of FBiH, 23/16) must perform per head payments for dairy cows in

<p>Difficulties and delays in implementation Whether the reform will continue in 2018</p>	<p>the system of milk collection in FBiH, and the Ministry adopted the amendments to by-laws that regulate the conditions and methodology of financial support in line with the production incentives model. The provisions of those by-laws stipulate payments for dairy cows¹⁵⁰ which entered into force in September 2016. This measure was not implemented in 2016, the delay being due to the lack of planned funds. The measure was implemented in 2017, in line with provisions of the Decision on Adoption of the Programme of Allocation of Funds with Allocation Criteria “Incentives for private enterprises and entrepreneurs - Incentives for Agriculture” with funds from the Budget of the Federation of Bosnia and Herzegovina for 2017 (Official Gazette of FBiH, 24/17), and applicants who met the required conditions were paid the amount of KM 2,279,757.06. The following activities were also implemented under this measure: Three employees processed ca. 3,800 applications, for 28,000 dairy cows. Part of submitted applications was reduced due to the set limit (KM 6,000) or denied for not meeting the conditions. Submitted applications that were denied were valued at KM 500,000.00.</p> <p>2017</p> <p>The measure is being implemented in 2017 pursuant to the Decision on Adoption of the Programme of Allocation of Funds with Allocation Criteria “Incentives for private enterprises and entrepreneurs - Incentives for Agriculture” with funds from the Budget of the Federation of BiH for 2017 (Official Gazette of FBiH, 24/17) and the Rulebook on the Manner and Conditions of Allocating Financial Support under the Production Incentives Model (Official Gazette of FBiH, 32/17). In 2017, around 4,884 applications were received for 32,568 dairy cows, requesting payment in the total amount of KM 3,256,881.00. Implementation is underway (October, 2017), and the issues are: Insufficient number of employees for processing applications in the competent department, Large number of applications, Complex administrative procedure of control of submitted applications, because the fulfilment of conditions by the applicant is verified by reviewing three separate documents (Passport; Record of competent cantonal authority; Certificate of implementation of measures). The Ministry plans to implement the measure in 2018, which will be decided by the Government of the Federation of BiH.</p>
<p>If no, explain why not</p>	

¹⁵⁰ Rulebook on Amendments to the Rulebook on the Manner and Conditions of Allocating Financial Support under the Production Incentives Model (Official Gazette of FBiH, 76/16)

Actual cost of implementation and impact on the annual budget (indicate deviation from estimated costs if any)	<p>Budget expenditures in 2017:</p> <ul style="list-style-type: none"> - KM 2,279,757.06 from the Budget for 2017 for applications which were submitted and processed during 2016. - KM 3,256,881.00 from the Budget for 2017 for applications which were submitted and processed until now (October) in 2017, noting that the implementation of this measure is still ongoing
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Federal Ministry of Environment and Tourism

	<p>Name and number of reform measure Conserving, protecting and improving environmental quality</p>
Activities planned in 2017	<p>2017</p> <p>1. 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.</p>
Were the activities planned for 2017 implemented?	<p>1. Yes/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 2018</p>	
If no, explain why not	<p>The Draft Law on the Environmental Protection and Energy Efficiency Fund was determined at the 106th session of the Government of the Federation of BiH, held on 15 June 2017 and further submitted for parliamentary procedure. The House of Representatives included it in the Agenda of the 23rd regular session. The session was held on 25 July 2017; however, the Draft Law did not secure the necessary majority of representatives' votes.</p>
Actual cost of implementation and impact on the annual	

budget (indicate deviation from estimated costs if any)	
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Business environment and reduction of the informal economy

- Enhancing the business environment and reduction of the informal economy

Federal Ministry of Development, Entrepreneurship and Crafts

Federal Ministry of Environment and Tourism

	Name and number of reform measure
	Enhancing the business environment and reduction of the informal economy
Activities planned in 2017 and 2018	<p>2018</p> <ol style="list-style-type: none"> 1. Amendments to the Law on Incentives to Small Businesses. The goal is to create a favourable business environment for the growth and development of small entrepreneurship. 2. 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. 3. Development of the Law on Improving the Entrepreneurial Infrastructure in FBiH. 4. Registry of crafts, with the aim of improving business and making better quality policies in the field of SMEs. 5. Registries on population and registry books. 6. E website. 7. Law on Tourism and a number of by-laws. 8. Law on catering and a number of by-laws. 9. Law on Tourist Fees in FBiH. 10. 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. 11. Development of an information system with a web-portal of entrepreneurial zones in the Federation of BiH
Were the activities planned for 2017 and 2018 implemented?	<ol style="list-style-type: none"> 1. Yes/no/<u>partially</u> 2. Yes/no/<u>partially</u> 3. Yes/<u>no</u>/partially 4. Yes/no/partially 5. Yes/no/partially 6. Yes/no/partially 7. Yes/no/<u>partially</u> 8. Yes/no/<u>partially</u> 9. Yes/no/<u>partially</u> 10. <u>Yes</u>/no/partially 11. Yes/no/<u>partially</u>

<p>If yes/partially, include: Description of steps taken Timeline of implemented actions Difficulties and delays in implementation Whether the reform will continue in 2018</p>	<ol style="list-style-type: none"> 1. The analysis of the current Law demonstrated that the number of changes is more than 50%, and it was decided that a new law should be developed, which requires a longer period and more activities. The working version of the Draft Law has been developed. The planned activity will continue in 2018. 7. The area of tourist communities is regulated within the Law on Tourism of the Federation of BiH. The Law on Tourism of the Federation of BiH – Adopted as a preliminary draft by the Government of the Federation of BiH in the Parliament of FBiH. Public discussions were held in the 10 Cantons pursuant to the Conclusion of the Parliament of FBiH. 8. A preliminary draft of the Law on Catering of the Federation of BiH was developed, public consultations were carried out and it was submitted to competent authorities for feedback, after which the Law was submitted to the Government of the Federation of BiH, adopted in the form of a draft and submitted to the Parliament of FBiH. 9. The Law on Tourist Fees of the Federation of BiH was also developed and adopted as a bill by the Government of FBiH, currently processed by the Parliament of FBiH. 7.8.9. In 2018 we expect the activities related to adopting all three Laws to continue. After the Laws are adopted by the Parliament of FBiH, the next step will be the development of by-laws. 11. In the past period, the project scope of work was defined and interviews were conducted in institutions at the level of the Federation of BiH which will take part in exchange of data and integration of existing systems and databases. Implementation of activities is underway.
<p>If no, explain why not</p>	
<p>Actual cost of implementation and impact on the annual budget (indicate deviation from estimated costs if any)</p>	

Education and skills

- Improving links between education and labour market

Federal Ministry of Education and Science

	<p>Name and number of reform measure Improving links between education and labour market</p>
<p>Activities planned in 2017</p>	<p>2017</p>

	<ol style="list-style-type: none"> 1. 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. 2. 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. 3. 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.
Were the activities planned for 2017 implemented?	<ol style="list-style-type: none"> 1. Yes/no/partially 2. Yes/no/partially 3. Yes/no/partially
If yes/partially, include: Description of steps taken Timeline of implemented actions Difficulties and delays in implementation Whether the reform will continue in 2018	<ol style="list-style-type: none"> 1. As proposed by the FBiH Minister of Education and Science, the Government of the Federation of Bosnia and Herzegovina adopted the Decision on the Establishment of the Student and Education Staff Mobility Fund of the Federation of Bosnia and Herzegovina in its 100th session held on 27 April 2017. The Decision was published in the Official Gazette of FBiH, 34/17 dated 10 May 2017. 2. The Working Group that developed the “Strategic Directions of Career Orientation Development in the Federation of BiH 2015-2020” and the accompanying Draft Implementation Action Plan held two meetings, and is reassigned to develop the Model of Career Orientation in Education. <ul style="list-style-type: none"> - Signed „Memorandum on Cooperation in Career Guidance Development in the Federation of BiH” between the Federal Ministry of Education and Science and six cantonal ministries of education (18 May 2016). - Evaluation questionnaire delivered to pilot schools through cantonal ministries, which was meant to assess the advantages, disadvantages and sustainability of piloted career guidance models, specifically the Five-stage career guidance model for primary schools and the GOPA-YEP project for secondary schools, Component 1 – piloting training of secondary schools for professional guidance and career orientation. - Based on the analysis of collected questionnaires from pilot primary schools, the Working Group concluded that the Five-stage career guidance model for primary schools was implemented in pilot schools, that the teachers and pedagogues evaluated it as good and useful and that, with some adjustments, it could be published and offered to other primary schools for use. 3. The text of the Draft Law on Textbooks was finalised, and renamed as Guidelines for preparing and adopting textbooks and other teaching resources for primary and secondary schools by the Coordination of Ministers in the Federation of BiH in its session, which was held in Goražde on 18 May 2016. On 8 May 2017, the Coordination of Ministers in the Federation of BiH adopted the Guidelines for preparing and adopting textbooks and other teaching resources for primary and secondary schools. They are meant to serve as a basis for adoption of cantonal laws on textbooks. The Guidelines define clear criteria for selection of textbooks, introduce stricter criteria for engagement of reviewers and members of expert complaints commissions. Implementation of public calls for manuscripts of

	<p>textbooks for nine-year primary schools, pursuant to provisions of the Guidelines, would regulate and harmonise the area of textbook policy at the level of FBiH by reducing the number of approved textbooks per grade or subject, which should affect an increase in circulation, which should directly lead to reduced textbook prices and lead to savings for parents.</p> <p>In regard to implementation issues, there is a possibility that a cantonal ministry of education will adopt a law on textbook which is not aligned with the provisions of the Guidelines.</p>
If no, explain why not	
Actual cost of implementation and impact on the annual budget (indicate deviation from estimated costs if any)	<p>1. The Student and Education Staff Mobility Fund of the Federation of Bosnia and Herzegovina does not have “its own” budget. In 2017, and most likely in 2018, it will be financed through the Transfer for Implementation of the Bologna Process. Due to limited funds, during this period it will only be possible to finance the CEEPUS exchange programme under which the Federation of BiH is obligated to allocate KM 100,000.00. Other goals set in the Decision on Establishment of the Fund will be prepared for implementation, which will depend on available financing in the coming years.</p>

Employment and labour market

- Improving the labour market efficiency

Federal Ministry of Labour and Social Policy

	<p>Name and number of reform measure Improving the labour market efficiency</p>
Activities planned in 2017	<p>2017</p> <ol style="list-style-type: none"> 1. Implement employment and self-employment programmes aimed at young people, women and other vulnerable groups of the unemployed; 2. 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; 3. Rulebook on Records in the Area of Employment; 4. Law on Strike; 5. Law on Security and Safety at Work; 6. Law on Peaceful Resolution of Labour Disputes.
Were the activities planned for 2017 implemented?	<ol style="list-style-type: none"> 1. Yes 2. Yes 3. Partially 4. Partially 5. Partially 6. Partially

<p>If yes/partially, include: Description of steps taken Timeline of implemented actions Difficulties and delays in implementation Whether the reform will continue in 2018</p>	<ol style="list-style-type: none"> 3. Developed Draft Rulebook on Records in the Area of Employment. 4. The preliminary draft of the Law on Strike has also been developed and discussed by the House of Representatives of the Parliament of FBiH in its session held on 25 January 2017, as well as in the session of the House of Peoples held on 9 February 2017. It was adopted by both Houses as a good basis for the development of a draft, with the House of Peoples instructing the proponent of the Law to carry out a public consultations process. After the public consultations, the Draft Law on Strike was delivered to cantonal assemblies and social partners for their opinions, which is mandatory pursuant to the Rules of Procedure of the Government of FBiH, after which it will be delivered to the Government of FBiH for discussion and adoption of the Draft, and the adoption of the Law is expected by the end of this year. 5. The preliminary draft of the Law on Security and Safety at Work has been developed and discussed by the House of Representatives of the Parliament of FBiH in its session held on 14 December 2016, as well as in the session of the House of Peoples held on 3 February 2017. It was adopted by both Houses as a good basis for the development of a draft. After the requested opinions of the FBiH Government Office for Legislation and Alignment with the EU acquis and of the Federal Ministry of Finance have been received, the preliminary draft of the Law will be delivered to the Government of FBiH for discussion and adoption of the Draft version, and its adoption is expected by the end of this year. We emphasize that the name of the law has been changed to “Law on Work Safety”. 6. The preliminary draft of the Law on Peaceful Resolution of Labour Disputes has been developed and discussed by the House of Representatives of the Parliament of FBiH in its session held on 25 April 2017, as well as in the session of the House of Peoples held on 01 June 2017. It was adopted by both Houses as a good basis for the development of a draft, with the House of Peoples instructing the proponent of the Law to carry out a public consultations process. After the public consultations, in September 2017 the Draft Law on Strike was delivered to cantonal assemblies and social partners for their opinions, which is mandatory pursuant to the Rules of Procedure of the Government of FBiH, after which it will be delivered to the Government of FBiH for discussion and adoption of the Draft, and the adoption of the Law is expected by the end of this year.
<p>If no, explain why not</p>	<p>-</p>
<p>Actual cost of implementation and impact on the annual budget (indicate deviation from estimated costs if any)</p>	<p>-</p>

Social inclusion, poverty reduction and equal opportunities

- Establishing an efficient, financially sound and sustainable system of pension and disability insurance in FBiH

- Improving the functioning of the social protection system in FBiH

	Name and number of reform measure - Improving the functioning of the social protection system in FBiH
Activities planned in 2017	2017 1. Law on Foster Care in the Federation of BiH 2. Law on Protection of Families with Children in the Federation of BiH 3. Law on the Public Institution - Institute for the Admission and Education of Children and Minors 4. Strategy for Enhancement of the Rights and Position of Persons with Disabilities in the Federation of BiH 2016-2021 5. Law on the Single Registry of Non-contributory Cash Benefits Users 6. Law on Organisations of Persons with Disabilities 7. Single list of Disabilities and Rulebook on the Application of the List of Disabilities (applied to all categories of persons with disabilities)
Were the activities planned for 2017 implemented?	1. Yes 2. Partially 3. Partially 4. Yes 5. Yes 6. Partially 7. Partially
If yes/partially, include: Description of steps taken Timeline of implemented actions Difficulties and delays in implementation Whether the reform will continue in 2018	1. In February this year, the Law on Foster Care in the Federation of Bosnia and Herzegovina (Official Gazette of FBiH, 19/17) was adopted and will enter into force in March next year. The main objective of the Law is systematic regulation of housing and support for children without parental care, adults without family care, and old persons and persons with disabilities, by providing care and protection in the family environment. 2. The Working Group intensively worked on the implementation of this activity in the reporting period and is in the final stages of development of the text of the Law on Protection of Families with Children in the Federation of Bosnia and Herzegovina and the Public Policy on Protection of Families with Children in the Federation of Bosnia and Herzegovina. Considering the fact that, pursuant to the Constitution of the Federation of BiH, social policy falls under the jurisdiction of the federal and cantonal authorities, and that there is a need to coordinate and harmonise positions of different levels of government concerning the matter, there was a delay in the implementation of this activity. Activities on adopting the Law will continue in the future period. 3. In its Act No. 03/05-02-1285/2013 dated 20 April 2017, the Government of the Federation of BiH withdrew the preliminary draft of the Law from parliamentary procedure in order to update it. Activities on the adoption of the Law will continue in the future period.

	<p>6. The working text of the Law was developed in 2017, and activities on collecting opinions of the cantons and municipalities, as well as comments of competent authorities are ongoing with the goal of delivering the text to the Government of FBiH for discussion and adoption of the Draft form.</p> <p>7. The Single list of Disabilities and Rulebook on the Application of the List of Disabilities have been developed and their adoption is expected.</p>
If no, explain why not	-
Actual cost of implementation and impact on the annual budget (indicate deviation from estimated costs if any)	-

Republika Srpska

Table 12: Reporting on the implementation of the structural reform measures of the ERP 2016-2018 and ERP 2017-2019

A	Name and number of reform measure	<p>1) Reducing the tax burden on labour (ERP RS 2016-2018)</p> <p>8) Eliminating the barriers to business and investment (ERP RS 2016-2018)</p> <p>1) Reducing the burden on economy (ERP RS 2017-2019)</p>
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B Activities planned in 2016 and 2017	<p>Eliminating the barriers to business and investment: establish the Registry of Para-fiscal Charges in order to prevent the creation of new charges, analysis of all para-fiscal charges included in the Registry and preparation and adoption of laws and by-laws.</p> <p>Reducing the tax burden on labour: Adoption of the Law on Personal Income Tax; the analysis of possible options for reducing the aggregate contribution rate and preparation and adoption of laws and by-laws.</p>
C Were the activities planned for 2016 and 2017 implemented?	Partially
D If yes / partially, include: - Description of steps taken - Timeline of implemented actions - Difficulties and delays in implementation - Whether the reform will continue in 2018. If no, explain why not:	<p>The Law on Personal Income Tax was harmonised and the Registry of Para-fiscal Charges was established in 2016.</p> <p>The Law on the Tax System was adopted in 2017, which entered into force as of July 2017 and is the legislative basis for the establishment of the Registry of Para-fiscal Charges.</p> <p>The Registry of Para-fiscal Charges was developed and will become final in early 2018.</p> <p>The development of by-laws pertaining to the method of justification analysis and analysis of the burden on the economy and population is underway.</p> <p>Activities pertaining to reducing the tax burden on labour are implemented through active consultations with representatives of the business community with the goal of finding the optimal solution for both sides.</p> <p>Activities will continue in 2018.</p>
E Actual cost of implementation and impact on the annual budget (indicate deviation from estimated costs if any)	There have been no implementation costs or impact on the annual budget. The disburdening of business entities from payment of para-fiscal charges is expected.
A Name and number of reform measure	2. Increasing fiscal responsibility and enhancing system of internal financial controls in public sector (ERP RS 2016-2018)
B Activities planned in 2016 and 2017	1) Development of by-laws based on the Law on Fiscal Responsibility in Republika Srpska, 2) Establishment of the Fiscal Council of Republika Srpska, 3) Adoption of the Draft Law on the System of Internal Financial Controls in the Public Sector of Republika Srpska by the National Assembly of Republika Srpska.
C	Partially

Were the activities planned for 2016 and 2017 implemented?	
D If yes / partially, include: - Description of steps taken - Timeline of implemented actions - Difficulties and delays in implementation - Whether the reform will continue in 2018 If no, explain why not:	In 2016 <ul style="list-style-type: none"> • Adopted Rulebook on Fiscal Statements • Adopted Law on the System of Internal Financial Controls in the Public Sector of Republika Srpska (Official Gazette of RS; 91/16) In 2017 <ul style="list-style-type: none"> • Established Fiscal Council of Republika Srpska • The development of by-laws based on the Law on Fiscal Responsibility in Republika Srpska is underway. Activities will continue in 2018.
E 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.
A Name and number of reform measure	3. Combating grey economy (ERP RS 2016-2018)
B Activities planned in 2016 and 2017	Adopt a set of legal regulations aimed at combating the grey economy.
C Were the activities planned for 2016 and 2017 implemented?	Yes
D If yes / partially, include: - Description of steps taken	Adopted set of legal regulations aimed at combating the grey economy through enhancing the work of control bodies: <ul style="list-style-type: none"> • Adopted Law on Amendments to the Law on Tax Procedure of Republika Srpska (Official Gazette of RS, 44/16), • Adopted Law on Amendments to the Law on Inspections in Republika Srpska (Official Gazette of RS,44/16),

<p>- Timeline of implemented actions</p> <p>- Difficulties and delays in implementation</p> <p>- Whether the reform will continue in 2018</p> <p>If no, explain why not:</p>	<ul style="list-style-type: none"> • Adopted Law on Amendments to the Law on Craft and Entrepreneurial Activity (Official Gazette of RS,44/16), and • Adopted Law on Amendments to the Law on the System of Civil Service (Official Gazette of RS,44/16). <p>The Minister of Finance issued the Rulebook on Procedure and Method of Execution of Operating Bans Due to Failure to Register in the Single System for Contributions Registration, Control and Collection (Official Gazette of RS, 29/17), which lays down the legislative framework for implementation of increased inspection monitoring and measures for combating the grey economy.</p> <p>Introduced e-services for personal income tax</p> <p>All planned actions were implemented in 2016.</p>
<p>E 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 and the expected impact on the budget is better and more efficient collection of tax revenues.</p>
<p>A Name and number of reform measure</p>	<p>4. Health sector reform in Republika Srpska (ERP RS 2016-2018) 2. Health sector reform in Republika Srpska (ERP RS 2017-2019)</p>
<p>B Activities planned in 2016 and 2017</p>	<p>(1) Analysis of arrears of the health care sector, i.e. health care centres and the hospital sector in cooperation with World Bank experts, in order to ascertain the amounts of liabilities and propose solution models. The amount of costs will be determined after the analysis is completed;</p> <p>(2) Introduction of all public health care institutions and the Health Insurance Fund of Republika Srpska (hereinafter HIF RS) into the treasury operations system;</p> <p>(3) Finding options for new models and sources of funding of the health system,</p> <p>(4) Standardising the network of health care institutions,</p> <p>(5) Adoption of a new Law on Health Protection,</p> <p>(6) Adoption of a new Law on Health Insurance,</p> <p>(7) Adoption of a new Law on Child Protection.</p>
<p>C Were the activities planned for 2016 and 2017 implemented?</p>	<p>Partially</p>
<p>D If yes / partially, include:</p> <p>- description of steps taken</p>	<p>(1) The analysis of arrears of the health care sector is continually implemented since 2015, as support to the Working Group for the Health Sector, which was appointed by the RS Government. The analysis is performed exclusively based on data delivered by public health care institutions (PHCI) to the Ministry of Health and Social Welfare of RS (hereinafter: MoHSW). This activity is also a form of support to the introduction of PHCIs into the treasury operations system.</p>

- 2) - Meetings with representatives of health institutions and the HIF RS;
 - Defining pilot health institutions in RS;
 - Cooperation with the USAID FAR project regarding the installation of working stations and securing communication links and training of RS health institutions for using the SUFI system;
 - Training of appointed staff of RS health institutions and HIF RS;
 - Education of appointed staff on migration of account plans;
 - Preparation of health institutions' budgets in line with the budget account plan;
 - Defining activities of HIF RS aimed at signing contracts with health institutions;
 - Defining activities of the Sector for Information and Communication Technologies of HIF RS with the goal of transferring to the treasury operations system;
 - Preparing information for the RS Government on implementation of activities (March 2017, September 2017).
- (3) - MoHSW RS (together with the World Bank) formed three Commissions with the task of preparing the Project Document for the Health Sector Enhancement Project, one of which is in charge of the area of health sector financing.
 - MoHSW RS submitted to the Ministry of Finance (MF RS) Initiative No. 11/06-505-34-1/17 dated 15 March 2017, to amend Article 31 of the Law on Obligatory Traffic Insurance. The goal of the Initiative is to secure additional funds for the HIF RS through introducing a more efficient system of collection of damages by direct payment of traffic insurance premiums into the account of HIF RS.
- (4) – Commission members assigned with tasks
 - collected legislature of neighbouring countries
 - analysed legislature of neighbouring countries in relation to the regulation of the network plan (Serbia, Montenegro, FBiH, Croatia, Slovenia)
 - collected data necessary for the development of a network plan of health care institutions (total population in RS, total number of insured with HIF RS, population demographics, population health status, gravitating number of population in relation to health care institutions, features of specific areas, availability of health resources, etc.)
 - analysed collected data
 - assigned tasks in accordance with health protection levels
 - prepared preliminary drafts of documents
- (5) - Appointed commission for development of the Law
 - Decision on Appointment also identified partners to be consulted in the development of the Law
 - Organised meetings with all partners

<p>- timeline of implemented actions</p> <p>- difficulties and delays in implementation</p> <p>- whether the reform will continue in 2018</p> <p>If no, explain why not:</p>	<p>(6) – MoHSW RS formed a working group to work on developing a new legislative solution</p> <ul style="list-style-type: none"> - the working group developed the integral working document, but there is a need to harmonise the position of two ministries (Ministry of Labour and Protection of War Veterans and Disabled Veterans and MoHSW) in regard to the transfer of records and health insurance management for unemployed persons. - After the aforementioned position is harmonised, development of the Draft Law will continue. - Cooperation has been established with the World Bank, whose expert assistance is expected. - Detailed activities should be defined as part of the new World Bank project for the health sector. <p>(7) Analysis of the situation in the area of child protection, forming a working group for development, working draft C32, application of Law in 2018.</p> <p>(1) The data received by the MoHSW RS from the PHIs on a monthly basis cannot be used as completely reliable, because previous experiences demonstrated that there are often significant deviations of delivered data relative to the real balance situation. One of the most relevant barriers is the difference between accounting records of some business changes, i.e. different approaches. MoHSW RS will continue to monitor trends in PHI liabilities, but we feel that an audit of PHIs financial reports will be necessary once a cross-section of the situation in PHIs is made in order to determine the exact amount of liabilities of PHIs. The World Bank has become involved with this activity and prepared the Report on Public Health Sector Arrears.</p> <p>(2) Support of health care institutions and local self-government units in the process of introducing the treasury operations system; capacities of the Ministry of Finance and MoHSW RS for implementation of this measure.</p> <p>(3) It is necessary to agree on the measures for prevention of new liabilities in the public health system, after which measures can be undertaken to identify new models and sources of financing.</p> <p>(4) Difficulty in collection of data necessary for the development of a network plan (total population in RS, total number of insured with HIF RS, population demographics, population health status, gravitating number of population in relation to health care institutions, features of specific areas, availability of health resources, etc.), engagement of some commission members on other tasks and activities.</p> <p>(5) Consultation process with all interested parties.</p> <p>(6) There is a need to harmonise the position of two ministries (Ministry of Labour and Protection of War Veterans and Disabled Veterans and MoHSW) in regard to the transfer of records and health insurance management for unemployed persons.</p> <p>(7)</p> <p>Activities will continue in 2018.</p>
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E 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.
A Name and number of reform measure	5. Restructuring of the Railways of Republika Srpska (ERP RS 2016-2018)
B Activities planned in 2016 and 2017	1) Restructuring of the Railways of Republika Srpska 2) Ownership restructuring of the Railways of Republika Srpska
C Were the activities planned for 2016 and 2017 implemented?	Partially
D If yes / partially, include: - Description of steps taken - Timeline of implemented actions - Difficulties and delays in implementation - Whether the reform will continue in 2018 If no, explain why not:	1) Restructuring of the Railways of Republika Srpska: Throughout 2015 and 2016, the World Bank has made the analysis of the railway sector and comprised a document "Railways Policy Note", published in September 2016. The document analysed both the railways sector of FBiH and the situation of the railways of RS. In this document, the World Bank presented several scenarios of future trends and activities related to operations of <i>Željeznice Republike Srpske</i> . 2) Ownership restructuring of the Railways of Republika Srpska: During 2017, the basis for the implementation of the ownership restructuring process was secured by adopting the Law on Railways of RS and Law on Amendments to the Company Law. 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. The reform will continue in 2018.
E Actual costs of implementation and impact on the annual budget (indicate deviation from estimated costs if any)	In the previous period there were no actual costs of implementation or impact on the annual budget. Earlier planned costs of ownership restructuring were not realised. The new estimate is that the costs of this activity will amount to KM 0.03 million and that it will be implemented in 2018.
A Name and number of reform measure	6. Re-industrialisation in all the areas of the processing industry (ERP RS 2016-2018)
B Activities planned in 2016 and 2017	Initiating 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.

C Were the activities planned for 2016 and 2017 implemented?	Yes
D If yes / partially, include: - description of steps taken - timeline of implemented actions - difficulties and delays in implementation - whether the reform will continue in 2018 If no explain why not:	Initiated 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. Actions will continue to be carried out in the future period, but do not have priority status.
E 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.
A Name and number of reform measure	7. Modernisation of the legal framework of the banking sector of Republika Srpska and creation of assumptions for implementation of the bank resolution procedure (ERP RS 2016-2018)
B Activities planned in 2016 and 2017	Modernisation of the legal framework of the banking sector of Republika Srpska and creation of assumptions for implementation of the bank resolution procedure, within which the following activities are planned: - Enhancing the supervisory function of the Banking Agency of Republika Srpska and introducing the bank resolution function, - Adopting a new Law on Banks, - Adopting the Action Plan for Implementation of Recommendations of the FSAP Mission, - Implementation of BASEL II and BASEL III.
C Were the activities planned for 2016 and 2017 implemented?	Yes
D If yes / partially, include:	

<ul style="list-style-type: none"> - Description of steps taken - Timeline of implemented actions - Difficulties and delays in implementation - Whether the reform will continue in 2018 <p>If no, explain why not:</p>	<p>The Law on Banks of RS (Official Gazette of RS, 4/17) and Law on Amendments to the Law on the Banking Agency of RS (Official Gazette of RS; 4/17) were adopted in December 2016 and entered into force in January 2017. The Laws stipulate tighter prudential requirements of the banking operations, increase the supervisory function of the Banking Agency of RS, and extend the competencies of the Banking Agency of RS to include bank restructuring processes. The Banking Agency of RS adopted the Action Plan for Implementation of Recommendations of the FSAP Mission, and implemented BASEL II and BASEL III in accordance with the Strategy for Introduction of BASEL III.</p> <p>No, all planned activities have been implemented.</p>
<p>E 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, and we expect a reduction of fiscal risks to the budget of Republika Srpska in the coming years.</p>
<p>A Name and number of reform measure</p>	<p>9. Adopting and implementing the Law on Bankruptcy (ERP RS 2016-2018)</p>
<p>B Activities planned in 2016 and 2017</p>	<p>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.</p>
<p>C Were the activities planned for 2016 and 2017 implemented?</p>	<p>Yes</p>
<p>D If yes / partially, include:</p> <ul style="list-style-type: none"> - description of steps taken - timeline of implemented actions - difficulties and delays in implementation 	<p>The new Law on Bankruptcy was adopted (Official Gazette of RS; 16/16) along with the following by-laws: Rulebook on the Layout and Contents of the Request Form to Initiate the Financial and Operational Restructuring Process (Official Gazette of RS; 68/16), Rulebook on the Layout and Contents of the Voting Form for Adoption of Request for Financial and Operational Restructuring (Official Gazette of RS; 68/16), Rulebook on the Layout and Contents of the Form for Reporting Claims in the Financial and Operational Restructuring Process (Official Gazette of RS, 68/16), Rulebook on Professional Exam for Bankruptcy Trustees Curriculum and Methodology (Official Gazette of RS; 105/16), Rulebook on Code of Conduct for Bankruptcy Trustees (Official Gazette of RS, 11/17) and Rulebook on Establishing Standards for Managing the Bankruptcy Estate (Official Gazette of RS, 54/17).</p> <p>Recommendations of the EU were adopted in the development of the Law on Bankruptcy in regard to the new approach to bankruptcy, with the goal of encouraging the restructuring illiquid companies through financial and operational</p>

<p>- whether the reform will continue in 2018</p> <p>If no explain why not:</p>	<p>restructuring so as to prevent insolvency and continue business of the company. New legal solutions on the bankruptcy procedure are intended to create the conditions in which bankruptcy would represent a remedy for business revival of business entities which have structural problems that they cannot solve by themselves, while having the necessary work or any other capacity that can get them going.</p> <p>The development of the Rulebook on Fees and Bonuses of Bankruptcy Trustees and Members of the Creditors Board is underway.</p> <p>Continuous implementation and enhancement of the new legislative framework.</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>A Name and number of reform measure</p>	<p>10. New labour legislation and support to employment in the real sector (ERP RS 2016-2018)</p>
<p>B Activities planned for 2016 and 2017</p>	<p>Enhancing the legal framework and its harmonisation to the new Law on Labour Strengthening the intermediary role of the PI Republika Srpska Employment Institute Designing and implementing new active measures in the labour market of Republika Srpska Adopting the Law on Employment Incentives Strengthening and developing social dialogue</p>
<p>C Were the activities planned for 2016 and 2017 implemented?</p>	<p>Partially</p>
<p>D If yes / partially, include:</p> <p>- description of steps taken</p>	<p>All planned by-laws under the Law on Labour were adopted in 2016. In terms of strengthening the intermediary role of the PI Republika Srpska Employment Institute, it is necessary to adopt amendments to the Law on Mediation in Employment and Rights during Unemployment and the Law on Labour and Health Insurance Records. These activities were not completed during 2016 and the measure is partially implemented. Namely, in this period the Employment Institute adopted a new job systematisation and partially changed its organisational structure. However, for implementation of essential reforms it is necessary to adopt amendments to the aforementioned Laws. During 2016, the Government of RS adopted the Action Plan for Employment in RS and implemented it in cooperation with the Employment Institute and other stakeholders in the labour market, including many active measures in the labour market. In terms of strengthening social dialogue, negotiations were conducted in 2016 with social partners with the goal of concluding a General Collective Agreement.</p>

<p>- timeline of implemented actions</p> <p>- difficulties and delays in implementation</p> <p>- whether the reform will continue in 2018</p> <p>If no explain why not:</p>	<p>Development and adoption of by-laws for implementation of the new Law on Labour; preparation of the Law on Amendments to the Law on Mediation in Employment and Rights during Unemployment and Law on Labour and Health Insurance Records; the Employment Institute adopted a new job systematisation and partially changed its organisational structure; Adopted Action Plan for Employment in RS for 2016; implementation of the Action Plan for Employment in RS in 2016; negotiations with social partners with the goal of concluding a General Collective Agreement.</p> <p>The main issue causing the delay in implementation of this measure is the inability to adopt amendments to the Law on Mediation in Employment and Rights during Unemployment, whose primary goal is to relocate administration of the right to health insurance of unemployed persons. Namely, the activity envisages the Employment Institute being disburdened from this duty and to terminate the association of the unemployment status with the status of provided health insurance at the cost of RS. Through implementation of this and other accompanying activities, we expect to obtain much more precise data on the real number of active job seekers, which will further contribute to better planning, targeting and implementation of active measures in the labour market. At the same time, instead of performing purely administrative tasks, the significant capacities of the Employment Institute will be used to strengthen its primary function as an intermediary in employment, since the implementation of this measure is closely related to the adoption of amendments to current laws or adoption of new laws regulating the area of health insurance.</p> <p>Activities will continue in 2018.</p> <p>During the course of analysing the optimal intervention in the labour market, the plan of adopting a new Law on Employment Incentives was discarded because the existing laws and by-laws already created an adequate regulatory framework for employment incentives with implementation of numerous active measures in the labour market. The General Collective Agreement has not been signed due to a lack of consensus of all social partners. Negotiations continue.</p>
<p>E 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>
<p>A Name and number of reform measure</p>	<p>3. Ensuring the sustainability of public spending and strengthening financial accountability (ERP RS 2017-2019)</p>
<p>B Activities planned in 2016 and 2017</p>	<p>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, 4) The adoption of the Strategy of the public finance management of Republika Srpska.</p>

C Were the activities planned for 2016 and 2017 implemented?	Partially
D If yes / partially, include: - description of steps taken - timeline of implemented actions - difficulties and delays in implementation - whether the reform will continue in 2018 If no explain why not:	1) Established Fiscal Council of Republika Srpska, development of by-laws is underway, 2) The procedure of adopting the Law on Registry of Public Sector Employees in Republika Srpska is underway (RS Budget users) and adoption is expected by the end of 2017, 3) - The National Assembly of RS issued the Decision on Adoption of the Strategy of Local Self-government Development in RS 2017-2021 (Official Gazette of RS, 73/17), - By-laws ensuring the implementation of the Law on Local Self-government and Law on Civil Servants and Non-Civil Service Staff in Local Self-government Units have been adopted, - The Ministry of Administration and Local Self-government of RS provided local self-government units with the software for management of the Registry of Employees of Local Self-government Units. Data from the Registry is available to the Ministry of Administration and Local Self-government of RS through the Single Database of Employees of Local Self-government Units. The procedure of adopting the Law on Amendments to the Law on General Administrative Procedure is underway. 4) Adoption of the Strategy of the public finance management of Republika Srpska has been postponed until all measures of the Reform Agenda have been implemented at all levels of government, in order to analyse the effects of the reforms and suggest additional improvements in the area of public finance management. Delays in implementation are due to technical circumstances of implementation in terms of software and hardware procurement, and harmonisation of other laws and by-laws. Activities will continue in 2018.
E Actual costs of implementation and impact on the annual budget (indicate deviation from estimated costs if any)	There have been no derogations from the predicted costs.
A Name and number of reform measure	4. Improving the communication infrastructure (ERP RS 2017-2019)

B Activities planned in 2016 and 2017	<p>1) Improving the quality of the services of the Airport of Republika Srpska: Adoption of the Master Plan and Spatial Plan for special purpose facility; Construction of cargo facility; Expansion of the passenger terminal; Procurement and installation of the Airport ground lighting; Procurement of vertical cargo loader; Procurement of emergency fire truck; Procurement of jet fuel tanks;</p> <p>2) Activities in the field of road transport: Completion of construction of the motorway Banja Luka–Doboj, section Banja Luka–Prnjavor (fourth quarter of 2017); Beginning of construction of the interstate bridge on the river Sava near Gradiška and completion by the end of 2019, as well as completion of construction of the bridge over the river Drina, location Bratunac-Ljubovija (fourth quarter of 2017).</p> <p>3) Completion of BiH Railway Restructuring Project II</p>
C Were the activities planned for 2016 and 2017 implemented?	Partially
D If yes / partially, include: <ul style="list-style-type: none"> - description of steps taken - timeline of implemented actions - difficulties and delays in implementation - whether the reform will continue in 2018 	<p>1) The development of the spatial planning documentation is in the final stage; procurement of the Master Plan is completed and the Spatial Plan for special purpose facility – preliminary draft document was adopted by the National Assembly of RS, public consultations on the Draft is ongoing, after which the procedure of adoption of the Draft Spatial Plan by the National Assembly of RS will be initiated. In line with the Law on Spatial Planning and Construction, adoption is planned by the end of 2017. Activities related to procurement and installation of the Airport ground lighting, procurement of x-ray device and metal-detector doors for the cargo warehouse, and procurement of vertical cargo loader are completed.</p> <p>2) Activities in the field of road transport are being carried out in line with the planned dynamics. The section Mahovljanska petlja - Drugovići of around 10 km has been opened for traffic.</p> <p>3) The completion of modernisation of all planned stations and all activities is expected by the end of 2017.</p> <p>1) Due to the failure of contractors of the cargo facility to adhere to the project documentation, the completion of construction works is delayed. Negotiations are ongoing for the continuation of works. Due to the specificity of the emergency fire truck, in line with the Law on Public Procurement of BiH, the procurement of the special vehicle for the needs of the Banja Luka Airport is delayed.</p> <p>1) Implementation of the measure will continue in 2018, when the construction of the cargo facility and procurement of fire truck are expected.</p> <p>2) The remaining section of the Banja Luka-Prnjavor motorway will be completed by the end of 2018.</p>

If no explain why not:	
E Actual costs of implementation and impact on the annual budget (indicate deviation from estimated costs if any)	1) Credit funds were approved for the construction of the cargo facility, of which KM 1.4 million remained unused. Credit funds were also ensured for procurement of the fire truck, and the value is estimated at KM 0.5 million.
A Name and number of reform measure	5. Enhancing agricultural production (ERP RS 2017-2019)
B Activities planned in 2016 and 2017	<ol style="list-style-type: none"> 1) Improvement of agrarian sector financing 2) Adoption and harmonisation of regulations in the area of agriculture at the level of Republika Srpska and the level of BiH 3) Setting up a land parcel identification system; implementation of the animal identification process through development of the animal marking system 4) Improvement of foreign trade operations and protection of domestic agricultural production 5) Work on documents for rural development and IPARD operational structure
C Were the activities planned for 2016 and 2017 implemented?	Partially
D If yes / partially, include: - description of steps taken - timeline of implemented actions	1) Financial support to the agricultural and rural development is legally defined in the share of at least 6% of domestic budget revenues and other sources. With the goal of securing additional sources of financing, as of 2013 the Government of Republika Srpska established a new model of financing agricultural production based on three main support pillars: a special IDB credit line (with the most favourable interest rate of up to 4%), credit lines for long-term and short-term placements in agriculture and incentive funds from the Ministry – „agrarian budget“ and funds of business banks, donor funds, international sources of funding such as the World Bank, European Bank for Reconstruction and Development, IFAD, credit and microcredit organisations, etc. In its 115 th session held on 13 March 2017, the Government of Republika Srpska issued the Decision on Adoption of the Plan of Distribution of Funds for Incentives to Development of Agriculture and the Countryside for 2017 in the total amount of KM 60 million. The Decision defines that funds will be allocated as follows: support to current production in the amount of KM 49.5 million, support to long-term development in the amount of KM 6,5 million and systematic measures in the amount of KM 4.0 million. With the goal of providing additional sources of funding and the option of accessing funds from the IPA II package for agriculture and rural development, the Draft Strategic Plan of Rural Development of BiH was developed, the adoption of which is a condition for accessing the funds. The activity is continually implemented, which will continue in 2018.

<p>- difficulties and delays in implementation</p> <p>- whether the reform will continue in 2018</p> <p>If no explain why not:</p>	<p>2) The following laws were adopted in 2017: Law on Food (Official Gazette of RS, 19/17), Law on Veterinary (Official Gazette of RS, 75/17), Law on Amendments to the Law on Veterinary and Medicinal Products (Official Gazette of RS, 75/17). The Law on Agriculture, Law on Tobacco and Law on Amendments to the Law on the Chamber of Agricultural Engineers of Republika Srpska are currently being developed.</p> <p>3) Activities on the establishment of LPIS have been in implementation since 2008. However, due to political disagreements between relevant institutions, there has been no progress. In 2016, the Ministry of Agriculture, Forestry and Water Management of Republika Srpska (MoAFWM RS) initiated separate activities through the ARDP Project of the World Bank, aimed at establishing LPIS, however, due to the end of the ARDP project and short timeline, the activity was not implemented. Considering the fact that the Strategic Plan of Rural Development of BiH was not adopted in the past period, EU IPA II pre-accession funds were not accessible to BiH institutions for the purpose of establishing LPIS. Activities related to establishing the system of identifying land parcels did not begin in 2017 due to the lack of financing. The MoAFWM, in cooperation with the Veterinary Office and the Agency for Animal Identification, implemented activities aimed at identifying options for increasing efficiency of the animal identification process, based on a conducted analysis and developed Action Plan, however, significant progress was not made. Continuation of activities is necessary.</p> <p>4) Foreign trade and protection of domestic agricultural production are under the joint authority of institutions of BiH. The area is legally regulated by the Law on Foreign Trade Policy (Official Gazette of BiH, 7/98) and its accompanying Decision on Measures for Protection of Domestic Production from Excessive Imports (Official Gazette of BiH, 30/02) and Decision on Procedure and Manner of Setting the Anti-Dumping and Compensatory Duties (Official Gazette of BiH, 77/05 and 16/10). However, the MoAFWM RS initiated activities aimed at regulating foreign trade operations on several occasions. Firstly, in the joint session of the Government of RS and Government of BiH held in March 2017, it emphasized the list of subjects aimed at regulating this sector. After that, in another joint session held on 4 October 2017 in Sarajevo, the MoAFWM RS proposed a list of subjects related to foreign trade operations, as well as several other subjects relevant for agricultural operations in both entities. This information was adopted. In that context, the MoAFWM RS organised a meeting of assistant ministers in Banja Luka on 16 November 2017, in which the subjects were discussed in detail, and conclusions were made that will be delivered to competent members of the Council of Ministers of BiH and presented to both the Government of BiH and of RS.</p> <p>5) In 2017, representatives of the MoAFWM RS, Department of Agriculture of the Brčko District and Ministry of Foreign Trade and Economic Relations of BiH, with technical support from the FARMA Project, participated in the development of the Draft Strategic Plan of Rural Development of BiH, the adoption of which is a condition for accessing funds from the IPA II package for agriculture and rural development. No activities were carried out in relation to harmonising the possible form of the IPARD Operational Structure, because there is still no agreement between relevant institutions. The continuation of these activities will depend on political agreement on a higher level.</p>
E	<ol style="list-style-type: none"> 1) KM 60 million – agrarian budget 2) No costs

Actual costs of implementation and impact on the annual budget (indicate deviation from estimated costs if any)	3) No costs 4) No costs 5) No costs
A Name and number of reform measure	6. Improving the financial market (ERP RS 2017-2019)
B Activities planned in 2016 and 2017	1) Introducing tighter prudential requirements of the banking operations and regulating the bank restructuring procedure: adoption of the Law on Banks of RS and Law on Amendments to the Law on the Banking Agency of RS, as well as adoption of the Statute and by-laws of the Banking Agency of RS. 2) Set up mandatory transformation of the closed-ended investment funds, created by transformation of the privatization investment funds, into open-ended investment funds. 2016: Adoption of by-laws of the Republika Srpska Securities Commission in accordance with jurisdictions and obligations under the Law on Amendments to the Law on Investment Funds and Harmonisation of operations of investment funds management company with laws and by-laws. 2017: Quarterly reporting of the Republika Srpska Securities Commission on implementation of approved plans (harmonisation plan and transformation plan).
C Were the activities planned for 2016 and 2017 implemented?	Yes
D If yes / partially, include: - description of steps taken - timeline of implemented actions	1) Introducing tighter prudential requirements of the banking operations and regulating the bank restructuring procedure: The Law on Banks of RS (Official Gazette of RS, 4/17) and Law on Amendments to the Law on the Banking Agency of RS (Official Gazette of RS, 4/17) were adopted in December 2016, and entered into force in January 2017. The laws are significantly aligned with EU directives, and introduce tighter prudential requirements and regulate the bank restructuring procedure and expanded Agency's competencies to bank restructuring and improving the internal management and decision-making processes. In July 2017, the Governing Board of the Banking Agency adopted the Statute of the Agency (Official Gazette of RS 63/17), which was approved by the Government of Republika Srpska, according to the Law on the Banking Agency of RS, which creates conditions for further institutional strengthening of the Banking Agency of RS in terms of the organisation of bank supervision and restructuring while respecting the principles of functional unbundling of supervisory tasks from the bank restructuring activities. In July 2017, the Governing Board of the Banking Agency of RS adopted the subordinate legislation that regulates banking operations, as stipulated by the Law on Banks of RS. Subordinate legislation related to bank restructuring will be adopted by the end of 2017, in accordance with transitional legal deadlines.

<p>- difficulties and delays in implementation</p> <p>- whether the reform will continue in 2018</p> <p>If no explain why not:</p>	<p>2) Set up mandatory transformation of the closed-ended investment funds, created by transformation of the privatization investment funds, into open-ended investment funds: All investment funds management companies have consolidated and harmonised their operations with the Law on Amendments to the Law on Investment Funds (Official Gazette of RS 85/15) and with by-laws of the Republika Srpska Securities Commission.</p> <p>The number of management companies was reduced and currently there are 5 management companies operating in the securities market, which manage 14 closed-ended and one open-ended investment fund.</p> <p>All management companies have, in accordance with the statutory obligation, received the Decision of the Republika Srpska Securities Commission approving the activity plan for harmonising investments and exposure to individual entities and plan for transforming closed-ended investment funds into one or several open-ended investment funds.</p> <p>The Republika Srpska Securities Commission issued two decisions approving partial transformation of two closed-ended investment funds.</p> <p>The Republika Srpska Securities Commission continually monitors investment fund management companies in implementation of the harmonisation plan and transformation plan of closed-ended investment funds.</p> <p>Activities will continue in 2018.</p>
<p>E 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.</p>
<p>A Name and number of reform measure</p>	<p>7. Improving the business environment (ERP RS 2017-2019)</p>
<p>B Activities planned in 2016 and 2017</p>	<p>Introducing on-line registration of business entities: digitalisation of court archives, tender for procurement of software and hardware, software development, forming the National Certification Body.</p>
<p>C Were the activities planned for 2016 and 2017 implemented?</p>	<p>Partially</p>
<p>D If yes / partially, include:</p> <p>- description of steps taken</p>	<p>Introducing on-line registration of business entities: The contractor for digitalisation of court archives was selected, the contract signed and digitalisation activities have started; The decision was made that the Agency for Information Society</p>

<p>- timeline of implemented actions</p> <p>- difficulties and delays in implementation</p> <p>- whether the reform will continue in 2018</p> <p>If no explain why not:</p>	<p>of Republika Srpska (AISRS) will be the Certification Body, and establishment activities have started; Activities pertaining to defining necessary legislative amendments have started, activities pertaining to defining the structure of necessary hardware have finished.</p> <p>Introducing on-line registration of business entities: second, third and fourth quarter of 2017.</p> <p>There are slight deviations due to the involvement of a large number of institutions (both domestic and international), which requires complex coordination, as well as due to a very complex reform and the decision to expand the scope of work of the National Certification Body, which will lead to greater benefits and more space for establishment of a series of other e-services.</p> <p>The Activity will continue in 2018.</p>
<p>E Actual costs of implementation and impact on the annual budget (indicate deviation from estimated costs if any)</p>	<p>Additional costs in the amount of KM 2.8 million refer to costs of establishing the Certification Body with a different concept which will, under the new concept, have broader jurisdiction and create the basis for implementation and promotion of establishing a series of other services in e-administration (not only in the segment of e-registration of business entities).</p>
<p>A Name and number of reform measure</p>	<p>8. Improving the efficiency and effectiveness of science research and innovation system (ERP RS 2017-2019)</p>
<p>B Activities planned in 2016 and 2017</p>	<p>1. Adoption of the Republika Srpska Strategy for Science and Technological Development 2. Analysis of the existing legal framework</p>
<p>C Were the activities planned for 2016 and 2017 implemented?</p>	<p>Partially</p>
<p>D If yes / partially, include:</p> <p>- description of steps taken</p>	<p>On 24 April 2017, the National Assembly of RS adopted the Republika Srpska Strategy for Science and Technological Development 2017–2021 – “Knowledge for Development” (Official Gazette of RS, 44/17).</p> <p>On 13 July 2017, the Government of RS adopted the Conclusion on Adoption of the Action Plan of Implementation of the Republika Srpska Strategy for Science and Technological Development 2017–2021 – “Knowledge for Development”.</p> <p>In accordance with reform goals and results of the previously conducted analyses of the situation in the area of research and innovation, the new Rulebook on Publishing Scientific Publications (Official Gazette of RS, 77/17).</p>

<ul style="list-style-type: none"> - timeline of implemented actions - difficulties and delays in implementation - whether the reform will continue in 2018 <p>If no explain why not:</p>	<p>Activities regarding the analysis of the existing legal framework were implemented and the new Republika Srpska Strategy for Science and Technological Development was adopted in the 2016-2017 period.</p> <p>The activity will continue in 2018.</p>
<p>E 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.</p>
<p>A Name and number of reform measure</p>	<p>9. Improving links between education and labour market (ERP RS 2017-2019)</p>
<p>B Activities planned in 2016 and 2017</p>	<p>1) 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; 2) 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.</p>
<p>C Were the activities planned for 2016 and 2017 implemented?</p>	<p>Partially</p>
<p>D If yes / partially, include:</p> <ul style="list-style-type: none"> - description of steps taken - timeline of implemented actions - difficulties and delays in implementation 	<p>In the process of developing and defining the Enrolment Policy for the 2017-2018 academic year, the data of the Employment Institute of RS, RS Institute of Statistics and data of institutions of higher education and the Ministry of Education and Culture of RS were collected and analysed.</p> <p>The Law on Higher Education, which is a prerequisite for the development of the entrepreneurial-development component, is not developing at the planned pace.</p> <p>The Government of RS issued the Decision on the Number of Enrolment Positions for Students in the 2017-2018 Academic Year, as well as the Decision on the Amount of Tuition Fees of Public Institutions of Higher Education in the 2017-2018 Academic Year.</p> <p>The lack of feedback concerning the activities of institutions of higher education and activities of the economic and business sector, or the development of their mutual relations, narrows the space for undertaking and defining corrective measures.</p>

<p>- whether the reform will continue in 2018</p> <p>If no explain why not:</p>	<p>The activity will continue in 2018.</p>
<p>E 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.</p>
<p>A Name and number of reform measure</p>	<p>10. Improving the labour market efficiency (ERP RS 2017-2019)</p>
<p>B Activities planned in 2016 and 2017</p>	<p>Adoption of by-laws stipulated by the Law on Labour; 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.</p>
<p>C Were the activities planned for 2016 and 2017 implemented?</p>	<p>Partially</p>
<p>D If yes / partially, include: - description of steps taken</p> <p>- timeline of implemented actions</p>	<p>In terms of strengthening the intermediary role of the PI Republika Srpska Employment Institute, it is necessary to adopt amendments to the Law on Mediation in Employment and Rights during Unemployment and the Law on Labour and Health Insurance Records.</p> <p>The Government of RS adopted the Action Plan for Employment in RS and implemented it in cooperation with the Employment Institute and other stakeholders in the labour market, including many active measures in the labour market, which, in 2017, lead to the historically lowest number of registered unemployed persons in RS.</p> <p>In terms of strengthening and developing social dialogue, amendments to the Law on the Social and Economic Council of RS were adopted, and negotiation were carried out with social partners with the goal of concluding a General Collective Agreement. Activities on the development of the Law on Amendments to the Law on Strike were initiated with the goal of alignment with the Law on Labour.</p> <p>2017: Preparation of the Law on Amendments to the Law on Mediation in Employment and Rights during Unemployment and Law on Labour and Health Insurance Records; Adoption of the Action Plan for Employment in RS for 2017; Implementation of the Action Plan for Employment in RS for 2017; Adoption of the Law on Amendments to the Law on the Social and Economic Council of RS; Negotiations with social partners with the goal of concluding a General Collective Agreement; Preparation of the Law on Amendments to the Law on Strike.</p>

<p>- difficulties and delays in implementation</p> <p>- whether the reform will continue in 2018</p> <p>If no explain why not:</p>	<p>The main issue causing the delay in implementation of this measure is the inability to adopt amendments to the Law on Mediation in Employment and Rights during Unemployment, whose primary goal is to relocate administration of the right to health insurance of unemployed persons. Namely, the activity envisages the Employment Institute being disburdened from this duty and to terminate the association of the unemployment status with the status of provided health insurance at the cost of RS. Through implementation of this and other accompanying activities, we expect to obtain much more precise data on the real number of active job seekers, which will further contribute to better planning, targeting and implementation of active measures in the labour market. At the same time, instead of performing purely administrative tasks, the significant capacities of the Employment Institute will be used to strengthen its primary function as an intermediary in employment, since the implementation of this measure is closely related to the adoption of amendments to current laws or adoption of new laws regulating the area of health insurance.</p> <p>The activity will continue in 2018, but the reform measure is still dependant on the adoption of amendments to the existing or adoption of new regulations in the area of health insurance.</p>
<p>E Actual costs of implementation and impact on the annual budget (indicate deviation from estimated costs if any)</p>	<p>There have been no costs of implementation.</p>

ANNEX 2:

External contributions to ERP 2018-2020

Public consultation of the BiH Council of Ministers

On 18 January 2017, the Directorate for Economic Planning of the BiH Council of Ministers published the Draft BiH Economic Reform Programme 2018-2020 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 2018-2020, 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 of 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 Republika Srpska

Comments from the public debate

Based on the written proposals of the Confederation of Trade Unions of Republika Srpska, the Chamber of Commerce of Republika Srpska and the Union of Employers' Associations of Republika Srpska, received by the Government of Republika Srpska, below we give a brief overview of the key demands.

Key demands of the **Confederation of Trade Unions of Republika Srpska** are:

- 1) Increasing the minimum wage – accepted;
- 2) Adopting a new Law on Labour in Republika Srpska or adoption of amendments to the existing Law on Labour and conclusion of collective agreements – accepted conclusion of collective agreements, analysis of implementation of the Law on Labour currently underway;
- 3) Disburdening the economy in favour of increasing the employees' wages and better business environment – accepted;
- 4) Combating the grey economy and translating informal labour into formal labour – accepted;
- 5) Adopting amendments to the Law on Associations and Foundations – not part of ERP, but part of the Government Programme;

- 6) Full implementation of the Programme for Social Care of Workers – partially accepted;
- 7) 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 – will be improved through combating the grey economy;
- 8) Adopting the Law on Mediation in Employment and Rights during Unemployment – accepted;
- 9) Adopting the Law on prevention of mobbing at work – not part of ERP, but part of the Government Programme;
- 10) Adopting the new Law on Health Protection and the Law on Health Insurance – accepted;
- 11) Adoption of the Strategy for Labour Safety, Protection and Health - not part of ERP, but part of the Government Programme;
- 12) Control and analysis of implementation of legislation – accepted.

Key demands of the **Chamber of Commerce of Republika Srpska** are:

- 1) Reducing the burden on economy: Amending the laws on taxes and contributions in order to restore the tax burden level of 51% on the net salary; Increasing the non-tax income to the level of the lowest salary; and o Systemic resolution of the issue of maternity leave – accepted;
- 2) Measures to reduce public spending: Public administration reform; Restrictive public expenditure policy; Restructuring of public companies; and Maximal involvement of domestic economic capacities – accepted;
- 3) Monitoring activities in relation to the analysis of the implementation of the new Law on Labour and current situation in the labour market: Analysis of the implementation of the Law on Labour; Adopting the Decision on Employment Incentives; and Lack and brain drain of qualified labour force – accepted;
- 4) Improving the liquidity of the economy and extra budgetary funds: Introduction of the institute of extra-judicial restructuring; Higher level of financial discipline in payment of liabilities; and Innovate the Law on Liquidation Procedure – accepted;
- 5) Support measures and incentives to economy: Include in the 2018 Budget incentive funds for projects aimed at enhancing production and increasing competitiveness; Streamlining funds from concession fees; Adopting the Law on Incentives; and Timely distribution of incentive funds in the economy and creation of the Register of incentives in the economy – partially accepted;
- 6) Improving control procedures, the work of the judiciary, systemic reforms and other measures: Single inspection; and Re-evaluate the measure for closure of companies in cases when inspection control identifies undeclared workers – accepted;
- 7) Reform of education system – accepted.

Key demands of the **Union of Employers' Associations of Republika Srpska**:

- 1) Reducing fiscal and para-fiscal charges – accepted;
- 2) Redirect excess employment incentives funds from the Employment Institute of Republika Srpska to the Public Child Protection Fund with the goal of increasing natality – accepted;
- 3) Adopt Decree on Employment Incentives – accepted;
- 4) Settlement of liabilities by the Health Protection Fund – accepted;

- 5) Introduce benefits for unemployed new mothers – accepted;
- 6) Reforming the labour market through relocation of health insurance administration and establishment of health services packages in proportion to contribution payments – accepted;
- 7) Increase transparency and control of the work of inspection bodies, and form single inspection – accepted;
- 8) Increase level of control of declaration of workers, working hours, prevention of payment of salaries “under the table”, and declaration of minimum wage, and redirect the increased revenues to reducing the tax burden on labour – accepted;
- 9) Adapting the education system to the needs of the labour market – accepted.